

The Tolbert Qualified Settlement Fund

**Financial Statements - Modified Cash Basis of
Accounting
December 31, 2009 and 2008**

The Tolbert Qualified Settlement Fund
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December 31, 2009 and 2008

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Report of Independent Auditors

Confidential and In Camera

The Honorable Paul W. Greene
United States District Court Chief Magistrate Judge
Northern District of Alabama - Western Division

Edgar C. Gentle, III, Esquire
Claims Administrator

The Honorable Kenneth O. Simon
Special Master

G. Doug Jones, Esquire
Special Master

J. Richet Pearson, Esquire
Guardian Ad Litem for Children Claimants

Robert B. Roden, Esquire
Plaintiffs' Liaison Counsel

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Counsel for Defendants

We have audited the accompanying statements of assets, liabilities, and fund balance of the Tolbert Qualified Settlement Fund (the "Fund") as of December 31, 2009 and 2008, and the related statements of revenue collected, claims and expenses paid, and changes in fund balance for the years then ended, all prepared on the modified cash basis of accounting. These financial statements are the responsibility of the Claims Administrator. Our responsibility is to express an opinion on these financial statements based on our audits.

Except as discussed in the following paragraphs, we conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 audits provide a reasonable basis for our opinion.

We were not engaged to and did not assess the Defendants' ability to meet their financial obligations to contribute to the Fund. Accordingly, we were unable to determine the adequacy of disclosures included in the footnotes to the accompanying financial statements regarding risks and uncertainties involving the Defendants' ability to contribute to the Fund as required by the Court.

We were not engaged to and did not test the validity of claimant benefits paid by the Claims Administrator. Such payments are made by the Claims Administrator based upon a Court-approved claimant payment matrix. Accordingly, we were unable to determine the appropriateness of the claims and the accuracy of the claimant benefit payments made by the Claims Administrator.

As described in Note 2, these financial statements were prepared on the basis of cash receipts and disbursements, modified to recognize changes in the fair value of investments, accrued investment income, certain receivables, accounts payable, and certain accrued liabilities (modified cash basis), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, except for the effects of such adjustments or disclosures, if any, as might have been determined to be necessary had we been able to examine evidence regarding the uncertainty of the Defendants' ability to meet their financial obligations as required by the Court and had we been able to examine evidence regarding the validity of claimant benefits paid by the Claims Administrator, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and fund balance of the Tolbert Qualified Settlement Fund as of December 31, 2009 and 2008, and the related revenue collected, claims and expenses paid, and changes in fund balance for the years then ended on the basis of accounting as described in Note 2.

This report is intended solely for the information and use of the Claims Administrator, the addressees, and for the United States District Court for the Northern District of Alabama to distribute as it deems appropriate. It is not to be referred to or distributed for any purposes to anyone who is not designated by the United States District Court for the Northern District of Alabama or the Claims Administrator.

PricewaterhouseCoopers LLP

December 8, 2010

The Tolbert Qualified Settlement Fund
Statements of Assets, Liabilities, and Fund Balance
Modified Cash Basis of Accounting (Note 2)
December 31, 2009 and 2008

	2009	2008
Assets		
Cash	\$ 23,567	\$ 5,747
Investments, at fair value (Note 4)	2,968,595	3,601,740
Accrued investment income	-	2,374
Accounts receivable	11,281	16,056
Total current assets	<u>3,003,443</u>	<u>3,625,917</u>
Long-term investments (Note 4)	5,254,098	6,087,702
Total assets	<u>\$ 8,257,541</u>	<u>\$ 9,713,619</u>
Liabilities and Fund Balance		
Accounts payable	\$ 63,050	\$ 60,839
Fund balance	8,194,491	9,652,780
Total liabilities and fund balance	<u>\$ 8,257,541</u>	<u>\$ 9,713,619</u>

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

The Tolbert Qualified Settlement Fund
Statements of Revenue Collected, Claims and Expenses Paid, and
Changes in Fund Balance
Modified Cash Basis of Accounting (Note 2)
Years Ended December 31, 2009 and 2008

	2009	2008
Revenue collected		
Investment Income	\$ 289,418	\$ 374,627
Defendant reimbursements for administrative expenses	50,858	68,136
Total revenue collected	<u>340,276</u>	<u>442,763</u>
Claims and expenses paid or accrued		
Claims of Claimants and Plaintiffs' Attorneys		
Claimant advance payment checks	138,000	114,750
Claimant advance payment interest paid checks	42,753	24,242
Claimant personal injury payments	634,649	515,208
Orphan claimant project	-	15,597
Blood test facility expenses		
Blood drawing and analysis	-	533
Claims Administrators Office expenses		
Accounting and tax support	17,016	-
Copies, fax, and postage	11,680	12,508
Office supplies	174	490
Professional fees	20,085	14,097
Final dividend and medical clinic	437,245	564,729
Travel	-	234
Administrative expenses		
Audit fees	38,500	38,500
Bank fees	14,746	15,721
Guardian ad litem professional fees	49,935	54,806
Special master fees and expense	9,061	10,110
Total claims and expenses paid	<u>1,413,844</u>	<u>1,381,525</u>
Excess of claims and expenses paid over revenue collected	(1,073,568)	(938,762)
Noncash items		
Unrealized (loss)/gain on investments	<u>(384,721)</u>	507,892
Total noncash items	<u>(384,721)</u>	<u>507,892</u>
Decrease in fund balance	(1,458,289)	(430,870)
Fund balance		
Beginning of period	9,652,780	10,083,650
End of period	\$ 8,194,491	\$ 9,652,780

