Attorneys General Unite Against Human Trafficking

Fiscal Year July 1, 2011 – June 30, 2012

NAAG MISSION STATEMENT
To help attorneys general fulfill the responsibilities of their office and
to assist in the delivery of high quality legal services to the states and territorial jurisdictions.
NAAG President’s Message

As another fiscal year draws to a close, I am honored to present to you the 2011-12 Annual Report of the National Association of Attorneys General, chronicling our work together as state and national leaders, and as members of NAAG.

I’m proud to look back over my year as the 2011-12 NAAG president and to reflect on the significant progress we’ve made together—despite the tremendous challenges facing our states and our nation.

Among other accomplishments, we have:

- Worked together to hold the nation’s largest loan servicers accountable for providing more than $25 billion in relief to homeowners and distressed borrowers through the historic multistate foreclosure settlement;
- Garnered support for the Byrne JAG program and renewal of the Violence Against Women Act to help law enforcement and protect families across the nation; and
- Brought national attention to the horrors of human trafficking—fighting this heinous crime in our home states, publicizing resources and assistance for victims, and working to establish a zero-tolerance policy for trafficking across the country, at the Super Bowl and on sites like Backpage.com.

We couldn’t have done this without the culture of collegiality fostered by NAAG and its staff who provide crucial assistance, resources and training to all of us and our staff. I cannot thank them enough for all of their help this year.

In closing, I feel blessed to have served as president of this wonderful organization. Thank you for sharing in our success and in all of the year’s accomplishments we are documenting in this report.

Sincerely,

Rob McKenna
2011-2012 NAAG President &
Washington Attorney General
Three substantive and often unheralded practice areas in which NAAG staff has provided extraordinary support to the attorney general community this year have been bankruptcy, U.S. Supreme Court, and tobacco. NAAG Bankruptcy Counsel Karen Cordry and Patricia Molteni work tirelessly pursuing the claims of states against tobacco companies. Their efforts in the longest-pending bankruptcy action netted the states over $12 million in unpaid debt from the Carolina Tobacco Company. NAAG Supreme Court Counsel Dan Schweitzer was at the center of a robust Supreme Court term involving attorneys general cases in several unprecedented ways: health care, immigration, campaign finance, criminal procedure, and the death penalty. The front pages of daily newspapers highlighted those cases Dan touched whether in coordinating and running moot courts, or assisting with amicus briefs. Our tireless tobacco attorneys, led by Peter Levin, were intimately involved in the most significant Master Settlement Agreement (MSA)-related matter in its 14 years of existence—the diligent enforcement arbitration. With billions of dollars at stake, the gravity of what they are doing and support they are providing cannot be measured.

Any report of an organization’s annual efforts must begin with reference to its mission statement or purpose for being. For NAAG, its mission is fairly straightforward and simple in its aspirations: provide a forum for the exchange of views and experiences on subjects of importance to the attorney general community; foster cooperation on the local, state, and federal levels; improve the quality of services provided to constituents; and facilitate communication between the attorneys general and all levels of government. This fiscal year has witnessed tremendous strides by a professional, dedicated NAAG staff in meeting and exceeding those goals.

The National Attorneys General Training and Research Institute (NAGTRI) is quickly becoming the signature benefit NAAG provides to attorneys general offices. Having just completed our fourth year of offering courses, NAGTRI held 74 separate training courses, training 2,700 assistant attorneys general over 146 training days. That’s a 40 percent increase in courses over last year. Our International Fellows Program successfully completed its second year and included 22 international attorneys representing 17 countries. With approved increases in the NAGTRI budget for fiscal year 2013, those numbers will continue to grow.

Against the backdrop of the substantive support NAAG staff provides to the attorneys general is a myriad of transparent assistance we provide every day. From management reviews of attorneys general offices to communication and coordination among the public information officers to facilitating attorneys general coming together to address issues of nationwide concern, NAAG staff touches every aspect of our mission statement every day. Its success represents their hard work and dedication.

