

API, Inc. Asbestos Settlement Trust

ANNUAL REPORT OF THE TRUSTEE, 2017

API, INC. ASBESTOS SETTLEMENT TRUST

June 22, 2018

TO: Trust Advisor, API, Inc. Asbestos Settlement Trust
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Eagan, Minnesota 55121-1170

Legal Representative, API, Inc. Asbestos Settlement Trust
Hon. Thomas H. Carey
6475 White Pine Lane
Gilbert, MN 55741

Settlor, API, Inc. Asbestos Settlement Trust
API, INC, c/o API GROUP, INC.
c/o Chief Executive Officer
1100 Old Highway 8 NW
New Brighton, MN 55112

This Annual Report has been prepared by the undersigned as Trustee of the API, Inc. Asbestos Settlement Trust (the "Trust"), pursuant to Sections 2.2 (b), and (c) of the First Amended API, Inc. Asbestos Settlement Trust [Trust] Agreement ("Trust Agreement"). Those sections of the Trust Agreement 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 Trustee's Annual Report for 2017.

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 2017. Pursuant to that engagement, Messerli & Schadow, PLLP has completed both the Financial Statements, and has issued its

Independent Auditor's Report regarding those Statements.

The 2017 Financial Statements are attached as Exhibit A.

The Trust has made payments on Claims during 2017. Payments on Claims made by the Trust in 2017 are:

1) Current Direct Asbestos Claims paid during 2017 as submitted and approved pursuant to Section V4.1 of the Trust's Trust Distribution Procedures (TDPs); together with second injury Current Direct Asbestos Claims paid during 2017 as submitted and approved pursuant to Section V5.1(c) of the Trust's TDPs.

The summary of payments made to new Current Direct Asbestos Claims in 2017 is attached as Exhibit B.

The summary of payments made to second injury Current Direct Asbestos Claims in 2017 is attached as Exhibit C.

This Annual 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.

This Annual Report has this day been filed with the Office of the United States Trustee for the District of Minnesota, as described by Section 2(d) of the Trust Agreement, and by Paragraph 43 of the Order Confirming Third Amended Plan of Reorganization of A.P.I., Inc. (November 21, 2005) As Modified at Confirmation, dated December 6, 2005, Case No. BKY 05-30073-GFK.

API, INC. ASBESTOS SETTLEMENT TRUST



Robert D. Brownson
TRUSTEE
Minneapolis, Minnesota
June 21, 2018

API, INC. ASBESTOS SETTLEMENT TRUST

FINANCIAL STATEMENTS

DECEMBER 31, 2017 and 2016

MESSERLI
&
SCHADOW^{PLLP}

Certified Public Accountants

API, INC. ASBESTOS SETTLEMENT TRUST

FINANCIAL STATEMENTS

DECEMBER 31, 2017 and 2016

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API, INC. ASBESTOS SETTLEMENT TRUST
STATEMENTS OF NET CLAIMANTS' EQUITY
DECEMBER 31, 2017 AND 2016

| | <u>2017</u> | <u>2016</u> |
|---|----------------------|----------------------|
| ASSETS: | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 713,411 | \$ 2,323,472 |
| Money market funds | - | 99,985 |
| Note receivable, current portion | 1,300,000 | 1,300,000 |
| Investments | 7,059,058 | 6,343,634 |
| Total current assets | <u>\$ 9,072,469</u> | <u>\$ 10,067,091</u> |
| Other Assets: | | |
| Note receivable, net of current portion | <u>\$ 10,725,000</u> | <u>\$ 12,025,000</u> |
| Total other assets | <u>\$ 10,725,000</u> | <u>\$ 12,025,000</u> |
| Total Assets | <u>\$ 19,797,469</u> | <u>\$ 22,092,091</u> |
| LIABILITIES: | | |
| Current Liabilities: | | |
| Accounts payable | \$ 36,106 | \$ 39,368 |
| Claims processing fees payable | 32,500 | 24,000 |
| Total current liabilities | <u>\$ 68,606</u> | <u>\$ 63,368</u> |
| NET CLAIMANTS' EQUITY | <u>\$ 19,728,863</u> | <u>\$ 22,028,723</u> |

See Independent Auditor's Report and
Notes to Financial Statements.

