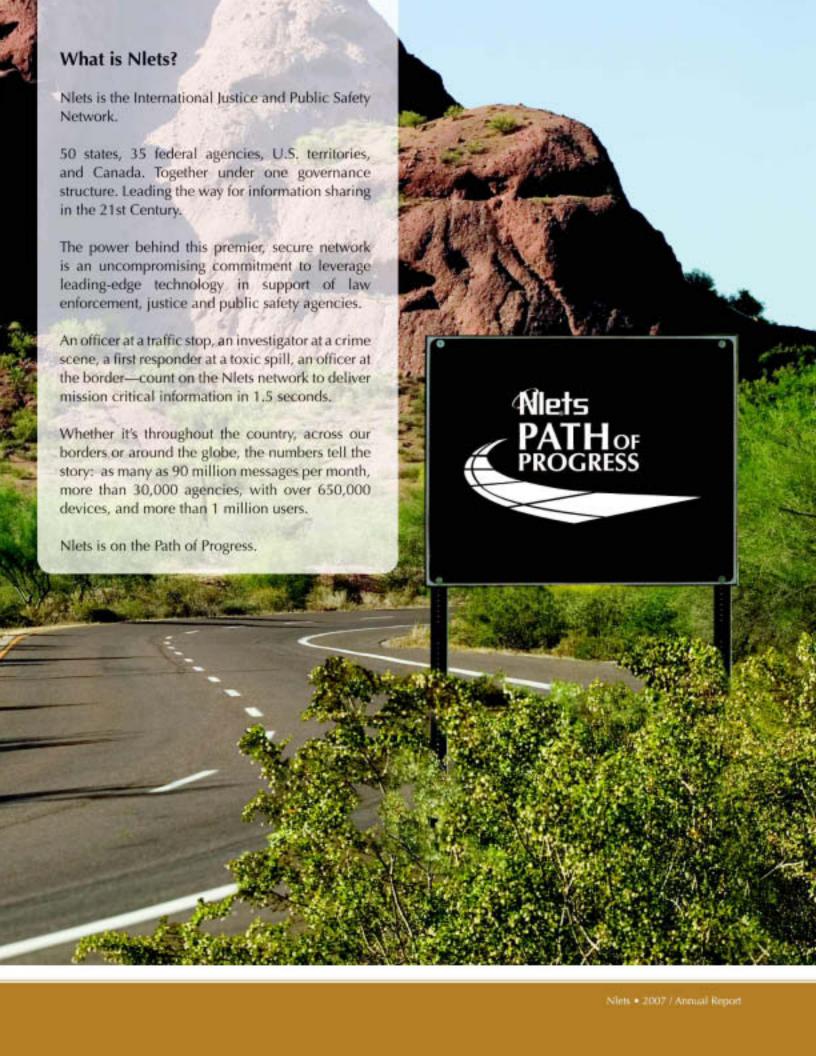
2007 / Annual Report



Table of Contents

Page 1	What is Nlets?
Pages 2-3	Letter from the Executive Director
Pages 4-5	Letter from the President
Pages 6-7	Financials
Pages 8-9	Core Business
Pages 10-13	Projects & Grants
Pages 14-15	Partnerships
Page 16-17	Information Available/ Agencies with Access



Letter from the Executive Director

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Running an organization like Nlets is, in some ways, like running a relay race. When the starting gun fires, you shoot out of the blocks straight down the lane. Then into the first turn, trying to get as far out in front as possible. There's a lot of anticipation, a lot of energy. Anything is possible and it's very exciting.

From my perspective, that's where Nlets has been. The hallmark of 2007 was our 40th anniversary, the dedication of our new facility, and ground-breaking grants. It was an exhilarating year and we made great strides in serving the law enforcement community.

But then it's time to settle into the middle legs of the race. The baton is passed and things are not necessarily as exciting. That's where I think Nlets is today—settling into the middle leg of a long run.

This is when sustained momentum is critical. After the explosive energy of the first leg, there's time for a more thoughtful approach. Not slower. But definitely a time to evaluate where we are, where we're going and set a pace that will allow us to move to the next level.

Several years ago the Board created a thoughtful strategy for growth which includes a tight focus on customer needs, the agility to pursue promising opportunities, and unyielding attention to performance with integrity. Nlets current success comes from adherence to that core strategy, which is paying off with all our stakeholders—members, strategic partners, grantors and vendors.



