CLANCY SYSTEMS INTERNATIONAL INC /CO/
Form 10-Q
August 19, 2009

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

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

For the quarterly period ended June 30, 2009

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 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
(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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes No

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

The number of shares outstanding of the issuer's class of common stock, as of August 19, 2009 is 362,291,211 shares, $.0001 par value.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non accelerated filer, or a smaller reporting company.

Large accelerated filer Accelerated filer   Non-accelerated filer
Smaller reporting company   X

CLANCY SYSTEMS INTERNATIONAL, INC.
INDEX

CLANCY SYSTEMS INTERNATIONAL, INC.
CONSOLIDATED BALANCE SHEETS
ASSETS

	September 30, 2008	June 30, 2009 (Unaudited)

Current assets:		
Cash and cash equivalents	$ 1,183,876	$ 1,186,171
Cash restricted	-	174,592
Accounts receivable, net of allowance for doubtful accounts	650,771	494,192
Receivable from related party	43,461	43,461
Income tax receivable	-	31,015
Inventories	183,074	174,353
Prepaid expenses	69,558	58,424
Deferred tax asset	11,200	7,400
Total current assets	2,141,940	2,169,608
Furniture and equipment, at cost:		
Office furniture and equipment	190,696	194,496
Computers and equipment under service contracts	2,596,066	2,675,875
Leasehold improvements	13,000	13,000
Vehicles, including vehicles under capital leases	147,651	147,651
	2,947,413	3,031,022
Less accumulated depreciation	(2,368,037)	(2,537,423)
Net furniture and equipment	579,376	493,599
Other assets:		
Investment in marketable securities	858,912	1,019,331
Deposits and other	18,138	16,738
Goodwill	404,547	404,547
Software development costs, net of accumulated amortization	216,070	219,682
Total other assets	1,497,667	1,660,298
	$ 4,218,983	$ 4,323,505

See accompanying notes to consolidated financial statements.

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

	September 30, 2008	June 30, 2009 (Unaudited)
Current liabilities:		
Accounts payable	$ 232,395	$ 323,735

Accrued expenses	329,737	400,977
Income taxes payable	19,652	-
Current portion of obligations under capital leases	3,393	3,279
Deferred revenue	104,782	54,194
Total current liabilities	689,959	782,185
Deferred income taxes payable	58,400	54,800
Obligations under capital lease, net of current portion	2,960	-
Total liabilities	751,319	836,985
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 shares authorized, 379,882,938 and 362,291,211 shares issued and outstanding at 9/30/08 and 6/30/09 respectively	37,988	36,229
Additional paid-in capital	1,350,078	1,287,558
Accumulated comprehensive income (loss):		
Unrealized loss on marketable securities	(92,298)	(24,549)
Retained earnings	2,171,896	2,187,282
Total stockholders' equity	3,467,664	3,486,520
	$ 4,218,983	$ 4,323,505

See accompanying notes to consolidated financial statements.

CLANCY SYSTEMS INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND OTHER COMPREHENSIVE INCOME
INCOME
(Unaudited)
For Three Months Ended June 30, 2008 and 2009

	June 30, 2008	June 30, 2009
Revenues	$ 998,514	$ 923,212
Costs of Sales	248,312	231,796
Gross Profit	750,202	691,416
Costs and expenses		
General and administrative	409,085	590,546
Research and development	10,369	9,354
Total costs and expenses	419,454	599,900

Income from operations	330,748	91,516
Other income (expense):		
Loss on disposal of assets	(22,068)	-
Interest income	17,149	13,363
Interest expense	(366)	2,023
Other income	28,213	16,259
Total other income (expense)	22,928	31,645
Income before provision for income taxes	353,676	123,161
Provision for income taxes:		
Current expense	85,428	33,071
Deferred expense	8,200	(5,000)
Total income tax expense	93,628	28,071
Net income	260,048	95,090
Other comprehensive income (loss) Unrealized gain (loss) on marketable securities	(51)	4,487
Comprehensive income	$ 259,997	$ 99,577
Basic and diluted: Net income per common share	$ *	$ *
Weighted average number of shares outstanding	380,773,130	377,739,133

*Less than $.01 per share

See accompanying notes to consolidated financial statements.