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

The Tolbert Qualified Settlement Fund

Notes to Financial Statements

Years Ended December 31, 2009 and 2008

1. Description of the Fund

The Tolbert Qualified Settlement Fund (the "Fund") was established pursuant to the August 27, 2003 Joint Motion to Establish Qualified Settlement Fund and to Appoint Settlement Administrator and for other relief (the "Motion") submitted to the Federal District Court for the Northern District of Alabama (the "Court") by the parties in Antonia Tolbert, et al., v. Monsanto Company, Pharmacia Corporation and Solutia, Inc. and Geraldine Oliver v. Monsanto Company, Pharmacia Corporation, and Solutia, Inc., (collectively, the "Defendants") and the resulting September 9, 2003, Final Order and Judgment. Plaintiffs in the case sued for personal injury and property damages they claim resulted from exposure to polychlorinated biphenyls ("PCBs") manufactured at the Defendants' plant in Anniston, Alabama until the early 1970s. The Fund was formed to resolve, satisfy, and settle all claims against the Defendants arising out of these events, as described in the Motion. The Fund was initially funded on August 28, 2003 with a contribution of \$75,000,000 by the Defendants. The remaining \$200,000,000 of the Good Faith Settlement payment was deposited into the Fund on September 11, 2003, along with \$51,787 of interest earned on this amount from September 4, 2003 to the date of transfer. Beginning in December 2003, the Fund, under the terms of a Court Order, paid \$500 advance payments to all registered plaintiffs. Claimant payments, including advance payments, of \$815,402 and \$654,200 have been paid for the years ended December 31, 2009 and 2008, respectively.

2. Significant Accounting Policies

Basis of Presentation

The Fund's financial statements are prepared using the modified cash basis of accounting, whereby cash receipts and disbursements are recorded as cash is received or paid, except for the recognition of changes in the fair value of investments, accrued investment income, certain receivables, accounts payable, and certain accrued liabilities. Settlement fund receivables, estimated claims liabilities and claim receivables arising from claim overpayments, if any, which are material to the determination of financial position and results of operations, in conformity with accounting principles generally accepted in the United States of America, have not been estimated and are not recorded in the accounts of the Fund. Accordingly, the financial statements do not and are not intended to present financial position and results of operations in conformity with accounting principles generally accepted in the United States of America.

Use of Estimates

The preparation of financial statements in conformity with the basis of accounting described above requires the Claims Administrator to make various estimates that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities, as well as the reported amounts of revenues collected and claims and expenses paid. Actual results could differ from those estimates.

Cash

Cash includes all demand deposits reduced by the amount of outstanding checks and drafts.

Investments

Investments are recorded at fair value as determined by quoted market prices. Unrealized gains and losses, if any, are shown as noncash items in the statement of revenue collected, claims and expenses paid, and changes in fund balance. Realized gains and losses are computed under the specific identification method.

Accounts Payable

Accounts payable consist of certain professional fees and reimbursements charged to the Fund during the year and paid after year end.

Accounts Receivable

Accounts receivable consist of certain administrative expenses incurred by the Fund that are to be reimbursed by the Settling Defendants.

The Tolbert Qualified Settlement Fund

Notes to Financial Statements

Years Ended December 31, 2009 and 2008

Tax Status

The Fund maintains that for federal income tax purposes it is a Qualified Settlement Fund under Section 468B of the Internal Revenue Code of 1986, as amended (the "Code"), due to its having been established pursuant to a Court Order to satisfy certain legal claims, with all of its assets having been segregated from the assets of the Defendants to whom these claims relate. As provided by Treasury Regulations promulgated under Section 468B of the Code, the "modified gross income" of the Fund is subject to federal income tax at the maximum trust rate in effect under Section 1(e) of the Code which was 35% for the 2009 and 2008 tax years. Modified gross income is gross income computed with several modifications. Amounts transferred to the Fund by, or on behalf of, a Defendant are generally excluded from Fund income. In addition, payments of Plaintiff attorney fees or claimant claims made against the Fund and expenses incurred by, or on behalf of, specific claimants or defendants are generally not deductible in computing modified gross income for federal income tax purposes. The Fund is required to operate on a calendar year basis and under the accrual method of accounting for federal income tax purposes. At December 31, 2009 and 2008, the Fund had net operating loss carryforwards of \$9,288,078 and \$9,031,211, respectively, for federal income tax purposes. Net operating loss carryforwards will begin to expire in the year 2024.