Jenen a Correce

Steven E. Correll Executive Director

In the past year Nlets has pushed well beyond the borders of the United States—into Mexico, Japan and the Caribbean—to establish relationships that we hope will eventually enable international information sharing on a scale we can only imagine today.

It's not only technology we've targeted for growth. We are building the resources that will support our future needs. For decades, Nlets has been proud of its ability to "do a lot with little." But now, we have to ensure that not only is our technology scalable, but our internal systems and operations are scalable. We are slowly and deliberately adding appropriate staff and talent to assist us as we grow our services to our membership.

As I look forward down the path of progress, I'm encouraged. We are perfectly positioned to take advantage of our position as the center square for information sharing. We are creating sustainable revenue growth. We are expanding our workforce to meet the needs. We are developing new partnerships. We are aggressively pursuing dynamic new projects that will lead the way in information sharing. And, as always, we are totally committed to our core services and the membership that we serve.

In the following pages you will see what we have accomplished in the past year. I invite you to join us as we take on the challenges that await us just around the corner on our path of progress.



- Massachusetts, Oregon and West Virginia have access to Interpol and 35 states are near
- Initiated strategic partnerships with Federal Motor Carrier Safety Administration (FMCSA), Trace, National Equipment Registry, Roadside Medic, OnStar
- Began implementation of a new accounting, CRM, and trouble ticket tracking system
- Testing completed with 11 states for mutual backup with FBI
- Six states selected for implemention of the Global Justice XML Data Model (GJXDM) or National Information Exchange Model (NIEM) rap sheet standards

Letter from the President

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The path of progress isn't always a straight line. As with all evolving things, history provides insight but should never restrict our thinking. Nevertheless, a peek back at where Nlets has been will help us understand where we're headed.

From its beginning, Nlets has delivered a good, solid set of services for its members; all practical, reliable and consistent. In a world of advancing technology and global security challenges, however, good services were not enough to ensure security for our citizens. Fortunately, the people of Nlets—members and staff and vendor partners—have been the ongoing impetus for fresh ideas directed at enhancing information exchange for law enforcement and public safety.

With new ideas and a lot of energy, Nlets' growth has been like microwave popcorn. Pop! Pop! Pop! Pop! Web services, disaster recovery, regional data sharing, standardized rapsheets, driver license photo sharing. It seems like there is no limit to the revolutionary ideas that continue to enhance the abilities of law enforcement and first responders to better serve our communities.

That brings us along the path to today. Now, it's time to turn our attention to sustainable growth. By marrying innovation with progressive leadership, we can develop and deploy nextgeneration ideas at a mature pace.

As I look forward to what's ahead for the law enforcement and public safety communities, the challenges are formidable. Fortunately, so are Nlets' capabilities to serve their needs. We are



Lerry Greman

Gerry Coleman President

enthusiastic about our industry, and we accept the rapid technological changes that are driving our future. We have the right strategy and the right team to support the men and women on the front lines of law enforcement and public safety.

It's not so long ago that Nlets dealt with police departments as a homogeneous mass. Just around the corner is the day when every man and woman in law enforcement will expect a personalized communication tool in his or her hand. We are already asking, "Are we delivering a tactical service or an investigative service? Will this be useful to a probation agent? Who else might we serve in our ongoing efforts to be relevant and critical for every aspect of law enforcement and public safety?"

In the not-too-distant future, every police officer, investigator, judge, prosecutor and corrections officer will expect services from information providers to be customized to their needs. They will expect booking photos, finger prints and driver license photos to appear in the palm of their hand, in color, instantly. The increasing use of the wireless environment will bring about a whole new array of possibilities and expectations.

This means that Nlets must continue to step away from the mindset of a set group of services and a wired network. More than ever, the vision that propelled Nlets onto the center stage for information sharing must continue to guide its course.

We are on a winding and complicated path of progress. As members, owners and users, we need Nlets to maintain its leadership role in providing the right information to the right people at the right time. I believe we are ready to face our future with vigor, intelligence and the passion that has made Nlets the world leader in information sharing for the law enforcement and public safety communities.