Very Respectfully,

Jim McPherson
NAAG Executive Director
2011-2012 Presidential Initiative

NAAG President and Washington State Attorney General Rob McKenna focused his 2011-2012 Presidential Initiative on the “Pillars of Hope,” a four-part holistic approach to addressing human trafficking. With the help of his Presidential Leadership Council, including attorneys general and staff from Indiana, Illinois, Massachusetts, Texas, California, New Mexico, Michigan, Oregon and New York, Attorney General McKenna developed a four-part work plan:

**Pillar One: Making the Case** by preparing a sound assessment of the problem in the United States, encouraging states to participate in the FBI’s efforts to map and track state and national data, as well as helping support the launch of their new business and training plan to fight human trafficking.

**Pillar Two: Holding Traffickers Accountable** by analyzing existing state laws and civil statutes, assessing the effectiveness of prevention strategies and law enforcement and victim services, and providing regional trainings for first responders and prosecutors.

**Pillar Three: Helping Victims** by identifying state and local service provider networks and grass-roots advocacy groups available to assist in raising community awareness, and create new partnerships between law enforcement and service providers.

**Pillar Four: Reducing Demand** by promoting zero tolerance for trafficking and identifying victims through widespread public awareness campaigns and by promoting the Human Trafficking hotline—1-888-373-7888.

Initiative deliverables over the year included:

- A NAAG sign-on letter in support of the Trafficking Victims Protection Act Reauthorization. Against the backdrop of an extremely contentious federal budget process, 44 attorneys general signed the letter requesting modest amounts of additional funding for U.S. DOJ’s trafficking prosecution unit, for FBI investigation of trafficking crimes, for federal task forces that train and collaborate with state and local law enforcement and prosecutors, and for direct services to human trafficking survivors.
- Conducting a comprehensive public awareness, training and law enforcement campaign in Indianapolis during the February 2012 Super Bowl.
- Attorneys general unanimously adopted a resolution endorsing the principles embodied in the Pillars of Hope during the March NAAG Spring Meeting. The Leadership Council also formally adopted a work program, including key deliverables under each of the Four Pillars of Hope, for implementation during the balance of the 2011-12 presidential year and beyond.

A successful Presidential Initiative Summit, March 28-30, in Seattle, was held. During the meeting, President McKenna announced Massachusetts Attorney General Martha Coakley would lead a newly-established NAAG Committee on Human Trafficking into 2013.
NAGTRI

The National Attorneys General Training and Research Institute (NAGTRI) continues to provide quality, responsive and innovative legal training to assistant attorneys general and other attorney general staff. With the generous support of the NAAG Mission Foundation and various federal grants, NAGTRI increased its course trainings by 40 percent over last fiscal year. During this fiscal year, NAGTRI held 74 national, regional, and mobile training courses for 2,700 assistant attorneys general.

NAGTRI’s growth was strategically planned by its newly-established Attorney General Training Committee as well as an Advisory Board consisting of 39 staff leaders from 34 attorneys general offices. The Board first met in August 2011 to discuss and determine NAGTRI course offerings and research priorities for the year.

NAGTRI continued its partnership with the National White Collar Crime Center to conduct 12 intellectual property theft courses, with funding provided by the Bureau of Justice Assistance (BJA). A BJA grant also funded four trainings to combat human trafficking.

The second annual International Fellows Program took place in June 2012. Through a combination of grants from the NAAG Mission Foundation, the Alliance Partnership and USAID, NAGTRI provided a forum for elite government attorneys from around the world to learn from each other, explore common issues together and establish an international network for the mutual benefit of their respective offices. Twenty-two participants from 17 countries participated in this year’s class, with a concentration on public corruption.

“Since I have returned from the training your group organized and conducted, I have told anyone who will listen, including my boss, how terrific the training institute at NAAG is, and how much I enjoyed both the substance and the format of the training I completed in June.”

NAAG Mission Foundation

The NAAG Mission Foundation, Inc., a 501 (c) 3 organization, provides non-partisan research and analysis of legal issues for attorneys general as well as assists in the NAAG membership’s responsibilities under the Tobacco Master Settlement Agreement (MSA).

The Mission Foundation has been active in advancing NAAG programs and meetings by providing approximately $2.2 million for the three NAAG Annual Meetings, NAAG regional meetings, Presidential Initiative Summit and a majority of the NAGTRI legal trainings.

NAAG Administration and Association Services

AG staff and the NAAG chief of staff completed five management reviews during the fiscal year for Arizona, Kansas, Ohio, Oklahoma and Virginia. This peer review program, sponsored by the NAAG Mission Foundation, is an opportunity for gauging best practices and identifying opportunities to advance the goals and objectives of the individual Attorney General’s Office.

