

CLANCY SYSTEMS INTERNATIONAL INC /CO/
Form 10QSB
August 18, 2008

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

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

For the quarterly period ended June 30, 2008

OR

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

For the transition period from to

Commission file number: 33-4882-D

CLANCY SYSTEMS INTERNATIONAL, INC.
(Exact name of Registrant as specified in its charter)

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

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

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

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

Indicate by check mark whether the registrant (1) has filed
all reports required to be filed by Section 13 or 15 (d)
of the Securities Exchange Act of 1934 during the preceding
12 months (or for such shorter period that the registrant was
required to file such reports), and (2) has been subject to
such filing requirements for the past 90 days:

Yes X No

APPLICABLE ONLY TO CORPORATE ISSUERS:

The number of shares outstanding of the issuer's classes of common
stock, as of August 14, 2008 is 379,882,938 shares, \$.0001 par value.

Transitional Small Business Disclosure Format: Yes No 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

CLANCY SYSTEMS INTERNATIONAL, INC.

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CLANCY SYSTEMS INTERNATIONAL, INC.
CONSOLIDATED BALANCE SHEETS
ASSETS

September 30, June 30,
2007 2008
(Unaudited)

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Current assets:	-----	-----
Cash and cash equivalents	\$ 619,642	\$ 1,088,461
Accounts receivable, net of allowance for doubtful accounts	709,419	548,610
Income tax receivable	-	3,641
Inventories	135,010	179,599
Prepaid expenses	64,075	55,699
	-----	-----
Total current assets	1,528,146	1,876,010
	-----	-----
Furniture and equipment, at cost:		
Office furniture and equipment	218,337	190,696
Computers and equipment under service contracts	2,771,942	2,813,728
Leasehold improvements	81,424	13,000
Vehicles, including vehicles under capital leases	149,886	147,651
	-----	-----
	3,221,589	3,165,075
Less accumulated depreciation	(2,505,867)	(2,542,346)
	-----	-----
Net furniture and equipment	715,722	622,729
	-----	-----
Other assets:		
Investment in marketable securities	733,244	881,933
Deposits and other	24,312	20,333
Goodwill	404,547	404,547
Software development costs, net of accumulated amortization	222,212	215,355
	-----	-----
Total other assets	1,384,315	1,522,168
	-----	-----
	\$ 3,628,183	\$ 4,020,907
	=====	=====

See accompanying notes to consolidated financial statements.

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CLANCY SYSTEMS INTERNATIONAL, INC.
CONSOLIDATED BALANCE SHEETS (Continued)
LIABILITIES AND STOCKHOLDERS' EQUITY

	September 30, 2007	June 30, 2008 (Unaudited)
	-----	-----
Current liabilities:		
Accounts payable	\$ 150,319	\$ 84,283
Accrued expenses	361,019	156,880
Income taxes payable	74,323	47,758

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Current portion of obligations under capital leases	3,393	3,393
Deferred revenue	95,453	78,317
	-----	-----
Total current liabilities	684,507	370,631
Deferred income taxes payable	18,800	44,700
Obligations under capital lease, net of current portion	6,648	4,131
	-----	-----
Total liabilities	709,955	419,462
	-----	-----
Commitments		
Stockholders' equity:		
Preferred stock, \$.0001 par value; 100,000,000 shares authorized, none issued	-	-
Common stock, \$.0001 par value; 800,000,000 shares authorized, 381,102,938 and 380,732,938 shares issued and outstanding at 9/30/07 and 6/30/08 respectively	38,110	38,073
Additional paid-in capital	1,354,414	1,353,099
Accumulated comprehensive income (loss):		
Unrealized loss on marketable securities	-	(26,847)
Retained earnings	1,525,704	2,237,120
	-----	-----
Total stockholders' equity	2,918,228	3,601,445
	-----	-----
	\$ 3,628,183	\$ 4,020,907
	=====	=====

See accompanying notes to consolidated financial statements.