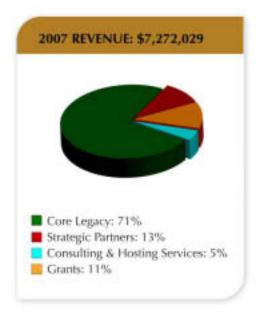
- Initiated plans for moving the Nlets disaster recovery site from Idaho State Police facility to an Nlets controlled facility in Louisville, KY
- Working with Customs and Border Protection to transmit enhanced driver license data to support border crossing
- Received a grant from National Institute of Justice to provide geospatial information
- North Carolina and Oregon are in production for interstate exchange of driver license photos, Virginia is testing and Nlets is working to provide funding for 8-10 more states
- RAND Portal deployed and being tested by 8 members

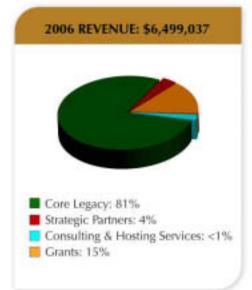
Financials

As Nlets has advanced along the path of progress, so has its financial outlook continued to evolve. Over the past few years, Nlets has strived to diversify operations, providing more avenues for revenue production, fueling growth without further financial burden to our membership. During 2007, the results of these efforts became more apparent, as illustrated by comparing revenue distribution with the prior year. While income from Core Legacy is still the majority of Nlets' income, other sources of income have grown significantly.

In 2004, for example, income from strategic partnerships with organizations that support law enforcement and first responders, at \$96,000, constituted 2% of Nlets' income. By 2006, this income source had generated \$224,760, or 4% of total income and by 2007, had jumped to \$942,225, or 13% of total income. Unlike Core Legacy which is limited to specific groups of organizations that qualify for membership, Nlets will continue to recruit and attract mutually beneficial strategic partnerships from a broad range of providers serving the greater public safety community.

Consulting and Hosting Services have exploded during 2007, providing 5% of revenue, or \$372,381, in comparison to negligible revenue as the department debuted in 2006. Expenses for this start-up area were significant, resulting in only \$17,377 in operating income for the department. The major expense was for system costs which, as hosting services expand, will be spread over a larger client base in future years. Since Nlets' needs and those of our hosting clients is only absorbing 5% of our total capacity, this area of service is capable of significant future revenue growth.





Operating Classifications

Core Legacy: Revenue generated and expenses incurred as a result of the use of the Nlets' network and systems by State, Federal and Associate Members.

Strategic Partners: Revenue generated and expenses incurred as a result of the use of the Nlets' network and systems by Nlets' Strategic Partners. Consulting and Hosting Services: Consulting services provided by Nlets' employees or its contractors to Nlets' members for the support of member sites. Hosting services are provided to members of law enforcement and customer agencies that contract with Nlets for a secure network connection, backup or other equipment.

Grants: Funds received from the Federal Government by Nlets as the direct recipient, and corresponding expenses incurred in fulfilling the grant. As fiscal 2007 began, it became clear that Nlets' financial picture could best be evaluated by classifying operations into four distinct profit centers, each with its own operating budget. Among the benefits of such classification is the ability to determine if the services offered are met with appropriate market demand to justify the allocation of resources. This change in reporting format, however, is not conducive to comparative financial reporting in this annual report of operations. Full financial statements are available by contacting Nlets headquarters at 800-528-4020.

Operating Revenue	2007
Core Legacy	\$ 5,198,679
Strategic Partners	\$ 942,225
Consulting and Hosting Services	\$ 372,381
Restricted Grant Income	\$ 758,744
Total Operating Revenue	\$ 7,272,029
Operating Expenses	
Core Expenses	\$ 4,664,100
Strategic Partner Expenses	\$ 747,452
Consulting and Hosting Expenses	\$ 355,003
Grant Expenditures	\$ 732,482
Total Operating Expenses	\$ 6,499,037
Income from Operations	\$ 772,992
Non-Operating Loss	\$ (70,272)
	\$ 702,720



Core Business

For more than 40 years Nlets has been consistently doing one thing well: providing information sharing for the law enforcement community.

In the late 1960's Nlets was stocked with noisy teletype machines, clacking out 100 words per minute. Messages were received on punched paper tape and there were only six lines. But, even at that slow pace, it was a valuable service to the 50 states.