The second annual NAGTRI Trends in Technology conference was held in February, during which members of NAAG’s Technology Network, comprised of chief information officers, chief technology officers, technology directors, and other IT contacts from AG offices gathered to share and learn about the latest technological developments and challenges.
NAAG Financials

The Association’s core budget is funded principally from member dues, federal government grants, meeting registrations and other sources. The dues structure is modeled after the National Governors Association, with categories and amounts assessed based on the most recent census.

The NAAG portfolios reflected the general weak market conditions and showed a net loss for FY 2012.

Funding Sources
- NAAG Dues funds NAAG core programs and general and administrative expenses.
- Registration Income contributes to fund meeting expenses
- Federal and other grants
- Settlement funds are usually restricted to fund certain prescribed programs or expenses.
- Interest and investment income on Tobacco portfolio funds a portion of the Tobacco program expenses and Tobacco grants
- Interest and investment income on Mission portfolio fund annual meetings, NAGTRI and other meetings
- Rental Income on Mission Foundation funds general and administrative expenses related to the owned office building.

Notes
- NAGTRI seminars continued to expand throughout the country with 74 trainings and 2,700 participants.
- NAAG is the official organization of the chief legal officers of the states, commonwealth, and territories of the United States, which is reflected in NAAG's status, for federal tax purposes, as an “instrumentality of the states.” As an instrumentality of the states, NAAG is exempt from federal income tax, in the same way a state governmental body is tax-exempt.

EDITOR’S NOTE: NAMFCU’S FINANCIALS ARE SEPARATE FROM NAAG AND ARE NOT REFLECTED IN THIS REPORT.

Consolidated Statements of Activity

As of June 30, 2012 and June 30, 2011
For the Year Ended in

<table>
<thead>
<tr>
<th></th>
<th>6/30/2012</th>
<th>6/30/2011</th>
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<tbody>
<tr>
<td></td>
<td>Consolidated</td>
<td>Total</td>
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<tr>
<td>REVENUES</td>
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<td>Dues</td>
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<td>Grant Reimbursement - Federal</td>
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<td>Rental Income</td>
<td>307</td>
<td>445</td>
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<td>Other</td>
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<td>66</td>
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<td>TOTAL REVENUES</td>
<td>8,058</td>
<td>25,947</td>
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| EXPENSES       |           |         |              |         |
| Core Programs  | 1,330     | 1,383    |
| Meetings       | 1,517     | 1,515    |
| NAGTRI Seminars | 1,438   | 1,227    |
| Grants         | 397       | 444      |
| Settlement Funds | 1,008  | 818      |
| Tobacco Project | 2,313   | 2,290    |
| Tobacco Grants and Meetings | 1,217 | 1,023 |
| Total Program Expenses | 9,219 | 8,699 |
| General and Administrative | 355 | 506      |
| Building Expenses | 634     | 694      |
| TOTAL EXPENSES | 10,209    | 9,899    |
| CHANGE IN NET ASSETS | (2,151) | 16,048  |
| NET ASSETS     |           |         |              |         |
| Beginning      | 116,958   | 100,910  |
| Ending         | 114,807   | 116,958  |