CLANCY SYSTEMS INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND OTHER COMPREHENSIVE INCOME
(Unaudited)
For Nine Months Ended June 30, 2008 and 2009

	June 30, 2008	June 30, 2009
Revenues	$ 2,973,371	$ 3,003,562
Costs of Sales	685,597	750,117
Gross Profit	2,287,774	2,253,445
Costs and expenses		
General and administrative	1,607,100	2,006,350
Research and development	17,489	25,211
Total costs and expenses	1,624,589	2,031,561
Income from operations	663,185	221,884

Other income (expense):		
Loss on disposal of assets	(22,068)	-
Interest income	52,869	41,326
Interest expense	(787)	(1,782)
Loss on sale of marketable securities	-	(458)
Other income	279,487	38,670
Total other income (expense)	309,501	77,756
Income before provision for income taxes	972,686	299,640
Provision for income taxes:		
Current expense	230,894	215,301
Deferred expense	25,900	200
Total income tax expense	256,794	215,501
Net income	715,892	84,139
Other comprehensive income (loss) Unrealized gain (loss) on marketable securities	(26,847)	67,749
Comprehensive income	$ 689,045	$ 151,888
Basic and diluted:		
Net income per common share	$ *	$ *
Weighted average number of shares outstanding	380,969,347	374,972,046

*Less than $.01 per share

See accompanying notes to consolidated financial statements.

-6-

CLANCY SYSTEMS INTERNATIONAL, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
For the Nine Months Ended June 30, 2009
(Unaudited)

	Common Stock Shares	Common Stock Amount	Additional paid-in Capital	Accumulated Other Compre-hensive Income (Loss)	Retained Earnings
Balance, September 30, 2008	379,882,938	$ 37,988	$ 1,350,078	$(92,298)	$ 2,171,896
Common stock repurchase	(17,591,727)	(1,759)	(62,520)	-	(68,753)

Unrealized gain on marketable securities	-	-	-	67,749	-
Net income for the nine months ended June 30, 2009	-	-	-	-	84,139
Balance, June 30, 2009 (unaudited)	362,291,211	$ 36,229	$ 1,287,558	$ (24,549)	$2,187,282

See accompanying notes to consolidated financial statements.

-7-

CLANCY SYSTEMS INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
For the Nine Months Ended

	June 30, 2008	June 30, 2009
Cash flows from operating activities:		
Net income	$ 715,892	$ 84,139
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	252,839	234,822
Loss on disposal of assets	22,068	-
Deferred income tax expense	25,900	200
Loss on sale of marketable securities	-	458
Changes in assets and liabilities:		
Accounts receivable	160,809	156,579
Inventories	(44,589)	8,721
Income taxes refundable	(3,641)	(31,015)
Prepaid expenses	8,376	11,134
Accounts payable	(66,036)	91,340
Accrued expenses	(204,139)	71,240
Income taxes payable	(26,565)	(19,652)
Deferred revenue	(17,136)	(50,588)
Total adjustments	107,886	473,239
Net cash provided by operating activities	823,778	557,378
Cash flows from investing activities:		

Increase in restricted cash	-	(174,592)
Acquisition of furniture and equipment	(112,544)	(83,761)
Increase in software licenses and software development costs	(60,580)	(67,559)
Increase in investments in marketable securities	(200,835)	(108,128)
Proceeds from sale of marketable securities	25,299	15,000
Decrease (increase)in deposits and other assets	2,046	63
Net cash (used in) investing activities	(346,614)	(418,977)
Cash flows from financing activities:		
Repurchase of common stock	(5,828)	(133,032)
Payments on long-term debt and capital leases	(2,517)	(3,074)
Net cash (used in) financing activities	(8,345)	(136,106)

See accompanying notes to consolidated financial statements.

CLANCY SYSTEMS INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(Unaudited)
For the Nine Months Ended

	June 30, 2008	June 30, 2009
Increase in cash and cash equivalents	468,819	2,295
Cash and cash equivalents at beginning of period	619,642	1,183,876
Cash and cash equivalents at end of period	$ 1,088,461	$ 1,186,171

See accompanying notes to consolidated financial statements.

CLANCY SYSTEMS INTERNATIONAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2009
(Unaudited)

1. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) for interim financial information and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) are included.

