

**IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF PENNSYLVANIA**

IN RE DIET DRUGS)
(PHENTERMINE/FENFLURAMINE/
DEXFENFLURAMINE) PRODUCTS)
LIABILITY LITIGATION)


SHEILA BROWN, et al. v. AMERICAN)
HOME PRODUCTS CORPORATION)
_____)

MDL No. 1203

CIVIL ACTION No. 99-20593

**REPORT OF THE AUDITED FINANCIAL STATEMENTS
OF THE AHP SETTLEMENT TRUST AND SETTLEMENT
FUND FOR THE YEAR ENDED DECEMBER 31, 2005**

Pursuant to paragraph 2 of Court Approved Procedure 8, the AHP Settlement Trust hereby files this Report of audited financial statements of the AHP Settlement Trust; the Settlement Fund; and the escrow accounts in effect under the Settlement Agreement for the year ended December 31, 2005.



Patrick J. Troy
Attorney for the AHP Settlement Trust

OF COUNSEL:
Wolf, Block, Schorr and Solis-Cohen LLP
1650 Arch Street, 22nd Floor
Philadelphia, PA 19103

Date: March 31, 2006

McGladrey & Pullen

Certified Public Accountants

AHP Settlement Trust

Financial Report
December 31, 2005

AHP Settlement Trust

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McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report

To the Board of Trustees of the
AHP Settlement Trust
Philadelphia, Pennsylvania

We have audited the accompanying statement of net assets available for claims of AHP Settlement Trust as of December 31, 2005 and the related statement of changes in net assets available for claims and cash flows for the year ended December 31, 2005. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 AHP Settlement Trust as of December 31, 2005, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

McGladrey & Pullen, LLP

Blue Bell, Pennsylvania
March 3, 2006

AHP Settlement Trust**Statement of Net Assets Available for Claims
December 31, 2005**

Assets

Cash and cash equivalents	\$ 22,804,519
Funds held in escrow	7,041,146
Accrued interest receivable	223,018
Due from Wyeth	17,064,164
Prepays expenses and other assets	<u>1,816,475</u>
Total assets	<u>48,949,322</u>

Liabilities

Accounts payable and accrued expenses	3,822,655
Claims in course of settlement	<u>27,564,940</u>
Total liabilities	<u>31,387,595</u>
Net assets available for claims	<u><u>\$ 17,561,727</u></u>

See Notes to Financial Statements.

AHP Settlement Trust**Statement of Changes in Net Assets Available for Claims
Year Ended December 31, 2005**

Additions	
Settlement funds from Wyeth	\$ 297,868,581
Investment income	1,766,955
Net unrealized appreciation on investments	<u>51,623</u>
Total additions	<u>299,687,159</u>
Deductions	
Benefit payments	271,392,133
Claims administration expenses	16,218,005
General and administrative expenses	<u>11,744,459</u>
Total deductions	<u>299,354,597</u>
Increase in net assets available for claims	332,562
Net assets available for claims:	
Beginning	<u>17,229,165</u>
Ending	<u><u>\$ 17,561,727</u></u>

See Notes to Financial Statements.

AHP Settlement Trust**Statement of Cash Flows
Year Ended December 31, 2005**

Cash Flows from Operating Activities	
Change in net assets	\$ 332,562
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	1,239,478
Changes in operating assets and liabilities:	
(Increase) decrease in:	
Funds held in escrow	(93,993)
Accrued interest receivable	(178,767)
Due from Wyeth	9,590,167
Prepaid expenses and other assets	190,012
Increase (decrease) in:	
Accounts payable and accrued expenses	(2,428,863)
Claims in course of settlement	436,121
	<hr/>
Net cash provided by operating activities	9,086,717
	<hr/>
Net cash used in investing activities, purchase of equipment	(52,538)
	<hr/>
Increase in cash and cash equivalents	9,034,179
Cash and cash equivalents, beginning	13,770,340
	<hr/>
Cash and cash equivalents, ending	\$ 22,804,519
	<hr/> <hr/>

See Notes to Financial Statements.