FY 2012 Program Expenses
### Consolidated Statements of Financial Position

As of June 30, 2012 and June 30, 2011

For the Year Ended in

<table>
<thead>
<tr>
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<th>6/30/2012</th>
<th>Mission Foundation</th>
<th>Consolidated Total</th>
<th>6/30/2011</th>
<th>Mission Foundation</th>
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<tr>
<td>Cash &amp; Investments</td>
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<td>55</td>
<td>75</td>
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<td>241</td>
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<td>455</td>
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<td>405</td>
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<td>10,190</td>
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<td>Accumulated Depreciation</td>
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<td><strong>TOTAL ASSETS</strong></td>
<td>50,505</td>
<td>66,825</td>
<td>117,330</td>
<td>49,731</td>
<td>69,815</td>
<td>119,546</td>
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<td><strong>LIABILITIES</strong></td>
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<td>Accounts Payable</td>
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<td>1,487</td>
<td>1,205</td>
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<td>Deferred Revenue</td>
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<td>-</td>
<td>962</td>
<td>972</td>
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<td>972</td>
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<td>55</td>
<td>55</td>
<td>-</td>
<td>75</td>
<td>75</td>
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<tr>
<td>Other Liabilities</td>
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<td>-</td>
<td>18</td>
<td>11</td>
<td>-</td>
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<td>2,188</td>
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<td><strong>NET ASSETS</strong></td>
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<tr>
<td>Undesignated Net Assets</td>
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<td>21,262</td>
<td>24,612</td>
<td>3,349</td>
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<td>Board Designated Net Assets</td>
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<td>46,192</td>
<td>1,119</td>
<td>45,000</td>
<td>46,119</td>
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<td>Temporarily Restricted Net Assets</td>
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<td>207</td>
<td>44,003</td>
<td>43,075</td>
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<td>43,282</td>
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<td><strong>TOTAL NET ASSETS</strong></td>
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<td>114,807</td>
<td>47,543</td>
<td>69,415</td>
<td>116,958</td>
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<tr>
<td><strong>TOTAL LIABILITIES AND NET ASSETS</strong></td>
<td>50,505</td>
<td>66,825</td>
<td>117,330</td>
<td>49,731</td>
<td>69,815</td>
<td>119,546</td>
</tr>
</tbody>
</table>
2011-2012 NAAG Award Recipients

The annual NAAG awards for outstanding achievement and service were presented during the 2012 Summer Meeting. Recipients were:

KELLEY-WYMAN AWARD
Colorado Attorney General John Suthers

PRESIDENT’S AWARDS
FOR NATIONAL MORTGAGE SERVICING SETTLEMENT LEADERSHIP
Colorado Attorney General John Suthers
Florida Attorney General Pam Bondi
Illinois Attorney General Lisa Madigan
Iowa Attorney General Tom Miller
North Carolina Attorney General Roy Cooper

SPECIAL RECOGNITION AWARDS
FOR SERVING AS NAAG TOBACCO COMMITTEE CO-CHAIRS
Arkansas Attorney General Dustin McDaniel
Utah Attorney General Mark Shurtleff

BEST BRIEF AWARDS
FOR EXCELLENCE IN BRIEF WRITING FOR THE U.S. SUPREME COURT
Recipients of the NAAG Supreme Court Best Brief Awards were:

ALABAMA
Solicitor General John C. Neiman Jr.,
Deputy Solicitor General Prim F. Escalona,
Deputy Solicitor General Andrew L. Brasher,
Attorney General William G. Parker Jr.

CALIFORNIA
Solicitor General Manuel M. Medeiros, Senior
Assistant Louis Verdugo, Deputy Attorney General Antonette Cordero, and Deputy Attorney General José Zelidon-Zepeda

DISTRICT OF COLUMBIA
Solicitor General Todd Kim

MARYLAND
Acting Solicitor General William F. Brockman, Assistant Attorney General Joshua N. Auerbach, and Assistant Attorney General Stephen M. Ruckman

MICHIGAN
Solicitor General John J. Bursch, Chief
Legal Counsel Richard A. Bandstra, Deputy Solicitor General B. Eric Restuccia, and Assistant Attorney General Brian O. Neill

NEW YORK
Solicitor General Barbara D. Underwood, Bureau Chief Kristen Clarke, Deputy Solicitor General Cecelia C. Chang, and Assistant Solicitor General Steven C. Wu

TEXAS
Solicitor General Jonathan F. Mitchell, Assistant Solicitor General James P. Sullivan, and Assistant Solicitor General Arthur D. D’Andrea

FRANCIS X. BELLOTTI AWARD
Peter C. Harvey, former New Jersey Attorney General

NAGTRI FACULTY OF THE YEAR AWARD
Duffy Jamieson, Ohio Attorney General’s Office

AG STAFF MEMBER OF THE YEAR AWARDS
Al Lama, New Mexico Attorney General’s Office and Phil Lehman, North Carolina Attorney General’s Office

LAURIE LOVELAND AWARD
Matthew Berge, Massachusetts Attorney General’s Office
**NAAG Annual Meetings**

**WINTER MEETING**
NOV. 29-DEC. 1, 2011 • SAN ANTONIO, TEXAS
“Effective Strategies for Serving Constituents: New Realities, New Directions”