API, INC. ASBESTOS SETTLEMENT TRUST
STATEMENTS OF CHANGES IN NET CLAIMANTS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

| | <u>2017</u> | <u>2016</u> |
|--|----------------------|----------------------|
| Additions: | | |
| Interest income | \$ 140,658 | \$ 145,730 |
| Dividend income | 62,630 | 71,103 |
| Gain/(loss) on investments | 279,876 | (23,455) |
| Claim processing fees and miscellaneous income | 2,175 | 700 |
| Total additions | <u>\$ 485,339</u> | <u>\$ 194,078</u> |
| Deductions: | | |
| Accounting fees | \$ 42,186 | \$ 39,958 |
| Bank charges | 250 | 286 |
| Foreign tax paid | 142 | 191 |
| Insurance | 7,406 | 7,406 |
| Investment management fees | 37,375 | 47,779 |
| Legal fees | - | 1,369 |
| Office expenses | 2,601 | 2,341 |
| Professional services | 4,800 | 6,000 |
| Trustee, legal representative and trust advisor fees | 177,781 | 258,587 |
| Total deductions | <u>\$ 272,541</u> | <u>\$ 363,917</u> |
| Change in net claimants' equity | \$ 212,798 | \$ (169,839) |
| Net claimants' equity, beginning of period | 22,028,723 | 23,724,219 |
| Contributions to net claimants' equity | - | 2,150,000 |
| Distributions from net claimants' equity | <u>(2,512,658)</u> | <u>(3,675,657)</u> |
| Net claimants' equity, end of period | <u>\$ 19,728,863</u> | <u>\$ 22,028,723</u> |

See Independent Auditor's Report and
Notes to Financial Statements.

API, INC. ASBESTOS SETTLEMENT TRUST
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

| | <u>2017</u> | <u>2016</u> |
|---|---------------------|---------------------|
| CASH INFLOWS: | | |
| Investment income | \$ 272,826 | \$ 282,463 |
| Proceeds from note receivable | 1,300,000 | 1,300,000 |
| Proceeds from sale of investments | 2,810,191 | 4,596,098 |
| Proceeds from insurance settlement | - | 2,150,000 |
| Receipt of claim search fees and miscellaneous income | 2,175 | 700 |
| Receipt of claim processing payments | 25,000 | 17,500 |
| | <u>\$ 4,410,192</u> | <u>\$ 8,346,761</u> |
| CASH OUTFLOWS: | | |
| Distributions to claimants | \$ 2,461,490 | \$ 3,834,981 |
| Disbursements for trust operating expenses | 266,994 | 355,569 |
| Litigation expenses related to claimants' equity | 59,978 | 131,446 |
| Purchases of investments | 3,215,291 | 2,114,773 |
| Refund of claim processing payments | 16,500 | 22,700 |
| | <u>\$ 6,020,253</u> | <u>\$ 6,459,469</u> |
| NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | \$ (1,610,061) | \$ 1,887,292 |
| CASH AND CASH EQUIVALENTS, beginning of period | <u>2,323,472</u> | <u>436,180</u> |
| CASH AND CASH EQUIVALENTS, end of period | <u>\$ 713,411</u> | <u>\$ 2,323,472</u> |

See Independent Auditor's Report and
Notes to Financial Statements.

API, INC. ASBESTOS SETTLEMENT TRUST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

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.

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 and operating expenses of the Trust. Since the accompanying special-purpose financial statements are not based on accounting principles generally accepted in the United States of America, accounting treatment by other parties for these same transactions may differ as to timing and amounts. 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. The distributions to claimants and litigation expenses incurred in relation to additions to net claimants' equity 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) 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 and software.