The results of operations for the periods presented are not necessarily indicative of the results to be expected for the full fiscal year. For further information, refer to the financial statements of Clancy Systems International, Inc. included in the Company's form 10K for the fiscal year ended September 30, 2008, as filed with the Commission on January 14, 2009.

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 nine months ended June 30, 2008 and 2009. All significant intercompany 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. 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.

Reclassifications:

Certain reclassifications have been made to the prior year statements to conform to the current year presentation.

CLANCY SYSTEMS INTERNATIONAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2009
(Unaudited)

1. Basis of Presentation (continued)

Net income (loss) per common share:

The Company computes net income (loss) 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 diluted earnings (loss) per share. Basic earnings (loss) 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 (loss) per share reflects the potential dilution of securities that could share in the earnings of the Company. The Company has no potentially dilutive securities.

Fair Value of Financial Instruments

The carrying value of cash, accounts receivable, accounts payable and obligations under capital leases at September 30, 2008 and June 30, 2009 approximates fair value due to the short term nature of these instruments.

2. Recently Issued Accounting Standards

Recently Adopted accounting standards:

SFAS No. 141(R): Effective January 1, 2009, the Company adopted SFAS No. 141(R), "Business Combinations" (SFAS 141 (R)), which significantly changes the accounting for and reporting of business combinations. The acquirer must recognize the assets acquired, liabilities assumed and any non-controlling interest in the acquired entity at the acquisition date fair values and requires the expensing of most transaction and restructuring costs. This new standard is applicable only to transactions occurring after the effective date of January 1, 2009, and it had no impact on the Company's consolidated financial statements.

FSP FAS No. 141 (R)-1: In April 2009, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) Financial Accounting Standard (FAS) No. 141(R)-1, "Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arises from Contingencies" (FSP FAS No. 141(R)-1).

CLANCY SYSTEMS INTERNATIONAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2009
(Unaudited)

2. Recently Issued Accounting Standards (continued)

This FSP amends and clarifies SFAS No. 141(R), to require that an acquirer recognize at fair value, at the acquisition date, an asset acquired or a liability assumed in a business combination that arises from a contingency if the acquisition-date fair value of that asset or liability can be determined during the measurement period. If the acquisition-date fair value of such an asset acquired or liability assumed cannot be determined, the acquirer should apply the provisions of SFAS No.5, Accounting for Contingencies, to determine whether the contingency should be recognized at the acquisition date or after it. FSP FAS No. 141(R)-1 is effective for assets or liabilities arising from contingencies in business combinations occurring in the first annual reporting period beginning after December 15, 2008. The Company adopted FSP FAS No. 141(R)-1 prospectively on January 1, 2009, and there was no impact on its consolidated financial statements.

SFAS No. 157: In December 2006, SFAS No. 157, "Fair Value Measurement" (SFAS No. 157), was issued. SFAS No. 157 clarifies the definition of fair value, describes methods used to appropriately measure fair value, and expands fair value disclosure requirements, but does not changes existing guidance as to whether or not an instrument is carried at fair value. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The Company adopted the provisions for financial assets and liabilities effective January 1, 2008. The Company adopted the provisions for nonfinancial assets and liabilities effective January 1, 2009. The adoption of SFAS No. 157 had no impact on its consolidated financial statements.

SFAS No. 165: Effective April 1, 2009, the Company adopted SFAS No. 165, "Subsequent Events" (SFAS No. 165). SFAS No. 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date and alerts all users of financial statements that an entity has not evaluated subsequent events after that date in the set of financial statements being presented. The adoption of SFAS No. 165 had no impact on the Company's consolidated financial statements.

FSP FAS No. 107-1 and APB 28-1: On April 9, 2009, the FASB issued FSP FAS No. 107-1 and Accounting Principles Board (APB) 28-1, "Interim Disclosures about Fair Value of Financial Instruments," (FSP FAS No. 107-1 and APB 28-1) which relates to fair value disclosures for any financial instruments that are not currently reflected on the balance sheet at fair value. Prior to issuing this FSP, fair values for these assets and liabilities were only disclosed once a year.