AHP Settlement Trust

Notes to Financial Statements

Note 1. Description of the Trust

The AHP Settlement Trust (the "Trust") was established by order of The United States District Court for the Eastern District of Pennsylvania on September 2, 2000, effective as of September 1, 2000. It is a Qualified Settlement Fund as described in Section 468B of the Internal Revenue Code and Regulations thereunder. The Trust's fiscal year ends on December 31.

On November 18, 1999, American Home Products Corporation ("AHP," which on March 11, 2002, changed its name to Wyeth) and representatives of a purported class and subclasses in litigation which was pending in various courts and arising from the marketing, sale, distribution and use of the diet drugs Pondimin(R) and Redux(TM) (the "Diet Drugs") agreed to and proposed a nationwide class action settlement to resolve claims against AHP and other released parties on the terms set forth in a Settlement Agreement, as subsequently amended (the "Settlement Agreement"). The Settlement Agreement called for the creation of a settlement trust to receive the funds to be paid by AHP pursuant to the Settlement Agreement and to administer the provision of benefits to the settlement class under the terms of the Settlement Agreement. The Settlement Agreement calls for monies held in the Trust's estate to be invested as directed by the Board of Trustees of the Trust, subject to certain provisions and limitations set forth in the Settlement Agreement and in a Settlement Trust Agreement that was later approved by the Court that has jurisdiction over administration of the terms of the Settlement Agreement.

Two funds, "Fund A" and "Fund B," were merged on January 31, 2003 into a single fund designated as the "Settlement Fund" pursuant to a Revised Fifth Amendment to the Settlement Agreement. Though it was determined by the Parties to be highly unlikely, if the cost of Fund A benefits and administration of such benefits exceeds the amount transferred from Fund A at the time of the merger, Wyeth will be required to deposit funds necessary to meet certain obligations associated with the former Fund A upon request from the Trust without reducing the Maximum Available Fund B Amount, which is described below.

Certain class members will be entitled to recover compensatory damages pursuant to a settlement "Matrix" in the event that the class member develops more serious levels of regurgitation and/or other specified conditions by the end of the year 2015. In addition, there are certain conditions under which individuals have had the right to opt out of the settlement and to pursue a claim for compensatory damages in the tort system, subject to certain limitations. Determinations by class members to opt out of the settlement may result in reduction of the amount of funds that ultimately would be available to the Trust for the purpose of paying benefits and administering claims.

On January 18, 2002, Wyeth established a Security Fund with \$370 million in assets. Pursuant to the Fifth Amendment, dated November 21, 2002, Wyeth deposited additional assets having a value of \$535.2 million into the Security Fund. As of December 31, 2005, this Security Fund had an approximate market value of \$948.3 million.

On June 6, 2005, a Joint Motion to Approve and Implement the Ninth Amendment to the Nationwide Class Action Settlement was filed. This order was approved by the Court on July 1, 2005 among other conditions, appoints a new sole Trustee to administer all claims by Class Members for any type of benefit under the Settlement Agreement (except benefits subject to administration by the Fund Administrator under the Seventh Amendment), and shall perform all duties of the Trustees and/or Claims Administrator under the Settlement Agreement pursuant to (i) Court-Approved Procedures agreed upon by the Parties and approved by the Court, after affording notice and an opportunity to be heard concerning such proposed Procedures to all interested persons and/or (ii) as otherwise ordered by the Court.

AHP Settlement Trust

Notes to Financial Statements

Note 1. Description of the Trust (Continued)

On June 22, 2005, the Trust filed an Application for Confirmation of Interim Account and Discharge of Trustees, Trust Executive Director and Trust Officers through December 31, 2004, which was granted on August 18, 2004. This entitled the former Trustees "discharge as Trustees as of December 31, 2004," approved and confirmed the Trustees' interim account as of that same date, and entitled Trustees' discharge from liability in connection with their service through December 31, 2004.

The maximum additional amount, as of December 31, 2005, that Wyeth may be called upon to pay for the purpose of funding Matrix benefits is \$1,423,797,857 adjusted pursuant to the Settlement Agreement, which calls for accretions on the adjusted amount at 1.5% per quarter less potential credits against such amounts arising from payments and from certain opt out and other credits.