API, INC. ASBESTOS SETTLEMENT TRUST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Presentation (continued)

- (5) Investments are recorded at fair value. All interest and dividend income is included in interest and dividend income on the statements of changes in net claimants' equity. Realized and unrealized gains and losses are reflected on the statements of changes in net claimants' equity.
- (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 securities. For the years ended December 31, 2017 and 2016, the net operating loss carryforward available for use in future years was \$4,518,095 and \$4,465,223, respectively. The net operating loss carryforwards begin to expire in the year ending December 31, 2027.
- (7) Payments for services to be received over an extended period in the future are recorded as expenses when incurred as these amounts are no longer available for the payment of claims.

Cash and Cash Equivalents

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

Fair Value of Investments

The Trust measures its investments at fair value. Fair value is defined as the price at which an asset could be exchanged in a current transaction between knowledgeable and willing parties.

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 of the Trust through December 31, 2017, the cost of fixed assets expensed includes website development costs of \$4,003.

Claims Payable

Claims payable on the statements of net claimants' equity reflect claims approved but unpaid as of December 31 of each year.

Date of Trustee Review

In preparing these financial statements, the Trust has evaluated events and transactions for potential recognition or disclosure through June 8, 2018, the date the special-purpose financial statements were available to be issued.

API, INC. ASBESTOS SETTLEMENT TRUST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 periods. Accordingly, actual results may differ from those estimates.

NOTE 3. NOTE RECEIVABLE

Note receivable as of December 31, 2017 and 2016 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, 2017 and 2016, the note was receivable as follows:

| | <u>2017</u> | <u>2016</u> |
|----------------------------|----------------------|----------------------|
| Receivable within one year | \$ 1,300,000 | \$ 1,300,000 |
| Receivable in future years | <u>10,725,000</u> | <u>12,025,000</u> |
| | <u>\$ 12,025,000</u> | <u>\$ 13,325,000</u> |

NOTE 4. FAIR VALUE MEASUREMENTS

Investments recorded at fair value are categorized using the defined hierarchical levels directly related to the amount of subjectivity associated with the inputs to value an asset. Level 1 inputs consist of quoted prices in active markets for identical assets and have the highest priority. Level 2 inputs consist of quoted prices for similar instruments in active markets or quoted prices for identical or similar investments in markets that are not active markets. Level 2 inputs also consist of valuation techniques for which significant assumptions are observable in the market or can be corroborated by observable market data. Level 3 inputs consist of unobservable inputs that can not be corroborated by observable market data and typically reflect Trust management's estimate of fair value.

The Trust uses appropriate valuation techniques based on the available inputs to measure the fair value of investments. When available, the Trust measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are used only when Level 1 or Level 2 inputs were not available. The Trust did not have any Level 3 investments for the years ended December 31, 2017 and 2016. Fair values of assets measured on a recurring basis at December 31, 2017 and 2016 are as follows:

API, INC. ASBESTOS SETTLEMENT TRUST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 4. FAIR VALUE MEASUREMENTS (continued)

| | <u>Fair Value</u> | <u>Fair Value at December 31, 2017</u> <u>Using Inputs Considered as:</u> | |
|---|---------------------|--|---------------------|
| | | <u>Level 1</u> | <u>Level 2</u> |
| U.S. Government Bonds and Notes | \$ 291,090 | | \$ 291,090 |
| Mutual Funds – Fixed Income | 593,137 | \$ 593,137 | |
| Closed End & Exchange Traded Funds: Fixed Income | 565,356 | 565,356 | |
| Municipal Bonds: | | | |
| S&P Rated AAA | 842,980 | | 842,980 |
| S&P Rated AA | 2,227,690 | | 2,227,690 |
| S&P Rated A | 1,592,058 | | 1,592,058 |
| S&P Rated BBB | 133,563 | | 133,563 |
| Total Municipal Bonds | <u>4,796,291</u> | <u>--</u> | <u>4,796,291</u> |
| Common Stock: | | | |
| Consumer discretionary | 142,089 | 142,089 | |
| Consumer staples | 61,051 | 61,051 | |
| Energy | 49,947 | 49,947 | |
| Finance | 94,438 | 94,438 | |
| Health care | 90,455 | 90,455 | |
| Industrials/Materials | 103,200 | 103,200 | |
| Information technology | 235,417 | 235,417 | |
| Real estate | 19,260 | 19,260 | |
| Telecommunications | 11,548 | 11,548 | |
| Utilities | 5,779 | 5,779 | |
| Total Common Stock | <u>813,184</u> | <u>813,184</u> | <u>--</u> |
| Total Investments | <u>\$ 7,059,058</u> | <u>\$ 1,971,677</u> | <u>\$ 5,087,381</u> |

