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# API, Inc. Asbestos Settlement Trust

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## ANNUAL REPORT OF THE TRUSTEE, 2007

### API INC ASBESTOS SETTLEMENT TRUST

April 22, 2008

TO: Trust Advisor, API, Inc. Asbestos Settlement Trust  
Michael S. Polk  
SIEBEN POLK, PA  
1640 S. Frontage Road  
Suite 200  
Hastings, MN 55033

Legal Representative, API, Inc. Asbestos Settlement Trust  
Hon. Thomas H. Carey  
6475 White Pine Lane  
Gilbert, MN 55741  
c/o Thomas H. Carey  
16282 Kelleywoods Drive  
Fort Myers, FL 33908

API, Inc., Settlor, API, Inc. Asbestos Settlement Trust  
c/o Chief Executive Officer  
2366 Rose Place  
Roseville, MN 55113

This Report has been prepared by the Trustee of the API, Inc. Asbestos Settlement Trust (“Trust”), pursuant to Sections 2.2 (b), and (c), of the First Amended API, Inc. Asbestos Settlement Trust Agreement (“Trust Agreement”). Those sections require the Trustee to prepare and submit an Annual Report containing the Trust’s financial statements, auditor’s opinion, and summary of type and number of claims to the Trust during the prior year, all as more fully described in those sections of the Trust Agreement.

This Report is the Annual Report for 2007.

ANNUAL REPORT OF THE TRUSTEE

April 22, 2008

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The Trust has retained the accounting firm of Messerli & Schadow, PLLP of Minneapolis, Minnesota, as the Trust's auditors, to prepare the financial statements, and to issue a fairness opinion as to those financial statements for 2007. Pursuant to that engagement, Messerli & Schadow, PLLP has completed both the financial statements, and has issued its Opinion Letter regarding those statements.

The financial statements are attached as Exhibit A.

The Opinion Letter is attached as Exhibit B.

The Trust has received Claims during 2007, and has made payments on Claims during 2007. Claims received, and payments made by the Trust in 2007 are: 1) Initial Payment made to Qualified Current Direct Claimants holding Estimated Asbestos Claims ("Estimated Asbestos Claims"), pursuant to §3.5, and §5.1 of the Third Amended Plan of Reorganization of API, Inc. (November 21, 2005) As Modified At Confirmation ("Plan"), and pursuant to the Asbestos Claims Estimation Agreement, March 2, 2005 ("Estimation Agreement"); and 2) new Claims received during 2007.

The Effective Date of the Trust, as defined in the Plan, was February 5, 2007.

Initial Payments on Estimated Asbestos Claims are pursuant to the Allowed Liquidated Minnesota Values for the Disease Categories as described in the API Trust Distribution Procedures November 21, 2005 ("TDP's"). The Disease Categories for Estimated Asbestos Claims are described in the Estimation Agreement, Exhibit A. The Estimated Asbestos Claims include a claim by Excel Energy for reimbursement of various asbestos-related expenses asserted against API, Inc., as required by the Estimation Agreement, Exhibit A. Initial Payments to holders of Estimated Asbestos Claims were made through a procedure whereby the Trust made payment in the aggregate amount of \$7,750,000 to the lawyers' trust account of the law firm representing the holders of the Estimated Asbestos Claims, Sieben Polk LaVerdiere & Dusich, PA. The Sieben Polk firm then disbursed individual payments to holders of Estimated Asbestos Claims in the amounts as described in the Estimation Agreement, Exhibit A. Upon disbursement of the individual payments, the Trustee required each holder of an Estimated asbestos Claim to provide to the Trust a completed Release in the form required by the Trustee. Receipt of such completed Releases allowed the Trust to confirm the individual payments made to each holder of an Estimated Asbestos Claim.

ANNUAL REPORT OF THE TRUSTEE

April 22, 2008

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The summary of Initial Payments made on Estimated Asbestos Claims is attached as Exhibit C.<sup>1</sup>

The summary of 2007 new Claims received and payments made is attached as Exhibit D.

This Report is submitted solely for the purposes required in the Trust Agreement, and is not intended, nor should it be construed, as legal advice from the Trustee, or the Trust, to claimants, claimants' counsel, or others.

API, INC. ASBESTOS SETTLEMENT TRUST



Robert D. Brownson  
TRUSTEE

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<sup>1</sup> The holder of one Estimated Asbestos Claim refused to accept the Initial Payment tendered by the Trust in the amount of \$4,377.29; accordingly, that amount was refunded to the Trust.