Any assets remaining at the end of the Trust's term are to be donated to heart research facilities.

This Description of the Trust is not intended to be a legal interpretation of the benefits available to class members or others; nor is it a legal description of the obligations of any parties to the Settlement Agreement. A complete description of the rights and benefits of any parties and class members must be derived from the Settlement Agreement as amended and associated Pre-Trial Orders. All applicable documents can be found at www.settlementdietdrugs.com.

Note 2. Summary of Significant Accounting Policies

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Trust to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents: Cash and cash equivalents include all highly liquid investments with original maturities of three months or less.

Property: Property, including computer software, is recorded at cost. Depreciation and amortization are computed using the straight-line method over estimated useful lives ranging from two to five years. Property is included in prepaid expenses and other assets in the accompanying statement of net assets available for claims.

Income Taxes: The Trust is organized as a qualified settlement fund as described in Section 468B of the Internal Revenue Code and Regulations thereunder. As a result, the Trust is subject to federal income taxes based on modified gross income, as defined by the Code. The Trust is subject to state income taxes only in the State of New Jersey, based on the proportion of claimants that reside in New Jersey.

Benefit Payments: Benefit payments are recorded as expense when approved for payment by the Trust.

Claims in Course of Settlement: Claims in course of settlement are accruals for claims that have completed all phases of the claim payment review process, including approval, but have not yet been paid.

Claims Administration Expenses: Claims administration expenses represent costs associated with the settlement and payment of claims and are recorded as expense when incurred.

AHP Settlement Trust**Notes to Financial Statements**

Note 2. Summary of Significant Accounting Policies (Continued)

Allocation of Expenses: Expenses incurred by the Trust are allocated between Fund A and Fund B either directly, where applicable, or as outlined in the Trust Agreement. The allocation of expenses had no bearing on the amount of net assets available for claims at December 31, 2005.

Note 3. Investments

Investment income is as follows for the year ended December 31, 2005:

Gross investment income	
Investments	\$ 151,246
Cash and cash equivalents	1,615,709
	<hr/>
Investment income	<u>\$ 1,766,955</u>

Investment expenses were \$147,196 for the year ended December 31, 2005. Investment expenses are included in general and administrative expenses in the statement of changes in net assets available for claims.

Note 4. Funds Held in Escrow

Subrogation Escrow: The Trust has been ordered by the Court to set aside \$7 million in an escrow account, which may be used to satisfy certain obligations that may arise as a result of claims that may be made by governmental agencies and entities in the nature of subrogation (Note 8). Release of funds from this escrow account is permitted only upon a final order of the Court that is not subject to appeal.

Funds held in escrow are invested in U.S. Government and Agency securities. They are stated at market value and are based on quoted market prices.

Common Benefit Attorney Escrow: In accordance with the Settlement Agreement, the Trust is required to deduct 9% of the total gross Matrix payments due class members. All or a portion of such amount may be awarded to certain attorneys designated in the Settlement Agreement as Class Counsel or as Common Benefit Attorneys. The portion not awarded to Class Counsel or to Common Benefit Attorneys will be distributed to Class Members or their individual attorneys. An escrow account was established into which the Trust deposited amounts so deducted; such escrow is maintained separately from the Trust.

On April 5, 2002, as required by the Settlement Agreement, Wyeth created a Fund B Attorneys' Fees Escrow account that is maintained separately from the Trust. This Fund B Attorneys' Fees Escrow Account was established, among other reasons, to hold the maximum attorneys' fees payable under Fund B, \$229,000,000, in escrow until the Court establishes the proper distribution. The entire amount held in escrow by the Trust as of April 5, 2002, \$59,819,625, was transferred to this account. The balance of the Fund B Attorneys' Fees Escrow amount, \$169,180,375, was funded by Wyeth. Release of funds from this escrow account will be permitted only upon a final order of the Court that is not subject to appeal.