| | <u>Fair Value</u> | <u>Fair Value at December 31, 2016</u> <u>Using Inputs Considered as:</u> | |
|---------------------------------|-------------------|--|------------------|
| | | <u>Level 1</u> | <u>Level 2</u> |
| U.S. Government Bonds and Notes | \$ 202,129 | | \$ 202,129 |
| Mutual Funds – Fixed Income | 1,178,350 | \$ 1,178,350 | |
| Municipal Bonds: | | | |
| S&P Rated AAA | 1,235,812 | | 1,235,812 |
| S&P Rated AA | 1,824,621 | | 1,824,621 |
| S&P Rated A | 944,379 | | 944,379 |
| S&P Rated BBB | 320,706 | | 320,706 |
| Total Municipal Bonds | <u>4,325,518</u> | <u>--</u> | <u>4,325,518</u> |

API, INC. ASBESTOS SETTLEMENT TRUST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 4. FAIR VALUE MEASUREMENTS (continued)

| | <u>Fair Value</u> | <u>Fair Value at December 31, 2016</u> <u>Using Inputs Considered as:</u> | |
|------------------------|---------------------|--|---------------------|
| | | <u>Level 1</u> | <u>Level 2</u> |
| Common Stock: | | | |
| Consumer discretionary | 112,662 | 112,662 | |
| Consumer staples | 74,881 | 74,881 | |
| Energy | 18,789 | 18,789 | |
| Finance | 77,100 | 77,100 | |
| Health care | 76,577 | 76,577 | |
| Industrials/Materials | 96,155 | 96,155 | |
| Information technology | 140,599 | 140,599 | |
| Real estate | 11,542 | 11,542 | |
| Telecommunications | 21,209 | 21,209 | |
| Utilities | 8,123 | 8,123 | |
| Total Common Stock | <u>637,637</u> | <u>637,637</u> | <u>--</u> |
| Total Investments | \$ 6,343,634 | \$ 1,815,987 | \$ 4,527,647 |
| Money Market Funds | 99,985 | 99,985 | -- |
| Total | <u>\$ 6,443,619</u> | <u>\$ 1,915,972</u> | <u>\$ 4,527,647</u> |

Transfers between Level 1 and Level 2, if any, are recognized at the end of the reporting period. For the years ended December 31, 2017 and 2016, the Trust did not have significant transfers of investments between Level 1 and Level 2.

Level 2 Fair Value Measurements:

The Trust uses a market approach to value the Level 2 investments. The value of municipal bonds and United States Government bonds and notes are based on institutional bond quotes and various market and industry inputs. Municipal bonds are presented by S&P bond rating.

NOTE 5. INVESTMENT INCOME

Investment income consists of:

| | <u>2017</u> | <u>2016</u> |
|---------------------------------------|-------------------|--------------------|
| Realized gain (loss) on investments | \$ 151,766 | \$ 74,548 |
| Unrealized gain (loss) on investments | 128,110 | (98,003) |
| Gain (loss) on investments | <u>\$ 279,876</u> | <u>\$ (23,455)</u> |
| Total interest income | \$ 210,196 | \$ 211,360 |
| Less: bond premium amortization | (69,538) | (65,630) |
| Interest income | <u>\$ 140,658</u> | <u>\$ 145,730</u> |
| Dividend income | <u>\$ 62,630</u> | <u>\$ 71,103</u> |
| Total investment income | <u>\$ 483,164</u> | <u>\$ 193,378</u> |