**SPRING MEETING**
MARCH 5-7, 2012 • WASHINGTON, DC
“Opportunities and Challenges in State-Federal Relationships”

**CHIEF DEPUTIES/CHIEFS OF STAFF MEETING**
MAY 9-11, 2012 • INDIANAPOLIS, INDIANA

**SUMMER MEETING**
JUNE 19-21, 2012 • ANCHORAGE, ALASKA
“North to the Future: Exploring Solutions for a Challenging Tomorrow”

**NAAG Regional Meetings**

**CONFERENCE OF WESTERN ATTORNEYS GENERAL (CWAG)**
JULY 10-13, 2011 • KONA, HAWAII

**EASTERN REGION**
OCTOBER 19-21, 2011 • NEW YORK, NEW YORK
“Human Trafficking”

**SOUTHERN REGION**
JANUARY 26-27, 2012 • TAMPA, FLORIDA
“Southern States’ Conference on Disaster Preparedness”

**MIDWESTERN REGION**
APRIL 23-24, 2012 • CHICAGO, ILLINOIS
“Economic Impact of Enforcement in Evolving Marketplaces”

PHOTOGRAPHY PROVIDED BY VISIT ANCHORAGE, CREDITS: NICOLE GEILS
NAAG Project Accomplishments

Antitrust
The Antitrust Project held a successful seminar in New Orleans, La., with more than 60 state enforcers. The September 2011 meeting featured a hands-on e-discovery session, which focused on practical and ethical problems in producing and using e-discovery. The Antitrust Project also assisted a multistate group in filing an amicus brief in the Ninth Circuit in Washington v. Chimei Innolux, opposing application of the Class Action Fairness Act to parens patriae cases brought by state attorneys general. The Project continues to maintain the Multistate Antitrust Litigation Database, which now includes 620 antitrust cases brought by state attorneys general.

Bankruptcy
The Bankruptcy Project resolved the longest-pending bankruptcy case being handled by NAAG. The Carolina Tobacco Company (CTC) filed bankruptcy in 2005 to avoid being barred from operating after failing to make required escrow deposits for tobacco sales. CTC confirmed a plan in 2006 that promised full payment by 2009 but was unable to complete the payments; while trying to resolve the shortfall in early 2010, CTC violated an existing court order by again failing to make deposits and illegally removing funds from its segregated accounts. The states obtained a preliminary injunction order barring any future sales by CTC. After extended negotiations, CTC agreed to assign the interest accruing on the escrow accounts to the states to allow for completing the delinquent escrow balances, satisfaction of some $2 million in unpaid state taxes, and payment to 42 states of a total of $10.5 million in penalties, attorneys fees' and costs. In addition, CTC agreed to reimburse the Tobacco Enforcement Fund for $50,000 of the costs paid to outside counsel in reaching the agreement, and $100,000 to NAAG for the time and costs of its staff counsel. The $100,000 paid to NAAG was used to fund additional scholarships to the 2010 and 2011 bankruptcy conferences.

The Bankruptcy Project’s October 2011 conference was held in Austin, Texas, with over 200 attendees from 48 states and the District of Columbia. In addition to nearly 100 scholarship awards, states sent many additional attendees to participate in 4 ½ days of intense training on bankruptcy and collection issues, designed to help states collect and enforce judgments in tough economic times.

Civil Rights
The Civil Rights Project held its conference May 31–June 1, 2012, in Washington D.C. It brought together 40 attorneys general staff from 25 states whose duties range the spectrum of defense and litigation work. The conference provided participants with the opportunity to stay abreast of developing and ongoing issues affecting states including social networking, fair housing litigation, and re-entry in the employment context.

Congressional Liaison
The NAAG congressional liaison circulates draft sign on letters among the Association members. Sign on letters with 36 or more attorneys general signatures become NAAG policy and are sent to members of Congress or federal agencies as appropriate. This fiscal year, NAAG sign on letters covered a wide range of topics, including increasing the Crime Victims Fund Cap, federal funding for the Byrne JAG program and human trafficking programs, concerns about Google’s privacy policy, support for the Violence Against Women Act and endorsement of former Ohio Attorney General Richard Cordray as the U.S. Consumer Financial Protection Bureau director. Copies of the NAAG letters can be found on the Association website: http://www.naag.org/2313.

