

# QUARTERLY REPORT

December 31, 2010

**Pipeline Safety Trust**

**Bob Rackleff, President**

1155 North State Street, Suite 609

Bellingham, WA 98227-4346

**FinancialNetwork™**

 A CETERA COMPANY

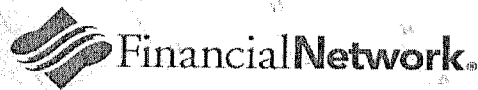
Karen Sloss, CFP

**FINANCIAL NETWORK INVESTMENT CORPORATION**

103 East Holly, Suite 412

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# QUARTERLY RECAP

Market Indices <sup>1</sup>	4Q 2010	Year-to-Date
S&P 500	+10.76%	+15.06%
MSCI EAFE Index	+6.65%	+8.21%
MSCI Emerging Markets Index	+7.36%	+19.20%
Barclays U.S. Aggregate Bond	-1.30%	+6.54%
Barclays Municipal Bond	-4.17%	+2.38%
Barclays Corporate High Yield	+3.22%	+15.12%

Global equity markets posted strong positive returns again in the fourth quarter and finished the calendar year 2010 well into positive territory for the second consecutive year. The continuing economic recovery, strong corporate earnings and strengthening investor confidence were the primary factors driving equity markets forward for the fourth quarter and the year. Equity markets did experience another brief bump in the road in November, however, as fears surrounding the European debt crisis surfaced once again with Ireland becoming the second EU member (after Greece earlier in the year) to receive financial aid. But as the European debt concerns once again eased in December, equity markets responded in kind by finishing the quarter and year strong.

In the U.S., the S&P 500 Index finished the fourth quarter with a healthy positive return of +10.8%, and for the year gained +15.1%. The fourth quarter's performance was strong across the board but was led by more growth oriented stocks and smaller capitalization stocks. Energy and Materials were the top performing sectors for the quarter, returning 21.5% and 19.0% respectively, while Utilities and Health Care were the bottom performing sectors, but still posted modestly positive returns. Small capitalization stocks, as measured by the Russell 2000, also posted strong returns for the quarter, returning +16.3%. Developed equity markets outside the U.S. posted a positive but less robust +6.7% return for the quarter, weighed down by the lingering sovereign debt concerns in Europe. Emerging markets also posted positive but more subdued returns in the quarter, as the MSCI Emerging Markets Index returned +7.4%. For 2010, developed non-U.S. markets returned +8.2% while emerging markets posted a very strong +19.2% return.

Fixed income markets reversed course in the fourth quarter and lost ground as interest rates, which had been falling steadily throughout the year, reversed course and rose during the quarter (all else being equal, as interest rates fall, bond prices rise and vice versa). The Federal Reserve's second round of stimulus bolstered confidence that the economic recovery would be sustainable, helping send interest rates higher. The Barclays U.S. Aggregate Bond Index fell -1.3% for the fourth quarter but is still up a healthy +6.5% for 2010. Municipal bonds, as measured by the Barclays Municipal Bond Index, had an even more challenging quarter, returning -4.2%, but is also still positive for the year, up +2.4%. High yield bonds (junk bonds) were aided by news of a strengthening economy and additional stimulus from the Federal Reserve, and returned +3.2% for the quarter as measured by the Barclays U.S. Corp High Yield Index. For 2010, high yield bonds posted a very strong +15.1% return.

**Prepared by:** Alex Kaye, CFA, Head of Research, Research Department, Cetera Financial Group

1 Morningstar Direct

If you have any questions, please contact Connie Chung, Cetera Financial Group, at (310) 257-7715.

*The views are those of Alex Kaye, CFA, Head of Research, Research Department, Cetera Financial Group, and should not be construed as investment advice. All information is believed to be from reliable sources; however, we make no representation as to its completeness or accuracy. All economic and performance information is historical and not indicative of future results. The market indices discussed are unmanaged. Investors cannot directly invest in unmanaged indices. Additional risks are associated with international investing, such as currency fluctuations, political and economic stability, and differences in accounting standards. Small cap stocks may be subject to a higher degree of market risk than large cap stocks, or more established companies' securities. Furthermore, the illiquidity of the small cap market may adversely affect the value of an investment, so that shares, when redeemed, may be worth more or less than their original cost. Please consult your financial advisor for more information.*