API, INC. ASBESTOS SETTLEMENT TRUST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 6. NET CLAIMANTS' EQUITY

The contributions to claimants' equity were comprised of the following at December 31, 2017 and 2016:

| | <u>2017</u> | <u>2016</u> |
|----------------------------|---------------|---------------------|
| Insurance case settlements | <u>\$ -0-</u> | <u>\$ 2,150,000</u> |

The distributions from claimants' equity were comprised of the following at December 31, 2017 and 2016:

| | <u>2017</u> | <u>2016</u> |
|---|---------------------|---------------------|
| Distributions to claimants | <u>\$ 2,461,490</u> | <u>\$ 3,548,478</u> |
| Legal fees related to claimants' equity | <u>51,168</u> | <u>127,179</u> |
| | <u>\$ 2,512,658</u> | <u>\$ 3,675,657</u> |

The distributions to claimants represents a payment sum percentage of 35 percent of the allowed liquidated value per claimant as of December 31, 2017 and 2016, per the Trust Distribution Procedures. The Trust Distribution Procedures allow this percentage to be evaluated at least once per year by the Trustee, the Legal Representative and the Trust Advisor (Advisory Committee). Distributions prior to October 1, 2010 also included enhanced payments for exigent health, extraordinary or extreme hardship claims, if applicable, as determined by the Trustee. As of October 1, 2010, claims could be filed and approved as exigent health, extraordinary or extreme hardship claims, but the enhanced payment are deferred until the Trust is financially capable of making enhanced payments.

NOTE 7. INCOME TAXES

For federal income tax purposes, API, Inc. has elected for the qualified assets of the Trust to be taxed as a Designated Settlement Fund (DSF). Income and expenses associated with the DSF are taxed in accordance with Section 468B of the Internal Revenue Code. The federal statutory income tax rate for the DSF is 39.6%.

The Advisory Committee believes the Trust is operating in a manner so as to continue to qualify as a Designated Settlement Fund. The Trust recognizes potential interest and penalties pertaining to income tax related issues, if any, as income tax expense. During the years ended December 31, 2017 and 2016, no such interest or penalties were recognized.

The Trust Advisory Committee evaluates all tax positions and makes a determination regarding their likelihood of being upheld under review. For the years ended December 31, 2017 and 2016, the Trust did not have uncertain tax positions for which they recorded a tax liability.

API, INC. ASBESTOS SETTLEMENT TRUST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 8. RELATED PARTY TRANSACTIONS

During the years ended December 31, 2017 and 2016, the Trust incurred fees of \$4,800 and \$6,000, respectively, for professional services provided by a member of the Trustee's family. These amounts are included in professional services for the years ended December 31, 2017 and 2016 on the statements of changes in net claimants' equity. Of these amounts, \$2,400 and \$1,200 are included in accounts payable on the statements of net claimants' equity as of December 31, 2017 and 2016, respectively.

During the years ended December 31, 2017 and 2016, the Trust incurred fees of \$177,781 and \$258,587, respectively, from members of the advisory committee in their roles as Trustee, Legal Representative and Trust Advisor. Of these amounts, \$21,360 and \$17,299 are included in accounts payable on the statements of net claimants' equity as of December 31, 2017 and 2016, respectively. The Trust Advisor is a principal member of the law firm representing numerous claimants.

NOTE 9. INSURANCE SETTLEMENTS

In January 2008, settlement agreements were approved by the courts with seven insurance companies. The insurance settlements were received during the year ended December 31, 2008.

Pursuant to the settlement agreement with one of the insurance companies, the immediate cash settlement of seven million dollars was paid to the Trust in 2008 and was 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 an additional eleven million dollars. As of December 31, 2017, the reimbursement obligation for the insurance carrier was approximately \$4,300,000, which is below the original cash settlement amount. The amount of the potential additional settlement funds is undeterminable at this time and has not been reflected in the financial statements.

