

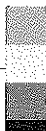
SERVICEMEMBERS LEGAL DEFENSE NETWORK, INC.

AUDITED FINANCIAL STATEMENTS

December 31, 2007

SERVICEMEMBERS LEGAL DEFENSE NETWORK, INC.
AUDITED FINANCIAL STATEMENTS
December 31, 2007

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Board of Directors
Servicemembers Legal Defense Network, Inc.
Washington, DC

Report of Independent Auditors

We have audited the accompanying statement of financial position of Servicemembers Legal Defense Network, Inc. (SLDN) as of December 31, 2007, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of SLDN's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from SLDN's December 31, 2006 financial statements, and in our report dated March 20, 2007, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 audit provides 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 Servicemembers Legal Defense Network, Inc. as of December 31, 2007, and the changes in its net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Washington, DC
April 21, 2008

Drolet + Associates, P.L.L.C.

SERVICEMEMBERS LEGAL DEFENSE NETWORK, INC.
STATEMENT OF FINANCIAL POSITION
December 31, 2007
(With Summarized Financial Information for December 31, 2006)

	2007	2006
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 284,491	\$ 424,033
Investments	9,950	-0-
Bequest receivable	132,115	107,181
Foundation grants receivable	75,000	160,000
Contributions & pledges receivable	112,684	84,118
Prepaid expenses and other current assets	40,664	29,715
TOTAL CURRENT ASSETS	654,904	805,047
BEQUEST RECEIVABLE , net of current portion	396,346	428,727
FOUNDATION GRANTS RECEIVABLE , net of current portion	-0-	25,000
FIXED ASSETS		
Furniture and equipment	179,262	179,262
Less accumulated depreciation	(172,213)	(163,595)
TOTAL FIXED ASSETS	7,049	15,667
DEPOSITS	3,675	3,675
TOTAL ASSETS	\$ 1,061,974	\$ 1,278,116
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 23,938	\$ 29,771
Accrued expenses	111,004	66,616
Notes payable	7,049	7,048
Deferred revenue	19,220	12,845
TOTAL CURRENT LIABILITIES	161,211	116,280
NOTES PAYABLE , net of current portion	-0-	7,049
TOTAL LIABILITIES	161,211	123,329
NET ASSETS		
Unrestricted	297,302	433,879
Temporarily restricted	603,461	720,908
TOTAL NET ASSETS	900,763	1,154,787
TOTAL LIABILITIES AND NET ASSETS	\$ 1,061,974	\$ 1,278,116

The accompanying notes are an integral part of these financial statements.

SERVICEMEMBERS LEGAL DEFENSE NETWORK, INC.
STATEMENT OF ACTIVITIES
For The Year Ended December 31, 2007
(With Summarized Financial Information for the Year Ended December 31, 2006)

	Unrestricted	Temporarily Restricted	2007 Total	2006 Total
REVENUE				
Contributions	\$ 1,656,829		\$ 1,656,829	\$ 1,241,237
Charitable bequest	24,934	\$ 99,734	124,668	40,953
Grants	488,498	50,000	538,498	600,069
In-kind contributions	513,600		513,600	1,029,052
Other income	20,364		20,364	3,053
Interest income	4,254		4,254	10,842
Net assets released from restrictions	267,181	(267,181)	-0-	-0-
TOTAL REVENUE	2,975,660	(117,447)	2,858,213	2,925,206
EXPENSES				
Program services	2,378,861		2,378,861	2,412,980
Management and general	474,349		474,349	409,270
Fundraising	259,027		259,027	253,906
TOTAL EXPENSES	3,112,237		3,112,237	3,076,156
CHANGE IN NET ASSETS	(136,577)	(117,447)	(254,024)	(150,950)
NET ASSETS, BEGINNING OF YEAR	433,879	720,908	1,154,787	1,305,737
NET ASSETS, END OF YEAR	\$ 297,302	\$ 603,461	\$ 900,763	\$ 1,154,787

The accompanying notes are an integral part of these financial statements.