CLANCY SYSTEMS INTERNATIONAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2009
(Unaudited)

2. Recently Issued Accounting Standards (continued)

The FSP now requires these disclosures on a quarterly basis, providing qualitative and quantitative information about fair value estimates for all those financial instruments not measured on the balance sheet at fair value. FSP FAS No. 107-1 and APB 28-1 were adopted by the Company effective April 1, 2009 and had no impact on its consolidated financial statements.

Issued but not yet effective accounting standards:

SFAS No. 168: In June 2009, the FASB issued SFAS No. 168, "The FASB Accounting Standards Codification(tm) and the Hierarchy of Generally Accepted Accounting Principles" (SFAS No. 168). SFAS No. 168 establishes the FASB Accounting Standards Codification (the "Codification") as the source of authoritative U.S. GAAP for nongovernmental entities, in combination with rules and interpretive releases of the SEC under authority of U.S. federal securities laws for SEC registrants. The Codification organizes and simplifies all authoritative U.S. GAAP literature, and establishes that all authoritative U.S. GAAP in the Codification carries an equal level of authority. SFAS 168 will be effective for financial statements issued for interim and annual periods ending after September 15, 2009 (September 30, 2009 for the Company).The Company does not anticipate that the adoption of SFAS No. 168 will have any impact on its consolidated financial statements.

3. Inventories

Inventories consist of the following at:

	September 30, 2008	June 30, 2009
Finished goods	$ 42,925	$ 67,671
Work in process	2,606	40,006
Purchased parts and supplies	137,543	66,676
	$ 183,074	$ 174,353

4. Income Taxes

The provision for income taxes for the nine months ended June 30, 2008 and 2009 is based on the 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 taxes mainly consist of tax-exempt income and changes to estimates of previously reported income tax expense.

CLANCY SYSTEMS INTERNATIONAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2009
(Unaudited)

4. Income taxes (continued)

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

	September 30, 2008	June 30, 2009
Current deferred tax asset:		
Section 263A capitalization	$ 3,200	$ 3,200
Allowance for doubtful accounts	8,000	4,200
Current deferred tax assets	$ 11,200	$ 7,400
Non current deferred tax assets		
Loss on equity investment	$ 221,500	$ 297,300
Section 263A capitalization	30,600	30,600
	252,100	327,900
Valuation allowance	(221,500)	(297,300)
	30,600	30,600
Non current deferred tax liabilities:		
Depreciation and amortization	(89,000)	(85,400)
Net non current deferred tax liabilities	$ (58,400)	$ (54,800)

5. 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 30, 2009 the Company reacquired 17,591,727 shares of its common stock for $133,032. 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. 16,148,300 shares were purchased under a private block transaction at a price less than market price and the balance of 1,443,427 shares were purchased under the plan.

6. Contingencies

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.

CLANCY SYSTEMS INTERNATIONAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2009
(Unaudited)

6. Contingencies (continued)

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.

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.

On March 17, 2008, the Colorado Supreme Court issued a decision affirming the District Court dismissal of Mr. Salazar's suit. It also denied Mr. Salazar's request to amend his Complaint in the District Court to add a new claim. The case was thereafter remanded to the District Court. Mr. Salazar then filed a motion in District Court to amend his Complaint to add a new claim. The District Court denied Mr. Salazar's motion to amend based upon the finality of the Supreme Court ruling and the Supreme Court's denial of Mr. Salazar's request to amend his pleading in the District Court. Mr. Salazar has filed notice of appeal in Colorado Court of Appeals with respect to the District Court's denial of his motion to amend. In July 2009 Mr. Salazar's appeal was denied.

The Company is in dispute with the Puerto Rico Municipality Center (CRIM), the governmental entity in charge of the assessment collection of property taxes in Puerto Rico, for personal property taxed owed from 1998. The Company filed a written protest as to these assessments and vigorously contested the asserted deficiencies through the administrative appeals process. During the year ended September 30, 2008, the process finalized.

CLANCY SYSTEMS INTERNATIONAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2009
(Unaudited)

6. Contingencies (continued)

The accrual for $310,068 that was recorded on the books was reduced to $102,740 which is the total amount assessed by the CRIM for unpaid personal property tax since 1999. The effect of this reduction amounted to $219,814.

However, during the quarter ended December 31, 2008, the CRIM assessed new debt for $441,987, including penalties, interest and surcharges, for parking meters considered as real property from 2002. The company has protested this assessment and accrued the liability during the quarter ended December 31,2008.