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CLANCY SYSTEMS INTERNATIONAL, INC
CONSOLIDATED STATEMENTS OF INCOME AND OTHER COMPREHENSIVE INCOME
For the Three Months Ended June 30, 2007 and 2008
(Unaudited)

	June 30, 2007	June 30, 2008
	-----	-----
Revenues:		
Sales	\$ 26,098	\$ 22,120
Service contract income	768,906	761,536
Parking ticket collections	116,486	214,858
	-----	-----
Total revenues	911,490	998,514
	-----	-----
Costs and expenses:		
Cost of sales	8,513	14,370
Cost of services	182,238	207,561
Cost of parking ticket		

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collections	28,793	26,381
General and administrative	660,393	409,085
Research and development	4,111	10,369
	-----	-----
Total costs and expenses	884,048	667,766
	-----	-----
Income from operations	27,442	330,748
	-----	-----
Other income (expense):		
Loss on disposal of assets	-	(22,068)
Interest income	13,120	17,149
Interest expense	574	(366)
Other income	23,400	28,213
	-----	-----
Total other income (expense)	37,094	22,928
	-----	-----
Income before provision for income taxes	64,536	353,676
	-----	-----
Provision for income taxes:		
Current expense (benefit)	61,488	85,428
Deferred expense (benefit)	(36,800)	8,200
	-----	-----
Total income tax expense (benefit)	24,688	93,628
	-----	-----
Net income	39,848	260,048
	-----	-----
Other comprehensive income (loss):		
Unrealized loss on marketable Securities	-	(51)
	-----	-----
Comprehensive income	\$ 39,848	\$ 259,997
	=====	=====
Basic and diluted:		
Net income per common share	\$ *	\$ *
	=====	=====
Weighted average number of shares outstanding	381,942,509	380,773,130
	=====	=====

*Less than \$.01 per share

See accompanying notes to consolidated financial statements.

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CLANCY SYSTEMS INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF INCOME AND OTHER COMPREHENSIVE INCOME
For the Nine Months Ended June 30, 2007 and 2008
(Unaudited)

	June 30, 2007	June 30, 2008
	-----	-----
Revenues:		
Sales	\$ 89,044	\$ 59,077
Service contract income	2,226,202	2,087,713
Parking ticket collections	533,185	826,581
	-----	-----
Total revenues	2,848,431	2,973,371
	-----	-----
Costs and expenses:		
Cost of sales	35,734	43,380
Cost of services	598,769	563,333

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Cost of parking ticket collections	88,292	78,884
General and administrative	1,777,439	1,607,100
Research and development	5,626	17,489
	-----	-----
Total costs and expenses	2,505,860	2,310,186
	-----	-----
Income from operations	342,571	663,185
	-----	-----
Other income (expense):		
Loss on disposal of assets	-	(22,068)
Interest income	38,324	52,869
Interest expense	(750)	(787)
Other income	25,108	279,487
	-----	-----
Total other income (expense)	62,682	309,501
	-----	-----
Income before provision for income taxes	405,253	972,686
	-----	-----
Provision for income taxes:		
Current expense (benefit)	201,900	230,894
Deferred expense (benefit)	(70,400)	25,900
	-----	-----
Total income tax expense (benefit)	131,500	256,794
	-----	-----
Net income	273,753	715,892
	-----	-----
Other comprehensive income (loss):		
Unrealized loss on marketable securities	-	(26,847)
	-----	-----
Comprehensive income	\$ 273,753	\$ 689,045
	=====	=====
Basic and diluted net income per common share	\$ *	\$ *
	=====	=====
Weighted average number of shares outstanding	382,236,165	380,969,347
	=====	=====

*Less than \$.01 per share

See accompanying notes to consolidated financial statements.

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CLANCY SYSTEMS INTERNATIONAL, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
For the Nine Months Ended June 30, 2008

Common Stock	Additional	Other	Retained
Shares	paid-in	Compre-	Earnings
Amount	Capital	hensive	
		Income	
-----	-----	-----	-----

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Balance, September 30, 2007	381,102,938	\$ 38,110	\$ 1,354,414	-	1,525,704
Common stock repurchase	(370,000)	(37)	(1,315)		(4,476)
Unrealized loss on marketable securities				(26,847)	
Net income for the nine months ended June 30, 2008	-	-	-	-	715,892
Balance, June 30, 2008 (unaudited)	380,732,938	\$ 38,073	\$ 1,353,099	\$ (26,847)	\$2,237,120

See accompanying notes to consolidated financial statements.

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CLANCY SYSTEMS INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the nine months ended June 30, 2007 and 2008
(Unaudited)

	June 30, 2007	June 30, 2008
	-----	-----
Cash flows from operating activities:		
Net income	\$ 273,753	\$ 715,892
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	278,970	252,839
Loss on disposal of assets	-	22,068
Deferred income tax expense	(70,400)	25,900
Changes in assets and liabilities:		
Accounts receivable	(75,559)	160,809
Inventories	(13,488)	(44,589)
Income taxes refundable	23,264	(3,641)
Prepaid expenses	44,511	8,376
Accounts payable	38,791	(66,036)
Accrued expenses	(24,597)	(204,139)
Income taxes payable	63,105	(26,565)
Deferred revenue	(22,284)	(17,136)
Total adjustments	242,313	107,886
Net cash provided by operating activities	516,066	823,778
Cash flows from investing activities:		