Across four decades and into the new millennium, the core business remains a highly successful enterprise. The focus is first and foremost on officers, investigators, or first responders who work diligently to keep Americans safe and secure. Today, all 50 states, territories, Washington, D.C., all federal agencies with a justice component, as well as the Royal Canadian Mounted Police, utilize Nlets services.

There are more than 30,000 agencies, with over 650,000 devices, and more than 1 million users in the United States and Canada.

The usage numbers are astounding. More than 2 million messages are transmitted across the Nlets network —every day. That's the equivalent of every user—every Customs and Border Protection officer, every Secret Service agent, every Amtrak police officer, every U.S. Marshal, every Royal Canadian Mountie, every U.S. Park police officer, every ATF officer, every sheriff and every city police officer—making two inquiries every day, 365 days a year.

Usage just keeps growing, with good reason. Right now there are 133 inquiries that can be made through Nlets. More than 6 out of every 10 are for automobile registration and driver inquiries. The remaining queries run the gamut from criminal histories to aircraft registration. For example, authorized users can request criminal histories, parole or probation records, sex offender registration, or check to see if someone is illegally in the United States. And the average time it takes to receive the information: 1.61 seconds.

Nlets continues to seek opportunities to grow our core business and expand our usability and utility to members. It's not just routine user-initiated requests for information that are critical. For example the specialized Homeland Security message key can quickly notify public safety personnel in the event of a national, regional, or local threat situation. AMBER Alerts provide all law-enforcement agencies with a powerful tool to help recover abducted children and quickly apprehend the suspect.

Nlets is committed to listening to the ever-changing needs of our members. From large metropolitan centers to sparsely-populated rural areas, officers increasingly need access to international information. That's why Nlets developed a relationship with Interpol. Now, for example, a state trooper on a remote highway can instantly access information about international wanted persons, stolen vehicles or stolen travel documents, from any of Interpol's 186 member countries.

As we chart a steady path of progress, we maintain an unwavering commitment to delivering value to our members. By remaining on the cutting edge of tomorrow's technology we can continue to serve our core constituency by providing mission critical services, instantly.



Projects & Grants

As technologies, content, and devices continue to evolve, the only limit on the opportunity for information sharing is our imagination. At Nlets, there are exciting developments evolving along our path of progress.

Nlets is the optimal proving ground for innovative solutions to information sharing. What sets Nlets apart is our ability to turn breakthrough thinking into practical solutions for the well-being of law enforcement and criminal justice professionals. We have proven over and over again that our core strength is bringing innovative solutions to our members.

Innovation comes with a price tag and, as a nonprofit organization, Nlets must find partners to assist us with new initiatives. In 2007 alone, Nlets received \$1.8 million in grants for pilot programs from the U.S. Department of Justice (DOJ) National Institute of Justice (NIJ), the Department of Homeland Security (DHS), and the Bureau of Justice Statistics (BJS).

Leveraging federal dollars for programs, which will directly benefit the states, is allowing Nlets to expand our reach in ways never before possible. Our strategy is to start small and pioneer programs that are not only proven, but also scalable. Further, this strategy allows Nlets to expand our offerings without compromising our core business. Equally important, federally-funded projects allow Nlets to increase our technology portfolio and support leading-edge solutions without adversely impacting states' budgets.

Nlets' technology breakthroughs, innovation, and financial successes are grounded in our ability to partner with the brightest, most talented, and most dedicated players in the industry. Following are four programs which highlight Nlets' commitment to relentless innovation and the ever-present need to serve the law enforcement and criminal justice communities with better, more effective technology.

Nlets Interstate Sharing of Photos (NISP)