SERVICEMEMBERS LEGAL DEFENSE NETWORK, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For The Year Ended December 31, 2007
(With Summarized Financial Information for the Year Ended December 31, 2006)

	Program	Management & General	Fundraising	2007 Total	2006 Total
Advertising	\$ 16,244	\$ 234	\$ 1,017	\$ 17,495	\$ 71,395
Equipment rental and expense	18,150	3,725	4,901	26,776	14,983
Catering	107,967	10,753	18,305	137,025	82,082
Conference, meetings & events	5,823		552	6,375	8,000
Depreciation	5,288	1,438	1,892	8,618	21,616
Dues and subscriptions	6,283	12	482	6,777	6,480
Entertainment and other expenses	8,877	50,081	581	59,539	20,471
Grant expense				-0-	2,500
Insurance	10,683	848	640	12,171	6,483
Licenses and permits	75	253	9,798	10,126	9,688
Miscellaneous	1,886	9,759	17,856	29,501	7,359
Office supplies	53,724	5,918	778	60,420	45,624
Payroll and benefits expense	1,020,888	306,380	122,105	1,449,373	1,154,210
Postage and delivery	58,139	2,794	5,267	66,200	81,631
Printing and reproduction	122,316	5,225	16,350	143,891	120,065
Professional fees	634,782	24,523	29,191	688,496	1,163,810
Rent	55,015	14,961	19,680	89,656	86,541
Service contracts	41,051	5,147	6,637	52,835	23,691
Telephone, internet and fax	46,304	9,495	310	56,109	38,108
Travel & meals	123,366	22,803	2,685	148,854	69,419
Web-site hosting and licenses	42,000			42,000	42,000
TOTAL	\$ 2,378,861	\$ 474,349	\$ 259,027	\$ 3,112,237	\$ 3,076,156

The accompanying notes are an integral part of these financial statements.

SERVICEMEMBERS LEGAL DEFENSE NETWORK, INC.
STATEMENT OF CASH FLOWS
For The Year Ended December 31, 2007
(With Summarized Financial Information for the Year Ended December 31, 2006)

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
CHANGE IN NET ASSETS	\$ (254,024)	\$ (150,950)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	8,618	21,616
Decrease in bequest receivable	7,447	66,229
Decrease (increase) in foundation grants receivables	110,000	(24,000)
(Increase) decrease in contributions & pledges receivable	(28,566)	9,037
Increase in prepaid expenses	(10,949)	(6,590)
(Decrease) increase in accounts payable	(5,833)	15,493
Increase in deferred revenue	6,375	12,845
Increase in accrued expenses	44,388	25,159
NET CASH USED IN OPERATING ACTIVITIES	(122,544)	(31,161)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(9,950)	-0-
Proceeds from the sales of investments	175,537	140,045
Donated investments	(175,537)	(140,045)
NET CASH USED IN INVESTING ACTIVITIES	(9,950)	-0-
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from line of credit	180,000	-0-
Repayments on line of credit	(180,000)	-0-
Repayment of note payable	(7,048)	(7,048)
NET CASH USED IN FINANCING ACTIVITIES	(7,048)	(7,048)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(139,542)	(38,209)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	424,033	462,242
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 284,491	\$ 424,033

The accompanying notes are an integral part of these financial statements.

SERVICEMEMBERS LEGAL DEFENSE NETWORK, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

NOTE A – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization	<p>Servicemembers Legal Defense Network, Inc. (SLDN) is a not-for-profit corporation incorporated in the State of Delaware on August 17, 1993. SLDN is a national, nonprofit legal services, watchdog and policy organization dedicated to ending discrimination against and harassment of military personnel affected by “Don’t Ask, Don’t Tell, Don’t Pursue, Don’t Harass” and related forms of intolerance.</p> <p>SLDN is supported primarily by contributions, bequests, grants and special events.</p>
Income Taxes	<p>SLDN is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (the Code) and did not conduct unrelated business activities. In addition, SLDN has been determined by the Internal Revenue Service not to be a “private foundation” within the meaning of Section 509(a) of the Code.</p>
Fixed Assets	<p>SLDN capitalizes all fixed assets acquisitions in excess of \$5,000. Fixed assets are recorded at cost, if purchased, or fair market value at date of donation, if contributed. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets.</p>
Cash and Cash Equivalents	<p>For the purposes of the statement of cash flows, SLDN considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.</p>
Contributions	<p>SLDN reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. Restricted contributions for which the restrictions are met in the year received are considered unrestricted for financial statement purposes. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.</p>
Donated Services	<p>Donated services are recognized as contributions in accordance with SFAS No. 116, Accounting for Contributions Received and Contributions Made, if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by SLDN. Volunteers also provided fundraising services throughout the year that are not recognized as contributions in the financial statements since the recognition criteria under SFAS No. 116 were not met.</p>
Investments	<p>Investments are recorded at fair market value.</p>

SERVICEMEMBERS LEGAL DEFENSE NETWORK, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2007

NOTE A – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

**Functional
Allocation of
Expenses**

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**Allocation of
Joint Costs**

For the year ended December 31, 2007, SLDN incurred joint costs of approximately \$542,400 for activities and informational materials that included fundraising appeals. Of those costs, \$446,700 was allocated to program expense, \$82,200 was allocated to fundraising expense and \$13,500 was allocated to management and general expense.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reclassification

Certain 2006 amounts have been reclassified for comparative purposes.