Securities offered through Financial Network Investment Corporation, member SIPC  
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**PORTFOLIO UPDATE - 4th Quarter 2010**

PREFERRED ASSET MGMT	SHARES	COST	DATE	VALUE 12/31/2010	CUMULATIVE % CHANGE	YTD % RETURN
<b>INCOME STOCKS, BONDS &amp; BOND FUNDS</b>						
California State G. O. 5.95% 4/1/16	100k	\$98,892.00	6/09	\$106,319.50	7.51	9.45
Keycorp 6.5% 5/14/13	100K	199,702.00	5/08	109,420.61	9.58	13.29
	partial sale	(99,851.00)	4/10			
Prudential Financial 5.1% 9/20/14	100K	244,910.00	3/08	108,847.83	11.11	8.22
	partial sale	(146,946.00)	4/10			
SLM Corporation Preferred B	2000	260,970.00	6/07	88,200.00	(49.30)	(2.62)
	partial sale	(86,990.00)	3/10			
Target Corporation 5.375% 5/1/17	100k	197,870.00	4/08	112,963.83	14.18	12.94
	partial sale	(98,935.00)	8/10			
Vanguard GNMA Fund	28,088.648	250,000.00	4/09	301,672.08	0.30	7.44
	partial sale	(49,218.03)	5/10			
		100,000.00	12/10			
Vanguard Short Term Fed'l Bond Fund	25,190.719	250,000.00	4/10	271,052.14	0.10	2.46
	partial sale	(49,220.19)	7/10			
		70,000.00	12/10			
Verizon Communications 5.55% 2/15/16	100k	298,152.00	3/08	114,188.67	14.90	8.54
	partial sale	(198,768.00)	2/10			
<i>Each Bond Value includes Accrued Interest</i>		<b>Income Sub-Total</b>		<b>\$1,212,664.66</b>	<b>29.59 % of Total</b>	
<b>LARGE CAP EQUITY</b>						
Apple Inc.	300	\$69,000.00	5/10	\$96,768.00	40.24	40.24
Corning Inc.	4000	57,908.00	5/09	77,280.00	33.45	1.09
Ebay	3000	92,000.00	1/10	83,490.00	21.00	21.59
	partial sale	(23,000.00)	12/10			
EMC Corporation	4000	78,000.00	7/10	91,600.00	17.44	17.44
Hewlett Packard	2000	149,700.00	1/04	84,200.00	91.36	(18.36)
		88,000.00	4/04			
	partial sales	(193,700.00)				
Lowe's	4000	87,400.00	2/10	100,320.00	14.78	16.30
McKesson Corporation	1500	126,600.00	12/09	105,570.00	11.18	12.23
	partial sale	(31,650.00)	10/10			
Plum Creek Timber	3000	97,470.00	5/09	112,350.00	15.27	3.70
Target	1500	83,380.00	5/09	90,195.00	44.23	26.63
	partial sale	(20,845.00)	12/10			
Thermo Fisher Scientific Inc.	2000	116,800.00	5/04	110,720.00	89.59	15.01
	partial sales	(58,400.00)				
Waste Management Inc.	2000	73,060.00	10/10	73,740.00	0.93	1.80
		<b>Growth Sub-Total</b>		<b>\$1,026,233.00</b>	<b>25.04 % of Total</b>	
<b>SMALL &amp; MID CAP EQUITY</b>						
Apartment Investment & Management	3109	\$117,000.00	5/08	\$80,336.56	46.07	67.40
		35,500.00	6/08			
	partial sales	(97,500.00)				
Commonwealth REIT (rev split fr HRPT 7/10)	3000	100,400.00	4/07	76,530.00	(45.41)	6.38
		39,800.00	9/07			
Devry Incorporated	1500	84,675.00	12/08	71,970.00	(15.00)	(15.11)
Echelon Corporation	10000	33,000.00	1/08	101,900.00	(18.48)	(11.85)
		34,500.00	2/08			
		57,500.00	6/08			
Energy Recovery Inc.	20000	98,735.56	8/08	73,200.00	(58.60)	(46.80)
		78,090.40	10/08			