# EXHIBIT A

**API, Inc. Asbestos Settlement Trust**

**Financial Statements**

**December 31, 2007**

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**MESSERLI**  
**&**  
**SCHADOW** <sup>PLLP</sup>

*Certified Public Accountants*

Larry E. Messerli, CPA  
Chris M. Schadow, CPA

Andrea R. Kulig, CPA  
Cora E. Leland, CPA  
Paul A. Klamert, CPA, MBA



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## INDEPENDENT AUDITOR'S REPORT

To the Trustee  
API, Inc. Asbestos Settlement Trust  
Minneapolis, Minnesota

We have audited the accompanying special-purpose statement of net claimants' equity of API, Inc. Asbestos Settlement Trust as of December 31, 2007 and the related statements of changes in net claimants' equity and cash flows for the period February 5, 2007 (inception date) through December 31, 2007. These special-purpose financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these special-purpose financial statements based on our audit.

An audit requires that we plan and perform the audit to obtain reasonable assurance about whether the special-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the special-purpose 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.

As described in Note 2, these special-purpose financial statements were prepared on a special-purpose basis of accounting and are not intended to be a presentation in conformity with accounting principles generally accepted in the United States of America. The special-purpose basis of accounting has been used in order to present the amount of equity available to current and future claimants.

In our opinion, the financial statements referred to above present fairly, in all material respects, net claimants' equity of the Trust as of December 31, 2007 and the related statements of changes in net claimants' equity and cash flows for the period February 5, 2007 through December 31, 2007, in conformity with the special-purpose method of accounting described in Note 2.

*Messerli & Schadow, PLLP*

MESSERLI & SCHADOW, PLLP  
Certified Public Accountants

March 31, 2008

API, INC. ASBESTOS SETTLEMENT TRUST  
STATEMENT OF NET CLAIMANTS' EQUITY  
DECEMBER 31, 2007

ASSETS:

Current Assets:

Cash and cash equivalents	\$ 172,889
Note receivable (Note 4)	1,300,000
Insurance settlements receivable, net of legal fees of \$10,747,173	53,112,972
Investments available-for-sale	4,698,445
Prepaid expenses	246
Total current assets	<u>\$ 59,284,552</u>

Other Assets:

Note receivable (Note 4)	<u>\$ 23,725,000</u>
Total other assets	<u>\$ 23,725,000</u>

Total Assets	<u>\$ 83,009,552</u>
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LIABILITIES:

Current Liabilities:

Accounts payable	\$ 60,490
Claims processing fees payable	8,400
Total current liabilities	<u>\$ 68,890</u>

NET CLAIMANTS' EQUITY	<u><u>\$ 82,940,662</u></u>
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See Notes to Financial Statements.

API, INC. ASBESTOS SETTLEMENT TRUST  
STATEMENT OF CHANGES IN NET CLAIMANTS' EQUITY  
FOR THE PERIOD FROM INCEPTION (FEBRUARY 5, 2007)  
THROUGH DECEMBER 31, 2007

Revenues:

Interest on cash and cash equivalents	\$ 2,433
Dividends from mutual funds	213,091
Total revenue	<u>\$ 215,524</u>

Operating Expenses:

Accounting fees	\$ 4,251
Bank charges	444
Insurance	2,316
Legal fees	2,541,239
Trustee, legal representative and trust advisor fees	532,561
Website development costs	4,003
Total operating expenses	<u>\$ 3,084,814</u>

Change in net claimants' equity \$ (2,869,290)

Net claimants' equity, beginning of period -

Contributions to net claimants' equity (See note 6) 94,112,972

Distributions from net claimants' equity (See note 6) 8,303,020

Net claimants' equity, end of period \$ 82,940,662



API, INC. ASBESTOS SETTLEMENT TRUST  
STATEMENT OF CASH FLOWS  
FOR THE PERIOD FROM INCEPTION (FEBRUARY 5, 2007)  
THROUGH DECEMBER 31, 2007

CASH INFLOWS:

Investment income	\$ 215,524
Proceeds from note receivable	975,000
Proceeds pursuant to Confirmation Order	15,000,000
Proceeds from sale of investments available-for-sale	11,014,845
Receipt of claim processing payments	9,400
	<u>\$ 27,214,769</u>

CASH OUTFLOWS:

Distributions to claimants	\$ 7,958,459
Disbursements for trust operating expenses	3,024,570
Purchases of investments available-for-sale	15,713,290
Legal fees related to insurance settlements	344,561
Refund of claim processing payments	1,000
	<u>\$ 27,041,880</u>

NET INCREASE IN CASH AND CASH EQUIVALENTS	\$ 172,889
CASH AND CASH EQUIVALENTS, beginning of period	<u>-</u>
CASH AND CASH EQUIVALENTS, end of period	<u>\$ 172,889</u>

See Notes to Financial Statements.