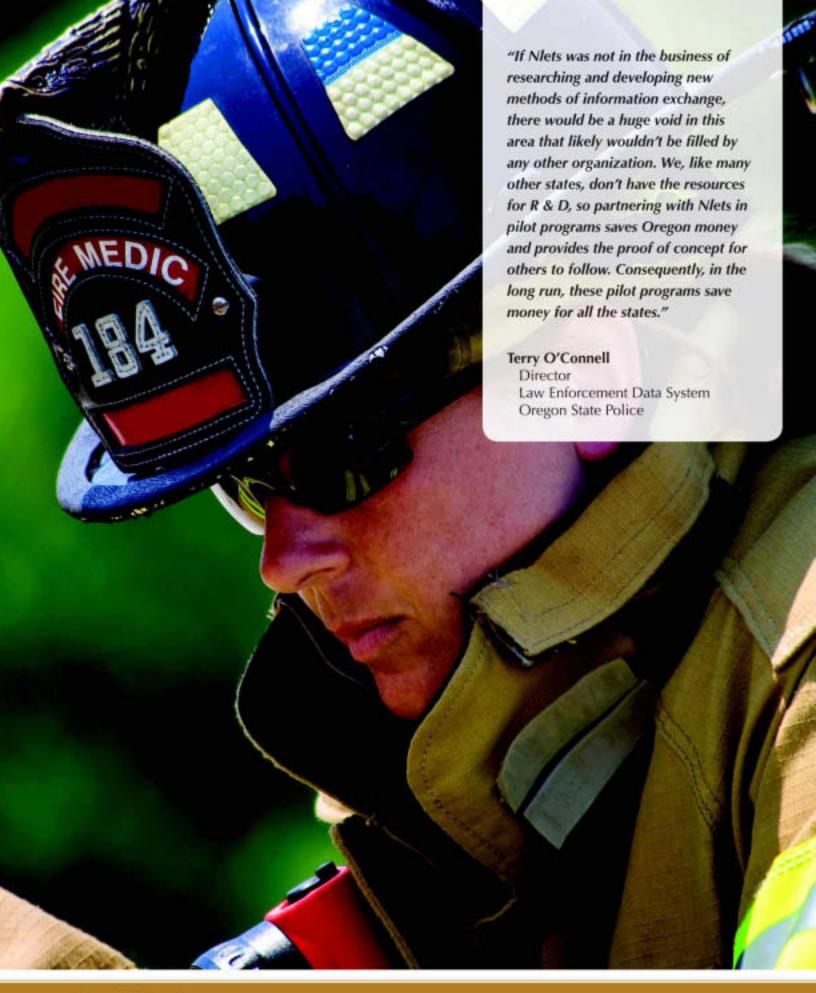
Nlets received support from DOJ/NIJ and DHS Directorate for Science and Technology to demonstrate the viability of the interstate exchange of driver license photos among law enforcement and safety officials using the Nlets network. This project, known as Nlets Interstate Sharing of Photos or "NISP", marks the first time in history that an officer can send a query to another state and receive an actual DMV photo over Nlets within seconds.

Electronic images, which enable officers to make positive identification, have enormous benefits to the law enforcement and public safety communities. An officer at the side of the road will have all the information he or she needs, when and where it is needed. When an officer only has a few seconds to make a decision about the course of action at a traffic stop, a positive ID from a photo can make a critical difference – one that may be the difference between life and death.

Like all Nlets projects, implementation was comprehensive in nature and included solving all the ancillary challenges: creating a standardized state implementation plan, assessing the privacy issues of electronic image exchange, and developing a methodology so that the project could continually expand with new states.

Within three months of the onset of the pilot project with North Carolina, Virginia, and South Carolina, Nlets successfully conducted a live demonstration at an International Association of Chiefs of Police meeting. It was a resounding success and was met with great enthusiasm by the participants.

Potential future applications of NISP include photo sharing to identify AMBER Alert victims, correction and booking photos and eventually, fingerprints.



Projects & Grants

Criminal History Information Exchange Format (CHIEF)

Nlets has provided its users with criminal history record information from state and federal repositories via a standardized, secure and efficient methodology for more than four decades. This capability has enabled the states and the FBI to respond automatically to requests from other users over the Nlets network.

The Nlets Criminal History Information Exchange Format or "CHIEF" project, sponsored by BJS has four key aspects. First, it has migrated the Interstate Criminal History Transmission Specification Version 3.01 ("Rap Sheet") to a Version 4.0 conformant with the National Information Exchange Model or "NIEM." Second, it has implemented XML rap sheet transmission in Florida, Kentucky, Maine, Massachusetts, Pennsylvania, Texas and Wisconsin. Third, it has pre-empted the risk-laden notion of a "moving target" by developing and installing XML transformation services on the Nlets network information exchange broker. And, fourth, it has created an environment to support statistical analysis of criminal record check transactions.

The initial CHIEF pilot states include Florida, Kentucky, Maine, Massachusetts, New York, Pennsylvania, Texas and Wisconsin. In mid-2008 Pennsylvania successfully tested the first transmission of a NIEM Rap Sheet across the Nlets network.