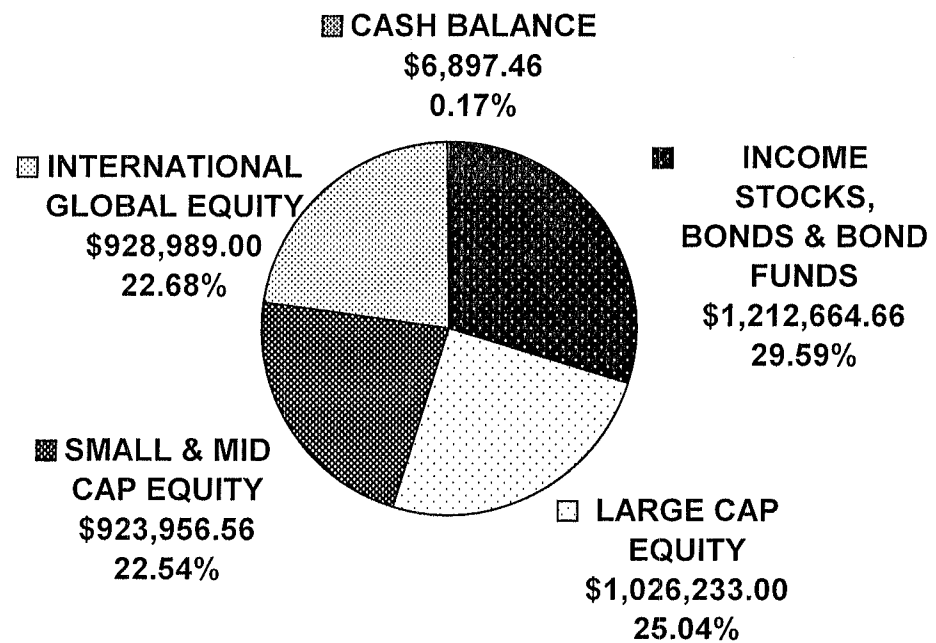
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**PORTFOLIO UPDATE - (continued)**

PREFERRED ASSET MGMT	SHARES	COST	DATE	VALUE 12/31/2010	CUMULATIVE % CHANGE	YTD % RETURN
<b>SMALL &amp; MID CAP EQUITY (continued)</b>						
Fuel System Solutions	3000	\$48,720.00	1/04	\$88,140.00	52.44	(28.76)
		43,650.00	3/04			
		25,100.00	12/05			
		47,780.00	2/09			
	partial sales	(107,430.00)				
Green Mountain Coffee Roasters	3000	68,975.00	5/10	98,580.00	42.92	42.92
Sovran Self Storage Inc	2000	108,000.00	1/04	73,620.00	84.18	9.94
		35,950.00	2/08			
		37,440.00	11/08			
		31,491.00	2/09			
	partial sales	(172,910.00)				
Sunpower Corporation	6000	87,000.00	1/09	74,460.00	(37.15)	(26.61)
		31,470.00	8/10			
Tetra Tech Incorporated	3000	174,960.00	6/07	75,180.00	14.59	(10.36)
	partial sales	(109,350.00)				
United Natural Foods	3000	104,000.00	11/04	110,040.00	103.78	35.98
		27,230.00	12/05			
		72,000.00	3/08			
	partial sales	(149,230.00)				
				<b>\$923,956.56</b>		
					<b>22.54 % of Total</b>	
<b>INTERNATIONAL GLOBAL EQUITY</b>						
Agrium Inc.	1000	\$84,516.00	3/10	\$91,750.00	43.36	38.19
		14,700.00	6/10			
	partial sale	(35,215.00)	12/10			
America Movil	2000	88,000.00	2/10	114,680.00	30.32	31.58
Bank of Nova Scotia	1600	81,001.87	4/10	91,520.00	12.99	14.97
Canadian National Railway	1200	76,800.00	10/10	79,764.00	3.86	3.86
China Media Express Holdings	3000	47,339.76	12/10	47,520.00	0.38	0.38
Companhia De Saneamento	2000	96,600.00	3/07	105,760.00	64.22	39.03
	partial sale	(32,200.00)	10/10			
Honda Motors	3000	114,600.00	2/07	118,500.00	3.40	18.17
Philips Electronics	3000	65,440.00	4/10	92,100.00	(3.03)	(4.29)
		29,540.00	12/10			
Sims Group Ltd (merg exch fr MM 3/08)	5000	49,500.00	1/04	109,200.00	171.35	13.59
	partial sale	(9,256.10)	6/08			
Teva Pharmaceutical	1500	94,455.00	3/10	78,195.00	(17.21)	(16.40)
				<b>\$928,989.00</b>		
					<b>22.67 % of Total</b>	
<b>CASH BALANCE</b>		<b>\$155,340.73</b>		<b>\$6,897.46</b>		
					<b>0.17 % of Total</b>	
<b>TOTAL MARKET VALUE</b> December 31, 2010		<b>\$3,940,000.00</b>		<b>\$4,098,740.68</b>		
<b>CASH WITHDRAWALS for OPERATIONS</b> thru December 31, 2010				\$1,098,000.00		
<b>PORTFOLIO TOTAL RETURN</b> (since inception)		<b>\$3,940,000.00</b>		<b>\$5,196,740.68</b>	<b>31.90</b>	<b>7.06</b>