NOTE 10. INSURANCE CASE SETTLEMENTS

In prior years, various claims had been presented to the Liquidator for Home Insurance Company. During the year ended December 31, 2012, the Trust reached a settlement agreement with the Liquidator for Home Insurance Company. The Trust's claim had been accepted as a Class II claim in the liquidated amount of \$21,500,000. During the years ended December 31, 2017 and 2016, the Trust

API, INC. ASBESTOS SETTLEMENT TRUST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 10. INSURANCE CASE SETTLEMENTS (continued)

received \$0 and \$2,150,000 on their settlement claim, respectively. As of December 31, 2017, the Trust has received \$5,375,000 of their approved claim (25 percent of the settlement amount). As Home Insurance Company is in liquidation, it is anticipated that the Trust will not receive the entire settlement amount. The amount of the potential additional receipts under the settlement is undeterminable at this time and has not been reflected in the financial statements.

NOTE 11. CONCENTRATIONS AND CREDIT RISK

The Trust maintains cash balances at various financial institutions. At times during the years ended December 31, 2017 and 2016, the Trust had significant concentrations of credit risk as a result of maintaining its bank accounts with aggregate balances in excess of the federal insurance coverage of \$250,000.

The Trust has a note receivable from API, Inc. This note is secured by 51 percent of the common stock of API, Inc. and certain other assets of API, Inc. The amount of loss the Trust would occur if API, Inc. should default is not determinable.

The Trust invests in professionally managed portfolios. Such investments are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the Trust's investment account balances and the amounts reported in the special-purpose statements of net claimants' equity and statements of changes in net claimants' equity.

NOTE 12. CONTINGENCY

The Trust is a respondent in a lawsuit where the appellant is seeking recovery of a portion of the settlement proceeds received by the Trust. The case was heard before the Minnesota Supreme Court in January 2018. A decision was made on May 31, 2018 by the Supreme Court remanding the case back to the Ramsey County District Court. It is reasonably possible that the outcome could result in a requirement that the Trust pay a portion of the recovery sought by the appellant. The amount is undeterminable at this time.