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Acquisition of furniture and equipment	(130,975)	(112,544)
Increase in software licenses and software development costs	(68,403)	(60,580)
Increase in investments in marketable securities	(50,537)	(200,835)
Proceeds from sale of marketable Securities	-	25,299
Increase in deposits and other assets	(6,151)	2,046
	-----	-----
Net cash used in investing activities	(256,066)	(346,614)
	-----	-----
Cash flows from financing activities:		
Repurchase of common stock	(17,125)	(5,828)
Payments on long-term debt and capital leases	(2,598)	(2,517)
	-----	-----
Net cash used in financing activities	(19,723)	(8,345)
	-----	-----

See accompanying notes to consolidated financial statements.

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CLANCY SYSTEMS INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
For the nine months ended June 30, 2007 and 2008
(Unaudited)

	June 30, 2007	June 30, 2008
	-----	-----
Increase in cash and cash equivalents	240,277	468,819
Cash and cash equivalents at beginning of period	387,663	619,642
	-----	-----
Cash and cash equivalents at end of period	\$ 627,940	\$ 1,088,461
	=====	=====

See accompanying notes to consolidated financial statements.

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CLANCY SYSTEMS INTERNATIONAL, INC.
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Unaudited)

1. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-QSB and Item 310 of Regulation S-B. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. The accompanying unaudited consolidated financial statements reflect all adjustments that, in the opinion of management, are considered necessary for a fair presentation of the financial position, results of operations, and cash flows for the periods presented. All such adjustments are of a normal and recurring nature only. The results of operations for such periods are not necessarily indicative of the results expected for the full fiscal year or for any future period. The accompanying unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements of Clancy Systems International, Inc. and Subsidiary included in the Form 10-KSB for the fiscal year ended September 30, 2007.

The Company's subsidiary, Urban Transit Solutions, Inc. ("UTS") was incorporated under the Laws of the Commonwealth of Puerto Rico. The financial statements of UTS have been prepared on the basis of accounting principles generally accepted in the United States of America and are denominated in U.S. dollars. Therefore, there are no amounts recorded for foreign currency translation or for transactions denominated in a foreign currency. The Company has consolidated the financial results of UTS with those of the Company for the three and nine months ended June 30, 2007 and 2008. All significant intercompany transactions and balances have been eliminated in consolidation.

Use of estimates:

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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. These estimates 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.

Net income per common share:

The Company computes net income per common share in accordance with Statement of Financial Accounting Standards No. 128, Earnings Per Share ("SFAS 128"). SFAS 128 provides for the calculation of basic and

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CLANCY SYSTEMS INTERNATIONAL, INC.
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Unaudited)

1. Basis of Presentation (continued)

diluted earnings per share. Basic earnings per share includes no dilution and is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the period. Dilutive earnings per share reflects the potential dilution of securities that could share in the earnings of the Company. The Company has no potentially dilutive securities.

2. Inventories

Inventories consist of the following at:

	September 30, 2007 ----	June 30, 2008 ----
Finished goods	\$ 44,316	\$ 30,110
Work in process	2,861	74,745
Purchased parts and supplies	87,833	74,744
	-----	-----
	\$ 135,010	\$ 179,599
	=====	=====

3. Income taxes

The provision for income taxes for the nine months ended June 30, 2007 and 2008 is based on the actual or expected rate for the tax year.

Differences in amounts of income taxes reported in the financial statements to taxes that would be obtained by applying regular tax rates to income before taxes mainly consist of tax-exempt income and changes in estimates of previously reported income tax expense.

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

	September 30, 2007 ----	June 30, 2008 ----
--	-------------------------------	--------------------------

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Non-current deferred tax assets	\$ 233,700	\$ 172,600
Valuation allowance	(192,600)	(131,500)
Non-current deferred tax liabilities	(59,900)	(85,800)
	-----	-----
Net non-current deferred taxes	\$ (18,800)	\$ (44,700)
	=====	=====

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CLANCY SYSTEMS INTERNATIONAL, INC.
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Unaudited)

4. Stockholders' Equity

In December 2006, under Rule 10b-18, the Company implemented a policy 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.

During the nine month period ended June, 2008, the Company reacquired 370,000 shares of its common stock for \$5,828. The reacquisition has been accounted for by reducing common stock for the par value of the shares reacquired and the excess paid per share over the par value has been allocated to additional paid in capital, based on the number of shares acquired, and the balance charged to retained earnings.