During the quarter ended March 31, 2009, the Company made payment of $68,623 for the remaining personal property assessment and an additional payment of $26,211 for the real property assessment.

In May 2009, CRIM froze the UTS bank accounts. The Company is currently negotiating with CRIM regarding the final debt assessment which management believes will be reduced. The final outcome of this is expected by August 31, 2009. Accordingly, cash in the amount of $174,592, pertaining to the frozen UTS bank accounts, is presented as current restricted cash in the accompanying consolidated financial statements.

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) and the ability of the Company to reduce costs and thereby maintain adequate profit margins.

At June 30, 2009, the Company had consolidated working capital of $1,387,423 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, 2009. 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, 2008 AND 2009

REVENUES. For the three month quarter ended June 30, 2008 to the three month quarter ended June 30, 2009 revenues decreased by $75,302 or 7.5% from $998,514 to $923,212. The decrease in revenue reflects a decrease in ticket issuance by clients. Clancy's Remit-online.com service has processed 69,656 transactions totaling $2,430,913 for the quarter ended June 30, 2009. The Company was processing permits for BART through May 2009. As of June 2009 the Company is no longer processing monthly permits for BART. However, the profit from BART transactions was negligible and will have little impact on future revenues flowing through remit-online. 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. For the three month quarter ended June 30, 2008 to the three month quarter ended June 30, 2009, cost of services decreased by $16,516 or 6.7% from $248,312 to $231,796 for the Company. Cost of services as a percentage of service contract income was 24.8% for the 2008 quarter and 25.1% for the 2009 quarter. The decrease is primarily related to the decrease in revenues.

RESEARCH AND DEVELOPMENT. The Company's parking enforcement systems research and development costs decreased from $10,369 to $9,354, or 9.8% from the three month quarter ended June 30, 2008 and 2009. The company's research and development fluctuates as product development completes or upgrades may or may not be in process.

GENERAL AND ADMINISTRATIVE. General and administrative expenses increased by $181,461 or 44.4% from $409,085 to $590,546 for the three month quarter ended June 30, 2008 and 2009, respectively. The increase in general and administrative expenses is a result of an additional property tax assessment by the Puerto Rico Municipality Revenue Center (CRIM), the governmental entity in charge of assessment and collection of property taxes.

NET INCOME. For the three month quarter ended June 30, 2009, the Company reported net income of $95,090 compared to net income of $260,048 for the three month quarter ended June 30, 2008. The primary reason for the decrease in net income is related to the property tax assessment discussed above.

COMPARISON OF RESULTS FOR THE NINE MONTHS ENDED JUNE 30, 2008 AND 2009

REVENUES. For the nine months ended June 30, 2008 to the nine months ended June 30, 2009 revenues increased by $30,191 or 1.0% from $2,973,371 to $3,003,562. The increase in revenue reflects a increase in ticket issuance by clients. Remit-online.com service has processed 225,640 transactions totaling $8,326,526 for the nine months ended June 30, 2009. 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. For the nine months ended June 30, 2008 to the nine months ended June 30, 2009, cost of services increased by $64,520 or 9.4% from $685,597 to $750,117 for the Company. Cost of services as a percentage of service contract income was 23.1% for the 2008 period and 25.0% for the 2009 period. The increase reflects costs related to contract expansion at Urban Transit Solutions.

RESEARCH AND DEVELOPMENT. The Company's parking enforcement systems research and development costs increased from $17,489 to $25,211, or 44.2%, from the nine months ended June 30, 2008 to 2009, respectively. The primary reason for the increase in costs was the engineering and development of a sensor system for parking garage activity. The company is also working on a new board for it's blue tooth printer.

GENERAL AND ADMINISTRATIVE. General and administrative expenses increased by $399,250 or 24.8% from $1,607,100 to $2,006,350 for the nine months ended June 30, 2008 and 2009, respectively. The increase in general and administrative expenses is a result of an additional property tax assessment by the Puerto Rico Municipality Revenue Agency (CRIM), the governmental entity in charge of assessment and collection of property taxes, for approximately $153,000 that was completed in December 2008. Additionally with the new contract in Puerto Rico, salaries and other expenses have increased.