AHP Settlement Trust**Notes to Financial Statements**

Note 4. Funds Held in Escrow (Continued)

The Court that has jurisdiction of the administration of the Settlement Agreement will ultimately rule on the amount of fees to be awarded to Class Counsel and Common Benefit Attorneys. If the Court ultimately rules that an amount less than what is in the Fund B Attorneys' Fees Escrow Account is payable to Class Counsel and Common Benefit Attorneys, then the difference between the amount awarded and the amount in that Escrow Account will be paid to the Trust. The Trust will also adjust the amount of its 9% reduction of Matrix payments to reflect the partial grant of attorneys' fees, and the Trust will make additional payments to Matrix claimants or their attorneys who were paid previously to reflect a diminution of the percentage reduction of Matrix payments.

Note 5. Property

A summary of property at December 31, 2005 is as follows:

Equipment	\$ 411,648
Computer systems/software	5,351,508
Furniture and fixtures	326,293
Leasehold improvements	84,249
	<u>6,173,698</u>
Less accumulated depreciation and amortization	<u>5,135,995</u>
	<u><u>\$ 1,037,703</u></u>

Note 6. Income Taxes

The Trust had approximately \$184,726,846 of net operating loss carryforwards for income tax purposes at December 31, 2005. The carryforwards begin to expire in 2019.

The Trust had a deferred tax asset of \$64,654,396 at December 31, 2005, arising from the difference in recording certain expense items for financial statement and income tax reporting purposes and from the carryforward of the net operating losses. The deferred tax asset is primarily the result of net operating loss carryforwards. The Trust recorded a valuation allowance of the same amount against the deferred tax asset as it is uncertain that the deferred tax asset will be realized.

Note 7. Leases

The Trust leases office space and uses certain equipment under various operating leases. Rental expense under such arrangements was approximately \$1,788,307 for the year ended December 31, 2005.

AHP Settlement Trust**Notes to Financial Statements**

Note 7. Leases (Continued)

The following is a schedule of future minimum lease payments on noncancelable operating leases as of December 31, 2005:

<u>For the Year Ended December 31,</u>	
2006	\$ 392,704
2007	353,448
2008	<u>58,908</u>
	<u>\$ 805,060</u>

Note 8. Subrogation

On March 21, 2001, the Court that is supervising the Settlement ordered the Trust to set aside \$7 million from Fund B in escrow that may, subject to further proceedings, be utilized in the event that the United States government establishes an interest in proceeds of Matrix awards made to class members. The reserve arises from a determination made by the Court on the question of whether it was necessary for the Trust to await a determination of whether certain class members owed money to the government before the Trust could make benefit payments to those class submembers. The Court determined that it was not necessary for the Trust to do so, yet ordered the Trust to set aside the reserve described herein. The reserve may be distributed only upon order of the Court.

Note 9. Retirement Plan

The Trust has a retirement plan under which eligible employees may defer a portion of their annual compensation, pursuant to Section 401(k) of the Internal Revenue Code. The Company matches 100 percent of the employee's contributions up to 3 percent of employee's overall compensation, and 50 percent of employee's contribution between 3 and 5 percent of employee's overall compensation for each plan year. All permanent, full-time employees with at least six months of service and who have attained the age of 21 are eligible to participate. Company contributions to the plan amounted to \$117,783 for the year ended December 31, 2005.

Note 10. Uncertainties

Claims and Availability of Funds to Pay Them from the Net Assets of the Trust: The ultimate liability for all claims is not determinable at this time. Net assets available for claims at December 31, 2005 represent excess of funding received for claims and administrative expenses over amounts paid.

The deadlines for filing of some claims have not yet come to pass, and there are class members who are seeking relief from certain deadlines that have come to pass.

Net assets available for the payment of Matrix claims and associated administrative expenses at December 31, 2005, are to be supplemented, pursuant to the Settlement Agreement as in effect at that date, by contributions from AHP or withdrawals from the Security Fund as and when it becomes necessary to have additional funds to pay claims and to maintain an Administrative Reserve. The maximum amount required to be paid by Wyeth or that may be made available to the Trust from the Security Fund may or may not be sufficient to pay all claims for Matrix benefits that have been or will be submitted to the Trust and that are, upon processing and review, determined to be valid and well founded.