Subsequent to June 30, 2008 the Company repurchased 850,000 shares of its common stock for a total of \$9,954.

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Item 2.

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

Management's Statement Regarding Forward Looking Information

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

At June 30, 2008, the Company had consolidated working capital of \$1,505,379 derived primarily from contract sales and contract service. The Company anticipates using its working capital to fund ongoing operations, including general and administrative expenses, equipment purchases, equipment manufacturing, travel, marketing and research and development. The Company anticipates having sufficient working capital to fund operations for the fiscal year ending September 30, 2008. The Company settles funds for permit collections after the end of each month. Occasionally this overlaps into the next quarter. The timing of the payout is captured as an accounts payable amount if it falls into a subsequent quarter by a few days.

COMPARISON OF RESULTS FOR THE THREE MONTHS ENDED JUNE 30, 2007 AND 2008

REVENUES. From the three month quarter ended June 30, 2007 to the three month quarter ended June 30, 2008 revenues increased by \$87,024 or 9.5% from \$911,490 to \$998,514. The increase in is due to additional clients and services. Clancy's Remit-online.com service has processed 75,456 transactions totaling \$2,900,431 for the quarter ended June 30, 2008. 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 income statements.

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COST OF SERVICES. For the three month quarter ended June 30, 2007 to the three month quarter ended June 30, 2008, cost of services increased by \$25,323 or 13.9% from \$182,238 to \$207,561 for the Company. Cost of services as a percentage of service contract income was 23.7% for the 2007 quarter and 27.3% for the 2008 quarter.

RESEARCH AND DEVELOPMENT. The Company's parking enforcement systems research and development costs increased from \$4,111 to \$10,369, or 152.2%, from the three month quarter ended June 30, 2007 to 2008. The Company is working on an upgrade to its wireless printer and a detection device.

GENERAL AND ADMINISTRATIVE. General and administrative expenses decreased by \$251,308 or 38.1% from \$660,393 to \$409,085 for the three month quarter ended June 30, 2007 compared to the three month quarter ended June 30, 2008. The primary reason for the decrease is that the Company's subsidiary in Puerto Rico had some expansion costs in the prior year.

NET INCOME. For the three month quarter ended June 30, 2008, the Company reported net income of \$260,048 compared to \$39,848 for the three month quarter ended June 30, 2007. The net income has increased because of the additional of new clients and additional services for Clancy. UTS received a settlement on accrued Puerto Rico taxes of \$207,328.

COMPARISON OF RESULTS FOR THE NINE MONTHS ENDED JUNE 30, 2007 AND 2008

REVENUES. From the nine months ended June 30, 2007 to the nine months ended June 30 2008 revenues increased by \$124,940 or 4.4% from \$2,848,431 to \$2,973,371. The increase in revenues is due to the addition of new customers and products during the nine months ended June 30, 2008. Clancy's Remit-online.com service has processed 219,794 transactions totaling \$8,609,438 for the nine months ended June 30, 2008. 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 income statements.

COST OF SERVICES. For the nine months ended June 30, 2007 compared to the nine months ended June 30, 2008, cost of services decreased by \$35,436 or 5.9% from \$598,769 to \$563,333 for the Company. Cost of services as a percentage of service contract income was 26.9% for the 2007 nine month period and 27.0% for the 2008 six month period.

RESEARCH AND DEVELOPMENT. The Company's parking enforcement systems research and development costs increased from \$5,626 to \$17,489, or 210.9%, from the nine months ended June 30, 2007 to 2008. The Company is working on a upgrade to it's wireless printer and a detection device.

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GENERAL AND ADMINISTRATIVE. General and administrative expenses decreased by \$170,339 or 9.6% from \$1,777,439 to \$1,607,100 for the nine months ended June 30, 2007 and 2008, respectively.

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The primary reason for the decrease is that the Company's subsidiary in Puerto Rico received a reduction in accrued Puerto Rican Taxes of \$207,328.

NET INCOME. For the nine months ended June 30, 2008, the Company reported net income of \$715,892 compared to \$273,753 for the nine months ended June 30, 2007. The primary reason for the increase in net income is related to the addition of new clients and services for Clancy. UTS received contract settlements for \$250,000 in the aggregate plus the tax reduction described above.

CONTROLS AND PROCEDURES

The Company's principal executive officer and principal financial officer have evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based on such evaluation, the Company's principal executive officer and principal financial officer have concluded that, as of the end of such period, the Company's disclosure control and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act.

The Company's management has also concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed in the Company's reports filed under the Exchange Act is accumulated and communicated to management, including the principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure.