NET INCOME (Loss). For the nine months ended June 30, 2009, the Company reported net income of $84,139 compared to net income of $715,892 for the nine months ended June 30, 2008. The primary reason for the decrease in net income is related to the property tax assessment discussed above. Additionally in December 2007, the Company recieved a $200,000 contract termination fee from the city of Arecibo, Puerto Rico which is not a recurring item.

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.

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 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. The Company is offering its programs in a "cloud computing" environment.

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.

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

The Company has introduced a new cellular-based real time ticket issuance system. This is a giant leap in both issuing the citations and managing information. The Company anticipates this will be a program that will ensure continued growth. The programs are maintained and utilized in a cloud computing environment.

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 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 a per transaction fee.

In addition, outstanding ticket fines of approximately $2,900,000, for UTS and $1,361,451 for Clancy, have not been recognized as revenue at June 30, 2009 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.

USE OF ESTIMATES

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

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

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

Revenue from the issuance of parking citations for the Company's privatization projects is recognized on a cash basis when received as 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 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.

Item 4T. Controls and Procedures

Our management, with the participation of our chief executive officer and our chief financial officer, has evaluated the effectiveness of our disclosure controls and procedures as required by Exchange Act Rule 13a-15(b) as of June 30, 2009 (the end of the period covered by this report). Based on that evaluation, our chief executive officer and our chief financial officer have concluded that because of the material weakness identified in our internal control over financial reporting described in Item 8A(T) of our annual report for the year ended September 30, 2008 on Form 10-KSB, that, our disclosure controls and procedures were not effective as of June 30, 2009. Due to the small size of the Company and our lack of personnel resources, we are unlikely to immediately take any action to remediate the material weaknesses identified.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and our principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

There were no changes in our internal control over financial reporting during the quarter ended June 30, 2009, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

The Company is in dispute with the Puerto Rico Municipality Center (CRIM), the governmental entity in charge of the assessment and collection of property taxes in Puerto Rico, for personal property taxes owed from 1998. The company filed a written protest as to these assessments and vigorously contested the asserted deficiencies through the administrative appeals process. During the year ended September 30, 2008, the process finalized. The accrual for $310,068 that was recorded on the books was reduced to $102,740, which is the total amount assessed by the CRIM for unpaid personal property tax since 1999. The effect of this reduction amounted to $219,814. However the CRIM assessed a new debt for $441,987, including penalties, interest for parking meters considered as real property from 2002. The Company has protested this assessment and accrued the liability during the quarter ended December 31, 2008.

During the quarter ended March 31, 2009, the Company made a payment of $68,623 for the remaining personal property assessment and an additional payment of $26,211 for the real property assessment.

In May 2009, CRIM froze the UTS bank accounts. The Company is currently negotiating with CRIM regarding the final debt assessment which management believes will be reduced. The final outcome of this is expected by August 31, 2009.

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.

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.

On March 17, 2008, the Colorado Supreme Court issued a decision affirming the District Court dismissal of Mr. Salazar's suit. It also denied Mr. Salazar's request to amend his Complaint in the District Court to add a new claim. The case was thereafter remanded to the District Court. Mr. Salazar then filed a motion in District Court to amend his Complaint to add a new claim.

-24-

The District Court denied Mr. Salazar's motion to amend based upon the finality of the Supreme Court ruling and the Supreme Court's denial of Mr. Salazar's request to amend his pleading in the District Court. Mr. Salazar has filed notice of appeal in Colorado Court of Appeals with respect to the District Court's denial of his motion to amend. In July 2009 Mr. Salazar's appeal was denied.

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 through April 30, 2009	-	-	-	-
May 1, through May 31, 2009	-	-	-	-
June 1, through June 30, 2009	16,450,800	$.0070	16,450,800	-
Total	16,450,800	$.0070	16,450,800	-

* 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.

Item 3. Defaults upon senior securities

None

Item 4. Submission of matters to a vote of security holders

None

Item 5. Other information

Non

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.

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 19, 2009 Clancy Systems International, Inc.
(Registrant)

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

By:/s/ Lizabeth Wolfson
Lizabeth Wolfson,
Secretary-Treasurer and
Chief Financial and
Chief Accounting Officer