AHP Settlement Trust

Notes to Financial Statements

Note 10. Uncertainties (Continued)

Seventh Amendment: On March 15, 2005, the U.S. District Court for the Eastern District of Pennsylvania granted Trial Court Approval to the proposed Seventh Amendment to the Nationwide Class Action Settlement Agreement. If the Amendment receives Final Judicial Approval, it will result in a substantial decrease in the number of Level I and Level II Matrix Claims that would have been the financial obligations of the Trust. (Final Judicial Approval will occur upon the entry of a final judgment affirming the approval of the Seventh Amendment by an appellate court of last resort, or the expiration of the time period in which any party may file an appropriate notice of appeal in such court.) Higher Level Matrix Claims will remain the financial responsibility of the Trust, under an arrangement whereby some of those claims will become the subject of additional commitments or agreements to fund from Wyeth, even if this results in a contribution by Wyeth to the Trust that exceeds the amount of contributions to which Wyeth is currently committed. The Seventh Amendment may affect other material aspects of the financial standing of the Trust. For example, approximately 2,000 Level I and Level II Matrix claimants have chosen to opt-out of the proposed Seventh Amendment and have their claims processed by the Trust. This will result in a substantial decrease in the Trust's workload. Even with Final Judicial Approval of the Seventh Amendment, the Trust will be responsible for the administration of the Category Two benefit created by the Seventh Amendment. The Trust is not able to state whether the Seventh Amendment will receive Final Judicial Approval or how long it may take.

As discussed above, the Court on March 21, 2001, ordered the Trust to set aside \$7 million in an escrow account, which may be used to satisfy certain obligations that may arise as a result of claims that may be made by governmental agencies and entities in the nature of subrogation. Subject to Final Judicial Approval, the Seventh Amendment provides that this fund shall also be available to Wyeth as a further indemnity from and against any claims, suits or demands asserted by any Third Party Payor arising out of, or relating to, the payment of medical expenses or provision of medical services by such Third Party Payor, or the failure of the Fund Administrator or Wyeth to pay the Third Party Payor.

With the Sixth Amendment, Wyeth was given the right to elect that certain claims be adjudicated and paid if the balance of the Maximum Available Fund B Amount falls below \$255 million. The Seventh Amendment changes this by providing that when the Maximum Available Fund B Amount falls below \$255 million, the Trust shall pay Matrix Compensation Benefits only with respect to claims for Seventh Amendment Matrix Compensation Benefits and Supplemental Claims as those terms are defined in the Seventh Amendment.

Other Uncertainties: The Trust has initiated civil litigation against individuals whom the Trust alleges made material misstatements of fact in connection with the submission of Matrix claims, resulting in overpayment or mispayment of claims. The Trust is attempting to recover monies paid on account of these claims from the individuals whom it has sued. Those individuals have asserted counter claims or initiated separate actions against the Trust as a result of the Trust's actions against them. The outcome of these actions and the likelihood of recovery are uncertain and these financial statements do not reflect the possibility of recovery as an asset of the Trust or a liability for any actions against the Trust. In addition, the Seventh Amendment, as approved by the Trial Court will, upon Final Judicial Approval preclude the continuation of these actions or initiation of certain other enforcement actions that may arise.

Court Jurisdiction: The Court that has jurisdiction over the Trust and the administration of the Settlement Agreement has ordered that it retains continuing jurisdiction to, among other things, interpret and enforce the Settlement Agreement in accordance with its terms. Pursuant to its continuing jurisdiction, the Court has imposed and may impose certain financial obligations on the Trust that are not foreseen at this time, and could approve certain amendments to the Settlement Agreement that would provide material benefits to the Trust and its beneficiaries or otherwise materially alter the operations and financial position of the Trust.

CERTIFICATE OF SERVICE

Patrick J. Troy hereby certifies that on March 31, 2006, he caused a true and correct copy of the foregoing Report of the Audited Financial Statements of the AHP Settlement Trust and the Settlement Fund for the Year Ended December 31, 2005 to be filed with and made available for viewing and downloading with the Court's ECF system and to be further served by first-class mail upon the following:

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