Communications
Thirty-six public information officers (PIOs) from attorneys general offices convened in Austin, Texas, Jan. 25-28, 2012 for the NAAG PIO seminar. Topics covered included digital transformation, the nuts and bolts of social media engagement, and communications on a state budget. Special guest speakers were Dan Bartlett, former counselor and communications director to President George W. Bush and Evan Smith, Texas Tribune editor.
**Consumer Protection**

The Consumer Protection Project convened two successful conferences, along with a weeklong Consumer Fellows training and Consumer 101 training. The Project also provided technical assistance to numerous multistate groups and working groups, including the attorneys general involved in the February $25 billion national mortgage servicing settlement and the U.S. Dept. of Justice Financial Fraud Enforcement Task Force.

**Cyberspace Law**

The Cyberspace Law Project developed, conducted and published results of an Internet safety survey of all attorneys general offices for the NAAG Internet Safety Task Force.

The Project participated in 13 NAGTRI training conferences and wrote 18 electronic newsletters.

Fifty-one attorneys general signed a 2011 letter to Backpage.com, calling on the company to prove its claim that it can effectively limit prostitution and sexual trafficking activity on its website, especially ads that could involve minors.

**Energy and Environment**

The Energy and Environment Project developed and presented technical assistance to numerous multistate groups and working groups, including the attorneys general involved in the February $25 billion national mortgage servicing settlement and the U.S. Dept. of Justice Financial Fraud Enforcement Task Force.

**National Association of Medicaid Fraud Control Units (NAMFCU)**

NAMFCU’s most noteworthy accomplishments continue to be in the areas of global cases and training. This fiscal year an impressive number of eight global cases were resolved. These included pharmaceutical manufacturers Abbott for $1.5 billion and Merck for $950 million.

NAMFCU held one Medicaid Fraud 101 training program in Raleigh, NC in November 2011 and one in Santa Fe, NM, in March 2012. NAMFCU held one Medicaid Fraud 102 Training Program in Richmond, VA in October 2011 and one in Jacksonville, FL in April 2012. This program focuses on four provider subject areas and is geared toward more experienced MFCU employees. The teaching format utilizes small break-out sessions in order to foster a team approach to solving both investigation and prosecution challenges.

NAMFCU held its annual training program in Seattle, WA, in Sept. 2011. Approximately 200 MFCU staff attended.

In June 2012, NAMFCU held two global case trainings, one in Chicago for attorneys and data analysts that are new to the global case process and one for team leaders in Columbus, Ohio. This training provided team leaders with guidance about issues in global case investigations and settlements.

**Supreme Court**

The Supreme Court Project conducted 21 moot courts for state attorneys arguing in the U.S. Supreme Court this term. Case topics included health care, immigration, preemption, the cruel and unusual punishments clause, the death penalty, and the right to effective counsel.

Project counsel edited about 40 briefs filed by attorneys general offices in the U.S. Supreme Court, including merits briefs, cert petitions and oppositions, and amicus briefs.

**Tobacco Project**

The Tobacco Project provided assistance to the Master Settlement Agreement (MSA) Settling States in connection with the ongoing, nationwide arbitration being conducted to decide whether the states, during 2003, diligently enforced their statutes that require tobacco manufacturing companies that did not settle under the MSA (Non-Participating Manufacturers, NPMs) to deposit money in escrow for cigarettes sold in the Settling States (2003 NPM Adjustment Dispute). Any state that is found to have diligently enforced its escrow statute during 2003 will not be subject to the NPM Adjustment for that year, which potentially could reduce the MSA Participating Manufacturers’ 2003 payment obligation by $1.15 billion. Among the services rendered by the Project in the Diligent Enforcement Arbitration have been legal advice on various substantive and discovery issues, organization and coordination of moot court hearings on important issues, and logistical support in a proceeding that is unprecedented in its scope, number of parties (over 100), and complexity.

In addition, the Tobacco Project continued to provide the Settling States with representation in bankruptcy cases filed by tobacco manufacturers and in two interpleader actions involving a blanket lien held by the Settling States against the assets of a Participating Manufacturer. In the interpleader cases, Project counsel obtained a settlement whereby the states obtained two consent judgments against the manufacturer in the collective amount of about $400 million dollars for past due MSA obligations, the majority of the interpleader funds ($3.8 million) were paid to the states pursuant to their lien, the manufacturer surrendered its cigarette brand trademarks, attested to the earlier surrender of its federal permit to make tobacco products, and certified that it had no further assets.
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