The Nlets Portal

The Nlets portal project will allow states to access Nlets information through a web interface. Through the Nlets portal, access to information opens up immensely as it bypasses traditional hardwired networks and allows users to receive data nearly anywhere there is bandwidth for transmission and reception. An officer or investigator no longer has to have access to a terminal or a traditional computer to get information that may help solve a crime in the most timely manner.

There are three primary purposes of the Nlets Portal. First, as a disaster recovery tool for justice professionals to access Nlets services should their primary pathway go down. Second, as an access point to new Nlets services that state or federal agencies may not have the resources to stand up immediately. And third, as a stand-alone access point to Nlets services for new and expanded members of the Nlets community such as fire and EMS.

One of the biggest roadblocks in information sharing is reaching into fire departments and emergency medical services (EMS). First responders have historically had limited access in the field to Nlets. The portal project, which is being tested by Indiana, Tennessee, Maine Massachusetts, Oregon, Wisconsin, the National Center for Missing and Exploited Children, and National Vehicle Services, will ensure access to these first responders, ultimately saving lives and property.

Live Operational Geospatial Information Capability (LOGIC)

Nlets' ongoing efforts to apply the latest technology to the needs of law enforcement led to the Live Operational Geospatial Information Capability or "LOGIC" project. Through a grant from NIJ, Nlets will be able to apply longitude and latitude (GIS) to every Nlets Originating Agency Identifier (ORI).

When fully implemented, LOGIC will ensure precision in delivering location-sensitive messages. The pilot will pave the way for improved collaboration, informed decision making, and effective cross-boundary incident response. For example, alerts can be delivered to tightly-designated geographic areas, rather than an entire city or state. And an investigator querying RAND data will be able to map 'hits,' which gives a new visual dimension to crime patterns.



Partnerships

An integral element on the path of progress is strategic partnerships. Nlets is proud to have created strong public/private partnerships with organizations that support law enforcement and first responders.

Forging stronger and more strategic partnerships is a win-win-win. They support Nlets' core business by creating important relationships that serve the needs of our members, they allow qualified organizations to securely and appropriately utilize the national and international reach of Nlets for the benefit of the justice community, and they provide an important revenue stream for Nlets.

For more than 40 years, Nlets has been dedicated to making a real contribution to the success of our membership and our partners. This business success is measured in real life events: the saving of a life, the return of property, or simply getting the right information to the right person in the right place at the right time.

By establishing a leadership position in the criminal justice and public safety community, Nlets is ripe with opportunity. Partnering with the Nlets' vendor community can enable efficient and appropriate access to 30,000 agencies and more than 1 million users. And those numbers are growing as Nlets expands its reach across borders and around the globe.

Red light companies across the country are gaining limited access to Nlets on behalf of local law enforcement because Nlets supports access to accurate and timely motor vehicle registration data for law enforcement purposes. These partnerships create efficiency for local law enforcement while making red light intersections safer for drivers and pedestrians. Organizations that need to disseminate crucial, timesensitive data find it highly beneficial to partner with Nlets. From inmate escapes and sex offender alerts to severe weather, information can be pushed out within seconds.

In true Nlets fashion, these partnerships can begin with pilot projects that will eventually become scalable and cost-effective. By accessing the Nlets network, a new project is streamlining the exchange of data between alarm dispatch centers and police departments. Another partnership will provide instant and accurate insurance verification to the law enforcement community. And yet another is providing records management services for small agencies across the US with hardware and software hosted at Nlets.

Not only do these strategic partnerships provide necessary services and crucial information exchange with the Nlets membership, the revenue generated from these carefully vetted partnerships supports Nlets' ability to be a national leader with state-of-theart infrastructure. By generating new revenue streams, it is possible to maintain costs for the principle membership of Nlets.

Nlets is committed to the evaluation, piloting and adding of new partners who will assist us in broadening our services to members. Potential future partnerships could provide critical information to first responders, software solutions to small police departments, easier access to stolen vehicle services and equipment, and one-click access to investigation solutions.