This report has been prepared by Karen Sloss, a Certified Financial Planner with Financial Network Investment Corp., with data from mutual fund, Pershing Securities, and investment statements. Pricing was obtained from the Wall Street Journal or other sources deemed to be accurate. This report is not meant to be a guarantee of positions owned. Limited Partnerships are carried at the General Partners' estimate of value, if available, and there is no assurance that the stated value would be realized upon liquidation.

## ASSET ALLOCATION - Pipeline Safety Trust



## IPS GUIDELINES vs CURRENT PORTFOLIO as of December 31, 2010

<u>Asset Class Description</u>	<u>IPS Range of Assets*</u>	<u>Current % of Assets</u>	<u>Current Value</u>
Fixed Income	30 to 60%	29.59%	1,212,664.66
Large Cap Equity	25 to 50%	25.04%	1,026,233.00
Small & Mid Cap Equity	2 to 30%	22.54%	923,956.56
International Equity	10 to 50%	22.67%	928,989.00
Cash	0%	.17%	6,897.46
<b>Total Portfolio Assets</b>	<b>100%</b>	<b>100%</b>	<b>\$4,098,740.68</b>

\*Amended January 2010

### PST PORTFOLIO PERFORMANCE HISTORY Percent Return Per Period

	11-30-03 to 12-31-03	Year 2004	Year 2005	Year 2006	Year 2007	Year 2008	Year 2009	1 <sup>st</sup> Qtr 2010	2 <sup>nd</sup> Qtr 2010	3 <sup>rd</sup> Qtr 2010	4 <sup>th</sup> Qtr 2010	Year To Date as of 12/31/10
<b>PST Portfolio</b>	.70*	8.42	4.88	14.34	5.18	-25.4	23.88	1.33	-7.96	8.21	6.08	7.06
<b>Benchmark** (tentative)</b>								3.07	-7.69	10.46	6.24	11.13
<b>Composite Portfolio***</b>	2.49	10.70	4.63	11.62	4.81	-14.98	13.86					
<b>S&amp;P 500</b>	5.08	10.88	4.91	15.80	5.49	-37.00	26.46	5.39	-11.43	11.29	10.76	15.06
<b>Russell 2000</b>	1.90	18.33	4.55	18.37	-1.57	-33.79	27.17	8.85	-9.92	11.29	16.25	26.85
<b>MSCI EAFE NET TR</b>	N/A	N/A	N/A	26.34	11.17	-43.38	31.78	.87	-13.97	16.48	6.61	7.75
<b>Barclays US Aggregate Bond Index</b>	1.02	4.34	2.43	4.33	6.97	5.24	5.93	1.78	3.49	2.48	-1.30	6.54

\* Partial Period (12/10-12/31/03)

\*\* 30% Barclays US Aggregate Bond, 25% S&P 500, 10% Russell 2000, 35% MSCI EAFE NET TR

\*\*\*20% Long Term Bond, 20% 1-3 Yr Bond, 30% S&P 500, 30% Russell 2000--former "benchmark"