There was no change in the Company's internal control over financial reporting that occurred during the fiscal quarter to which this report relates that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

STATUS OF PRODUCTS AND SERVICES

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. The company is currently updating its Bluetooth printer technology.

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

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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 has qualified to be a Microsoft Certified Partner. This relationship allows the Company to receive pre-releases of software

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products which gives the Company a leading edge on upgrading programs and embedding new services into our 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 1999. Collections from parking lot fees from Cauguas commenced in January of 1999.

In September 2005, the Company acquired all outstanding shares of UTS stock in exchange for shares of the Company's common stock.

UTS continues to add new clients. In December 2007, UTS was awarded a contract for the city of San Juan. The company anticipates installing approximately 2,000 meters. In order to manage the operations in San Juan, UTS moved it's main office into the city. UTS has also installed a code enforcement system for the city of Cauguas.

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.

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

Director and Officer insurance premiums were reduced by 28% for the last year. The Company is able to qualify for Directors and Officers insurance when many companies are no longer able to qualify.

The Company's newest equipment has proven to be a capital intensive program. The Company has designed its printer board to work and fit in both its current model case as well as its new case, which will prove to be a cost savings. While the Company has adequate cash flow to accomplish the upgrades without incurring debt, it is anticipated that the ongoing upgrades and tooling for newer products shall continue to require a large capital commitment.

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With the weakened economy as of recent years, municipalities are in search of additional revenues and the installation and implementation of means to efficiently and effectively collect parking ticket revenues as a viable source of such additional revenues for many locales. As on street parking spaces are finite, and populations increase, a structured management system of turnover, enforcement and accountability of parking revenues will be imperative for all cities. In addition, the Company supplies all hardware, software, training, supplies and maintenance for the system, thus eliminating all significant capital expenditures by the user.

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

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

INTERNAL AND EXTERNAL SOURCES OF LIQUIDITY

The Company anticipates using its working capital to fund ongoing operations, including general and administrative expenses, equipment manufacturing, travel, marketing and research and development. The Company anticipates having sufficient working capital to fund operations for the next twelve months

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UTS has funded its operations primarily by cash flows and bank debt. It has notes payable and capital lease obligations arising from borrowings for working capital and purchases and installation of meter equipment.

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. The Company continues to experience an increase in activity monthly. The Company generates revenue from Remit-online.com based on

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a per transaction fee.

In addition, outstanding ticket fines of approximately \$2,900,000, for UTS and \$1,146,000 for Clancy, have not been recognized as revenue at June 30, 2008 based on SEC accounting guidance.

CRITICAL ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

GOODWILL. The excess of the purchase price over net assets acquired by the Company from unrelated third parties is recorded as goodwill. Goodwill resulted from the acquisition of UTS. On January 1, 2002, the Company adopted Statement of Financial

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Accounting Standard No. 142 (SFAS 142), "Goodwill and Intangible Assets", which clarifies the accounting for goodwill and intangible assets. Under SFAS 142, goodwill and intangible assets with indefinite lives will no longer be amortized, but will be tested for impairment at least annually and also in the event of an impairment indicator.

Chat Room Disclaimer

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

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings

On March 21, 2002, a complaint was filed in Denver District Court by Francis Salazar against the Company. Mr. Salazar was seeking compensation for alleged loss of profit on the sale of 6,000,000 shares of the Company's common stock that carried a restrictive legend under Rule 144 of the Securities Act of 1933, as amended. The complaint alleges that the restrictive legend prevented Salazar from selling the shares during an 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 filed a petition for certiorari seeking to have the matter heard by the Colorado Supreme Court. The Supreme Court of Colorado granted certiorari. The case was heard in September 2007. On February 19, 2008, the Colorado Supreme Court ruled in favor of the Company and the case was remanded to the District Court with directions to reinstate the District Court's order of summary judgment. Salazar has since filed a motion in the District Court to amend its original complaint and the Company has opposed that motion.

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Item 2. 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 Plans or Program	(d) Maximum Number of shares that May Yet Be Purchased Under the Plans or Programs
----- -	-----	-----	-----	-----
April 1, 2008 through April 30, 2008	87,500	.014	87,500	-
May 1, 2008 through May 31, 2008	70,000	.015	70,000	
	-----	----	-----	-----
Total	157,500 =====	\$.0145 =====	157,500 =====	- =====

* The Company announced in its 10-KSB filing for the year ended September 30, 2006, that it implemented a reacquisition of equity

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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.

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Item 6. Exhibits

(a) Exhibits

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

Filed herewith.

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Signatures

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

Date: August 18, 2008

Clancy Systems International, Inc.
(Registrant)

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