Subsequent Events

The Fund has evaluated subsequent events through December 8, 2010, which represents the date the financial statements were available to be issued.

Recently Issued Accounting Pronouncements

On January 1, 2008, the Fund adopted new accounting guidance on fair value measurements for financial assets and liabilities. The new guidance defines fair value, establishes criteria to be considered when measuring fair value, and enhances disclosure requirements about fair value measurements. As of January 1, 2009 the Fund adopted the guidance related to certain non-financial assets and liabilities. There was no impact on the Fund's financial statements from adopting the authoritative guidance on fair value measurements.

In August 2009, the authoritative guidance on measuring the fair value of liabilities was revised to clarify that a quoted price in an active market for the identical liability is a Level 1 measurement for that liability when no adjustment to the quoted price is required. In the absence of a Level 1 measurement, an entity must use one or more of the valuation techniques prescribed by the guidance to estimate fair value (in a manner consistent with the principles in the authoritative guidance). The valuation techniques use (a) the quoted price of either the identical liability when traded as an asset, similar liabilities, or similar liabilities when traded as assets, or (b) another valuation technique that is consistent with the principles in the authoritative guidance (e.g., a market approach or an income approach), including a technique either based on the amount an entity would pay to transfer the identical liability or the amount an entity would receive to enter into an identical liability. The Fund implemented the revised authoritative guidance for the year ended December 31, 2009, which did not have a material impact on the Fund's financial statements.

During the year ended December 31, 2009, the Fund adopted accounting guidance which establishes principles and requirements for subsequent events. The required disclosure is included in Note 2.

In June 2009, the Financial Accounting Standards Board ("FASB") established the FASB Accounting Standards Codification to become the source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. This source of accumulative guidance was effective for financial statements issued for interim and annual periods ending after September 15, 2009. The implementation of the new source of authoritative guidance did not have any material impact on the Fund's financial statements.

The Tolbert Qualified Settlement Fund
Notes to Financial Statements
Years Ended December 31, 2009 and 2008

3. Fair Value Measurements

Authoritative guidance establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under authoritative guidance are as follows:

Level 1 Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date;

Level 2 Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active;

Level 3 Inputs that are unobservable.

In accordance with the requirements of authoritative guidance, the Fund has categorized its financial instruments based on the priority of the inputs to the valuation technique based on a three-level hierarchy.

The following table presents the financial assets carried on the Statement of Assets, Liabilities, and Fund Balance by level within the valuation hierarchy as of December 31, 2009 and 2008:

	Financial Assets at Fair Value at Reporting Date Using			
	Level 1	Level 2	Level 3	Total
December 31, 2009				
Money Market Funds	\$ 2,239,286	\$ -	\$ -	\$ 2,239,286
U.S. Treasury Securities	5,983,407	-	-	5,983,407
Total	<u>\$ 8,222,693</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,222,693</u>
December 31, 2008				
Money Market Funds	\$ 2,743,294	\$ -	\$ -	\$ 2,743,294
U.S. Treasury Securities	6,946,148	-	-	6,946,148
Total	<u>\$ 9,689,442</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,689,442</u>

The Tolbert Qualified Settlement Fund
Notes to Financial Statements
Years Ended December 31, 2009 and 2008

4. Investments

Unrealized losses and gains on investments for the years ended December 31, 2009 and 2008 amounted to (\$384,721) and \$507,892, respectively.

The cost and approximate fair value of investments at December 31, 2009 and 2008 are shown below:

	2009		2008	
	Cost	Fair Value	Cost	Fair Value
Short Term Investments				
Federated government obligations due in one year or less	\$ 2,239,286	\$ 2,239,286	\$ 2,743,294	\$ 2,743,294
Investment in U.S. Treasury Securities				
Securities maturing 1 year or less	\$ 704,038	\$ 729,309	\$ 830,165	\$ 858,446
Securities maturing greater than 1 year	4,786,238	5,254,098	5,238,130	6,087,702
Total U.S. Treasury Securities	\$ 5,490,276	\$ 5,983,407	\$ 6,068,295	\$ 6,946,148

Short-term investments are comprised of the "Surplus Money Market Fund" with a balance of \$1,317,387 and \$1,858,876, and the "Children's Money Market Fund" with a balance of \$921,899 and \$884,418 as of December 31, 2009 and 2008, respectively. Both funds are invested in the Federated Government Obligations Money Market Fund. The Surplus Money Market Fund represents remaining funds, utilized to pay adult claimants and other administrative expenses, specifically related to the issuance of claimant checks. Also, pursuant to Judge Greene's September 2, 2009 order, the Surplus Money Market Fund has been used to pay West Anniston Medical Clinic, Inc. pharmacy and medical co-pays incurred by claimants. The Children's Money Market Fund is used to pay children claimants as they reach the age of nineteen. The remaining \$729,309 is Treasury Notes, maturing in less than one year, used to pay children as they reach age nineteen.

Long-term investments are quarterly laddered Treasury Notes, with the amount of notes maturing at each calendar quarter equal to the projected amount needed to pay children claimants reaching age nineteen during the subsequent quarter.