## Pipeline Safety Trust Portfolio

FIXED INCOME ANALYSIS of the PST PORTFOLIO BONDS & BOND FUNDS

as of December 31, 2010

Description	Type	Quantity	Mkt Value	Maturity	Duration	Coupon	Purch.	Current	Moody's	S&P	Fitch
							YTM	Yield			
California State G.O.	muni	100,000	\$106,320	4/1/16	4.52 yrs	5.95%	6.15%	5.69%	A1	A-	A-
Keycorp	corp	100,000	\$109,421	5/14/13	2.17 yrs	6.5%	6.54%	5.99%	BAA1	BBB+	A
Prudential Financial	corp	100,000	\$108,848	9/20/14	3.36 yrs	5.1%	5.48%	4.76%	BAA2	A	BBB
SLM Corp Preferred B	corp	2000 shs	\$88,200	long term	N/A	N/A	N/A	2.33%	N/A	N/A	N/A
Target Corp	corp	200,000	\$112,964	5/1/17	5.42 yrs	5.38%	5.56%	4.77%	A2	A+	A+
Vanguard GNMA Fd	govt	250,000	\$301,672	2.7 yrs	2.5 yrs	N/A	N/A	3.35%	A3	AAA	AAA
Vanguard ST Bond Fd	govt	250,000	\$271,052	2.4 yrs	2.3 yrs	N/A	N/A	1.00%	A3	AAA	AAA
Verizon Comm	corp	100,000	\$114,189	2/15/16	4.43 yrs	5.55%	5.65%	4.96%	A3	A	A

## PERFORMANCE by ASSET CLASS vs. BENCHMARK

as of December 31, 2010

Asset Class	Benchmark Index	Month of December		Fourth Quarter		Year to Date	
		Benchmark	PST*	Benchmark	PST*	Benchmark	PST*
Fixed Income	Barclay US Agg	-1.08%	-0.73%	-1.30%	0.04%	6.54%	6.94%
Large Cap Equity	S & P 500	6.68%	5.59%	10.76%	11.18%	15.06%	12.46%
Small-Mid Cap Equity	Russell 2000	7.94%	2.17%	16.25%	4.11%	26.85%	-2.07%
International Equity	MSCI EAFE Net TR	8.10%	10.84%	6.61%	11.23%	7.75%	13.03%
<b>TOTAL PORTFOLIO versus BENCHMARK</b>		4.98%	4.03%	6.24%	6.08%	11.13%	7.06%

\* Time Weighted Return

## Pipeline Safety Trust Portfolio

### PERFORMANCE by ASSET CLASS vs. BENCHMARK

as of March 31, 2010

		First Quarter 2010		
Asset Class	Benchmark Index	Benchmark	PST*	Difference
Fixed Income	Barclay US Agg	1.78%	3.11%	1.3%
Large Cap Equity	S & P 500	5.39%	7.32%	1.9%
Small-Mid Cap Equity	Russell 2000	8.85%	-3.97%	-12.8%
International Equity	MSCI EAFE Net TR	0.87%	-1.64%	-2.5%
<b>TOTAL PORTFOLIO versus BENCHMARK</b>		<b>3.07%</b>	<b>1.33%</b>	<b>-1.7%</b>

### PERFORMANCE by ASSET CLASS vs. BENCHMARK

as of June 30, 2010

		Second Quarter 2010		
Asset Class	Benchmark Index	Benchmark	PST*	Difference
Fixed Income	Barclay US Agg	3.49%	1.71%	-1.8%
Large Cap Equity	S & P 500	-11.43%	-10.52%	0.9%
Small-Mid Cap Equity	Russell 2000	-9.92%	-13.23%	-3.3%
International Equity	MSCI EAFE Net TR	-13.79%	-12.77%	1.0%
<b>TOTAL PORTFOLIO versus BENCHMARK</b>		<b>-7.69%</b>	<b>-7.96%</b>	<b>-0.3%</b>

### PERFORMANCE by ASSET CLASS vs. BENCHMARK

as of September 30, 2010

		Third Quarter 2010		
Asset Class	Benchmark Index	Benchmark	PST*	Difference
Fixed Income	Barclay US Agg	2.48%	1.98%	-0.5%
Large Cap Equity	S & P 500	11.29%	5.34%	-6.0%
Small-Mid Cap Equity	Russell 2000	11.29%	12.88%	1.6%
International Equity	MSCI EAFE Net TR	16.48%	18.43%	2.0%
<b>TOTAL PORTFOLIO versus BENCHMARK</b>		<b>10.46%</b>	<b>8.21%</b>	<b>-2.3%</b>