Information Available/Agencies with Access

(as of December 31, 2007)

Information available from other states

AMBER Alerts

All Points Bulletins

Warrants/Hit Confirmation

Vehicle Registration Information

Driver License Information

Criminal History Record Information

Boat Registration Data*

Snowmobile Registration Data*

Road and Weather Information*

Parole Information*

Probation Information*

Corrections Information*

Sex Offender Registration Information*

Homeland Security Alerts**

State Warrants*

Concealed Weapon Permits*

*Not available from all states

**Only issued by H.S. authorized agencies

National files available to users

OCRA Mexican Stolen Database

FAA Aircraft Registration Data

National Impound Vehicle File

National Drug Pointer Index (NVPS)

Hazardous Material Information

DHS/ICE Law Enforcement Support Center

Various Vehicle Related Files from NICB

DOS Diplomatic License Files

GSA Fleet Vehicle Registration Files

Mexican Commercial Driver/Vehicle Files

NICB/CBP License Plate Reader Data

Interpol Files

Available from Canada

Wanted Persons Files

Stolen and Registered Vehicles Files

Driver License Files

Stolen Article Files

Stolen Gun Files

Stolen Securities Files Stolen Boat Files Criminal History Files

Users and agencies authorized to access Nlets and approved as members

- 50 states, District of Columbia, Puerto Rico, and U.S. Virgin Islands
- · Administrative Office of the U.S. Courts
- · Air Force Office of Special Investigations
- Department of State, Bureau of Diplomatic Security
- · Department of the Army
- Department of Homeland Security
 - ICE/LESC
 - Customs & Border Protection
 - U.S. Secret Service
 - U.S. Coast Guard
 - Transportation Security Administration
- · Department of Interior
 - National Park Police
 - Bureau of Indian Affairs
 - Hoover Dam Police
 - U.S. Park Police
 - U.S. Fish & Wildlife
 - Bureau of Land Management, Law Enforcement Division
- El Paso Intelligence Center (EPIC)
- Federal Aviation Administration
- Federal Air Marshal Service
- Federal Bureau of Investigation, Criminal Justice Information Services
- Federal Motor Carrier Safety Administration
- Federal Protective Service
- National Center for Missing and Exploited Children
- National Insurance Crime Bureau
- Naval Investigative Service.
- National Vehicle Services
- Office of Personnel Management

- Operation Respond Institute
- PERSEREC Department of Defense
- Postal Inspection Service
- · Royal Canadian Mounted Police
- U.S. Department of Justice (JUST)
- Veterans Administration

Non-members with access to Nlets

- Agency for International Development, Office of Inspector General
- American Samoa Police
- Amtrak Police
- Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF)
- Departments of Army, Navy & Air Force
 - Armed Forces Police Detachment, Washington Navy Yard
- · Drug Enforcement Administration
- Environmental Protection Agency, Office of Inspector General
- Federal Emergency Management Administration (FEMA)
- Financial Crimes Enforcement Network (FinCEN)
- Food and Drug Admin. Division of Ethics and Program Integrity Investigative Branch
- General Accounting Office, Special Investigations
- INTERPOL
- IRS Inspection Service
- National Gallery of Art (Security Division)
- National Inst. of Health, Protection & Security Management Branch, Bethesda MD
- Railroad Retirement Board, Office of Inspector General
- Smithsonian Institution (Security Force)
- U.S. Capitol Police, Washington DC
- U.S. Department of Commerce, Office of Export Enforcement Investigative Division

- U.S. Department of Agriculture, Office of Inspector General Investigations
- U.S. Department of Education, Office of Inspector General, Dallas TX
- U.S. Department of Energy, Office of Inspector General
- U.S. Department of Transportation, Odometer Fraud Division
- U.S. Government Printing Office, Invest. & Security Group, Washington DC
- U.S. Marshal's Service
- U.S. Small Business Administration, Office of Inspector General

Data Provider Partners authorized to access Nlets

- American Association of Motor Vehicle Administrators
- · Regional Information Sharing System
- General Services Administration
- National Weather Wire Service

Strategic Partners authorized to access Nlets

- Datamaxx Applied Technologies
- ACS Government Solutions
- Lojack Corporation
- RedFlex
- · American Law Enforcement (ALEN)
- Computer Projects of Illinois (CPI)
- ATS Voyager Systems
- Insurenet
- LaserCraft
- American Traffic Solutions (ATS)
- Nestor Traffic
- Appriss
- Traffipax



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