API, INC. ASBESTOS SETTLEMENT TRUST  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2007

NOTE 1 DESCRIPTION OF THE TRUST

The API, Inc. Asbestos Settlement Trust (the Trust), organized pursuant to the laws of the State of Minnesota, was established according to the Third Amended Plan of Reorganization of API, Inc. as modified (the Plan). The Trust was formed to assume all asbestos claims against API, Inc., whether now existing or arising at any time hereafter, and to use the Trust's assets and income to pay holders of allowed asbestos claims in accordance with the Plan and Trust Agreement. The Trust's funding is dedicated solely to the settlement of asbestos health claims and the related costs, as defined in the Plan. The Trust was consummated on February 5, 2007.

The Trust was initially funded with cash, a promissory note from API, Inc., rights to proceeds from asbestos insurance policies and insurance settlement rights as detailed in Note 6.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Trust's financial statements are prepared using special-purpose accounting methods that differ from accounting principles generally accepted in the United States of America. The special-purpose accounting methods were adopted in order to present the amount of equity available for payment of current and future claims. These special-purpose accounting methods are as follows:

- (1) The financial statements are prepared using the accrual basis of accounting.
- (2) The funding received from API, Inc, API Group, Inc. and the insurance companies are added directly to net claimants' equity and the distributions to claimants are deducted directly from net claimants' equity. These funds do not represent income or expenses of the Trust.
- (3) Non-interest bearing notes have not been discounted to present value.
- (4) Available-for-sale securities are recorded at market value. All dividend income on available-for-sale securities is included in dividends from mutual funds on the statement of changes in net claimants' equity. Realized and unrealized gains and losses on available-for-sale securities are reflected on the statement of changes in net claimants' equity.

API, INC. ASBESTOS SETTLEMENT TRUST  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2007

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Realized gains and losses on available-for-sale securities are recorded based on the security's original cost. At the time a security is sold, all previously recorded net unrealized gains or losses are reversed and recorded as a component of unrealized gains/losses in the accompanying statement of changes in net claimants' equity.

- (5) Costs of non-income producing assets, which will be exhausted during the life of the Trust and are not available for satisfying claims, are expensed as they are incurred. These items include costs of computer hardware, software and insurance premiums.
- (6) The Trust does not record a deferred tax asset for net operating loss carryforwards or a deferred tax asset or liability arising from unrealized gains or losses on available-for-sale securities. For the period ended December 31, 2007, the net operating loss carryforward available for use in future years was \$2,869,290.

Cash and Cash Equivalents

The Trust considers unrestricted currency, demand deposits, money market accounts, and certificates of deposit with an initial maturity of three months or less to be cash and cash equivalents.

Fixed Assets

The cost of non-income producing assets that will be exhausted during the life of the Trust and are not available for satisfying claims are expensed as incurred. Since inception through December 31, 2007, the cost of fixed assets expensed includes website development costs of \$4,003.

Estimates

The preparation of financial statements in conformity with the special-purpose accounting methods described above requires Trust management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of additions and deductions to net claimants' equity during the reporting period. Accordingly, actual results may differ from those estimates.

API, INC. ASBESTOS SETTLEMENT TRUST  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2007

NOTE 3 INVESTMENTS AVAILABLE-FOR-SALE

Investment securities are recorded at market value as measured by quoted prices in an active market. Unrealized gains and losses were \$0 for the period ended December 31, 2007. As of December 31, 2007, the investments available-for-sale consisted of the following:

	<u>Cost</u>	<u>Market Value</u>
Mutual fund – UBS Select		
Prime Institutional fund	<u>\$ 4,698,445</u>	<u>\$ 4,698,445</u>

NOTE 4 NOTE RECEIVABLE

Note receivable as of December 31, 2007 consisted of a promissory note from API, Inc. The original face value of the note was \$26,000,000. The note calls for eighty quarterly payments of \$325,000 and is due in full in March 2027. The note bears no interest. The note is secured by 51 percent of the common shares of API, Inc. and certain other assets of API, Inc. As of December 31, 2007, the note was receivable as follows:

Receivable within one year	\$ 1,300,000
Receivable in future years	<u>23,725,000</u>
	<u>\$ 25,025,000</u>

NOTE 5 INSURANCE SETTLEMENTS RECEIVABLE

In January 2008, settlement agreements were approved by the courts with seven insurance companies. The initial cash settlement amounts were \$60,500,000 including interest, net of legal fees related to the settlements. The total receivable at December 31, 2007 was \$53,112,972 and is to be received within one year

Pursuant to the settlement agreement with one of the insurance companies, the immediate cash settlement of seven million dollars is to be paid to the Trust by February 10, 2008 and is nonrefundable. The remainder of the aggregate settlement amount is payable to the Trust upon certain criteria being met. Upon such time that the insurance company reimbursement obligation for all qualified asbestos claims related to the insurance carrier exceeds the original cash settlement amount of seven million dollars, the insurance carrier is obligated to make additional settlement payments to the Trust, up to a maximum of eleven million dollars. The amount of the potential additional settlement funds is undeterminable at this time and has not been reflected in the financial statements.