Claims Paid in 2017

| <u>Nc#</u> | <u>Claimant</u> | <u>Decedent</u> | <u>State</u> | <u>Disease</u> | <u>Payment 1</u> | <u>Date Paid</u> | <u>Payment 2</u> | <u>Date Paid</u> |
|------------|------------------------------|------------------------|--------------|----------------------------|------------------|------------------|------------------|------------------|
| 615 | Walters, Gordon | | MN | II - Lung Cancer | \$47,967.50 | 10/17/2017 | | |
| 616 | Lauppe, Lorie (Trustee) | Baum, Delores P. | MN | I - Malignant Mesothelioma | \$110,687.50 | 3/21/2017 | | |
| 624 | Carlson, Craig (Adm) | Carlson, Arlene C. | MN | I - Malignant Mesothelioma | \$110,687.50 | 1/18/2017 | | |
| 630 | Ash, Donald | | MN | I - Malignant Mesothelioma | \$110,687.50 | 12/6/2017 | | |
| 643 | Conda, Jenella (Trustee) | Conda, Ronald E. | MN | I - Malignant Mesothelioma | \$110,687.50 | 5/24/2017 | | |
| 649 | Thompson, Kathy (Adm) | Thompson, Robert James | MN | I - Malignant Mesothelioma | \$110,687.50 | 5/16/2017 | | |
| 650 | Herlofsky, Gerald A. | | MN | I - Malignant Mesothelioma | \$110,687.50 | 5/16/2017 | | |
| 651 | Wappel, Andrew S. | | MN | I - Malignant Mesothelioma | \$110,687.50 | 3/21/2017 | | |
| 653 | Haack, Judith C. | | MN | I - Malignant Mesothelioma | \$110,687.50 | 6/2/2017 | | |
| 654 | Turnberg, Dean M. | | MN | I - Malignant Mesothelioma | \$110,687.50 | 3/21/2017 | | |
| 656 | Taubman, Ronald C. | | MN | IV - Asbestosis | \$20,020.00 | 5/16/2017 | | |
| 657 | Diercks, Linda J. (Adm) | Diercks, Roger E. | MN | I - Malignant Mesothelioma | \$110,687.50 | 5/16/2017 | | |
| 659 | Wade, Vicki (Trustee) | Wade, William J. | MN | I - Malignant Mesothelioma | \$110,687.50 | 5/16/2017 | | |
| 660 | Graves, Bruce | | MN | IV - Asbestosis | \$20,020.00 | 5/16/2017 | | |
| 661 | Krzoska, Leland | | MN | IV - Asbestosis | \$20,020.00 | 5/16/2017 | | |
| 662 | Earney, Coralie (Adm) | Earney, Gregg A. | MN | I - Malignant Mesothelioma | \$110,687.50 | 5/24/2017 | | |
| 663 | Lindbloom, Carol (Adm) | Lindbloom, Wayne | MN | I - Malignant Mesothelioma | \$110,687.50 | 5/24/2017 | | |
| 664 | Nielsen, Donna (Adm) | Nielsen, Gary C. | MN | I - Malignant Mesothelioma | \$110,687.50 | 5/25/2017 | | |
| 665 | Widdifield, Charlotte (Adm) | Widdifield, Allen K. | MN | I - Malignant Mesothelioma | \$110,687.50 | 5/24/2017 | | |
| 666 | Swenson, Rick (Adm) | Swenson, Loretta D. | MN | I - Malignant Mesothelioma | \$110,687.50 | 5/24/2017 | | |
| 667 | Norberg, Olaf A. | | MN | IV - Asbestosis | \$20,020.00 | 5/19/2017 | | |
| 668 | Kantor, Lee (Adm) | Kantor, Elizabeth L. | MN | I - Malignant Mesothelioma | \$110,687.50 | 6/2/2017 | | |
| 669 | Dyer, Charles L. | | MN | I - Malignant Mesothelioma | \$110,687.50 | 6/14/2017 | | |
| 671 | Sabourin, Gary F. | | MN | V - Pleural | \$10,552.50 | 10/17/2017 | | |
| 672 | Bergseth, John O. | | MN | IV - Asbestosis | \$20,020.00 | 10/17/2017 | | |
| 673 | Bistodeau, Gary | | MN | V - Pleural | \$10,552.50 | 10/17/2017 | | |
| 683 | Pfeffer, Gerald P. | | MN | V - Pleural | \$10,552.50 | 10/17/2017 | | |
| 684 | Graham, William F. | | MN | II - Lung Cancer | \$47,967.50 | 12/6/2017 | | |
| 685 | Kerner, Richard J. (Trustee) | Kerner, Dennis H. | MN | I - Malignant Mesothelioma | \$110,687.50 | 12/6/2017 | | |
| 686 | Hecker, Tonya M. (Adm) | Higson, Charles D. | MN | I - Malignant Mesothelioma | \$110,687.50 | 12/6/2017 | | |
| 688 | Schmidt, John R. | | MN | V - Pleural | \$10,552.50 | 12/6/2017 | | |
| TOTAL | | | | | \$2,451,995.00 | | \$0.00 | |

Second Injury Claims Paid in 2017

| <u>Nc#</u> | <u>Claimant</u> | <u>Decedent</u> | <u>State</u> | <u>Disease (Initial)</u> | <u>Disease (2nd Injury)</u> | <u>Payment 1</u> | <u>Date Paid</u> |
|------------|--------------------------|-------------------|--------------|--------------------------|-----------------------------|------------------|------------------|
| 645 | Hruska, Lavern (Trustee) | Hruska, Joseph J. | MN | IV - Asbestosis | II - Lung Cancer | \$9,494.93 | 5/16/2017 |
| TOTAL | | | | | | \$9,494.93 | |