**Prior Year
Information**

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2006 from which the summarized information was derived.

NOTE B – LEASING ARRANGEMENTS

In August 1997, SLDN entered into a lease for office space at 1612 K Street NW, Washington, DC. The annual minimum rental is subject to annual increases payable in monthly installments on the first day of each month. Subsequent to the above, the lease has been amended to include additional space and extend the lease term to October 31, 2008. In the normal course of business, the lease will be renewed or replaced by another lease.

For the years ended December 31, 2007 and 2006, rent expense was approximately \$90,000 and \$87,000, respectively.

SERVICEMEMBERS LEGAL DEFENSE NETWORK, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2007

NOTE C – RETIREMENT PLAN

SLDN sponsors a defined contribution plan (the Plan) that operates under section 403(b) of the Internal Revenue Code (IRC). The purpose of the Plan is to provide retirement benefits for participating employees. SLDN contributes up to 2% of each participant's annual salary to the plan on a one-to-one matching basis. For the years ended December 31, 2007 and 2006, SLDN made contributions of approximately \$23,000 and \$22,300, respectively.

NOTE D – BEQUEST

In 2002, SLDN was the recipient of a bequest which will be paid in ten annual installments. The assets are held in a trust established by the decedent's estate. The first annual payment of \$85,785 was received in July 2002. Generally accepted accounting principles require that management estimate the potential future receipts from this bequest and record its entire value in the financial statements in the year the bequest is made. For the years ended December 31, 2007 and 2006, the estimated future receipt of the bequest was increased by approximately \$125,000 and \$41,000 to reflect the increase in value of the trust assets. Cash payments will be received once each year for the next four years. The amounts will vary depending on investment results over those intervening years. The potential amount to be received over the next four years has been estimated, for financial statement purposes, at approximately \$528,000.

NOTE E – CONCENTRATIONS

SLDN maintains cash balances at several financial institutions in the Washington, DC metropolitan area. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. At times during the year, SLDN's cash balances exceeded the FDIC insurance amount. Management believes the risk in these situations to be minimal.

As of December 31, 2007 and 2006 approximately \$75,000 or 100% and \$175,000 or 95% of foundation grants receivable was from two donors, respectively.

For the years ended December 31, 2007 and 2006, approximately 30% and 42% of contributions were received from one donor, respectively, each year.

NOTE F – TEMPORARILY RESTRICTED NET ASSETS

As of December 31, 2007 and 2006 temporarily restricted net assets consisted of the following:

Restriction	2007	2006
Time restricted bequest receivable	\$ 528,461	\$ 535,908
Time restricted foundation grants	75,000	185,000
Total temporarily restricted net assets	\$ 603,461	\$ 720,908

SERVICEMEMBERS LEGAL DEFENSE NETWORK, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2007

NOTE G – NOTE PAYABLE

On August 18, 2005, SLDN entered into a financing agreement to purchase software with CitiCapital Technology Finance, Inc. in the amount of \$21,145. The term of this agreement is 39 months with a maturity date of December 31, 2008. It is secured by a first priority security interest in the software system, which has a net book value of approximately \$7,050 as of December 31, 2007.

NOTE H – LINE OF CREDIT

On January 17, 2006, SLDN entered into a revolving line of credit agreement with Bank of America for \$150,000. This line of credit bears a variable interest rate equal to Bank of America's Prime Rate plus .5%. This agreement was renewed through January 17, 2009. It is secured by substantially all assets of SLDN.

NOTE I – DONATED SERVICES

For the year ended December 31, 2007 and 2006, in-kind contributions consisted of the following:

Description	Program	M&G	Fundraising	2007	2006
Legal services	\$ 460,583			\$ 460,583	\$ 912,885
Advertising	10,066			10,066	57,924
Web-site hosting and licenses	42,000			42,000	42,000
Professional development services				-0-	5,258
Other materials and services	783	\$ 40	\$ 128	951	10,985
Total In-Kind	\$ 513,432	\$ 40	\$ 128	\$ 513,600	\$ 1,029,052

NOTE J – INVESTMENTS

The market value of the investment as of December 31, 2007 is as follows:

Description	Amount
Bank of America corporate bond	\$ 9,950
Total investments	\$ 9,950