### PERFORMANCE by ASSET CLASS vs. BENCHMARK

as of December 31, 2010

		Fourth Quarter 2010		
Asset Class	Benchmark Index	Benchmark	PST*	Difference
Fixed Income	Barclay US Agg	-1.30%	0.04%	1.3%
Large Cap Equity	S & P 500	10.76%	11.18%	0.4%
Small-Mid Cap Equity	Russell 2000	16.25%	4.11%	-12.1%
International Equity	MSCI EAFE Net TR	6.61%	11.23%	4.6%
<b>TOTAL PORTFOLIO versus BENCHMARK</b>		<b>6.24%</b>	<b>6.08%</b>	<b>-0.2%</b>

\*Time Weighted Return



**PIPELINE SAFETY TRUST**  
**PORTFOLIO HOLDINGS**  
**As of December 31, 2010**

**INCOME STOCKS, BONDS & BOND FUNDS**

California State Multi Purpose – general obligation bond of the state of California, coupon rate 5.95%

Keycorp – corporate bond of a major bank, coupon rate 6.5%

Prudential Financial – corporate bond of an insurance company, coupon rate 5.1%

SLM Corporation Preferred – preferred stock of the student loan marketing corporation, current yield 2.33%

Target Corporation – corporate bond of a discount retail company, coupon rate 5.375%

Vanguard GNMA Fund – fund holding US government-backed mortgage bonds, yield 3.35%

Vanguard Short Term Federal Bond Fund – fund holding short-term US government-backed bonds, yield 1.0%

Verizon Communications – corporate bond of a telecommunications company, coupon rate 5.55%

**LARGE CAP EQUITY**

Apple – innovative developer of computers and electronic devices

Corning – diversified industrial company focused on glass, including high-tech and solar products

Ebay – provider of online marketplace for selling goods & services and online payment services

\*EMC Corporation – develops information and virtual infrastructure technologies & online data storage

Hewlett Packard – leading computer hardware and software producer

Lowe's – home improvement and garden retailer in US and Canada

McKesson Corporation – pharmacy benefit manager and healthcare industry consultant

Plum Creek Timber – eco-sensitive manager of timberlands & producer of lumber products

Target – major discount retailer with reputation for charitable giving

Thermo Electron – developer of data measurement and chemical detection instruments

\*Waste Management – provider of waste services including collection, recycling, disposal & waste-to-energy services

**SMALL & MID CAP EQUITY**

Apartment Investment & Mgmt. – holder of residential rentals & affordable housing, dividend 1.60%

Commonwealth REIT (HRPT Properties) - holder of class A commercial properties nationwide, dividend 7.76%

Devry Incorporated – education firm offering degrees in technology, healthcare & management

Echelon Corporation – leading developer of environmental controls equipment

Energy Recovery – developer of desalinization system that reduces energy use by 60%

Fuel Systems Solutions – maker of alternative-fuel emissions control systems for cleaner air

Green Mountain Coffee – distributor of Fair Trade coffee and single-cup coffee maker cups

Sovran Storage – manager of storage unit business across 21 southeastern states, dividend 4.90%

Sunpower Corporation – maker of solar equipment for residential, commercial & industrial uses

Tetra Tech Incorporated – global engineering firm focused on water & waste management projects

United Natural Foods – leading US distributor of natural & organic grocery products

**PIPELINE SAFETY TRUST  
PORTFOLIO HOLDINGS  
As of December 31, 2010  
(continued)**

**INTERNATIONAL GLOBAL EQUITY**

Agrium – Canadian producer of agricultural nutrients and provider of agronomic services

America Movil – Mexican provider of wireless voice & data services throughout Latin America

Bank of Nova Scotia – Canadian retail and commercial bank

\*Canadian Nat'l Railway – provider of rail, intermodal, freight forwarding, warehousing, and distribution services

\*China Media Express – distributor of digital display advertising on inner-city buses & billboards

Companhia De Saneamento – major Brazilian, environmentally-oriented water utility

Honda Motors – Japanese automaker & leader in hybrid and alternative fuel engine systems

Philips Electronics – diversified Dutch electronics manufacturer; big in LED lighting

Sims Group Ltd – Australian company, among the largest recyclers of metals worldwide

Teva Pharmaceutical – Israeli developer & marketer of generic & branded pharmaceuticals worldwide

\* new holding 3<sup>rd</sup> or 4<sup>th</sup> Quarter 2010