

API, Inc. Asbestos Settlement Trust

ANNUAL REPORT OF THE TRUSTEE, 2012

API, INC. ASBESTOS SETTLEMENT TRUST

May 22, 2013

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

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

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 2012.

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 2012. Pursuant to that engagement, Messerli & Schadow, PLLP has completed both the Financial Statements, and has issued its Independent Auditor's Report regarding those Statements.

ANNUAL REPORT OF THE TRUSTEE

May 22, 2013

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The Independent Auditor's Report, and Financial Statements are attached as Exhibit A.

The Trust has received Claims during 2012, and has made payments on Claims during 2012. Claims received, and payments made by the Trust in 2012 are: New Claims received and paid during 2012, including second injury Claims submitted and approved pursuant to §5.1(c) of the Trust Distribution Procedures.

The summary of 2012 payments made to new Claimants is attached as Exhibit B.

The summary of payments made to Second Injury Claimants in 2012 is attached as Exhibit C.

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

Minneapolis, Minnesota

API, INC. ASBESTOS SETTLEMENT TRUST

FINANCIAL STATEMENTS

DECEMBER 31, 2012 and 2011

MESSERLI
&
SCHADOW^{PLLP}

Certified Public Accountants

EXHIBIT A

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying special-purpose statements of net claimants' equity of API, Inc. Asbestos Settlement Trust as of December 31, 2012 and 2011 and the related statements of changes in net claimants' equity and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these special-purpose financial statements in accordance with the special-purpose basis of accounting utilized by the Trust, described in Note 2. This includes determining that the special-purpose basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Trust's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, net claimants' equity of API, Inc. Asbestos Settlement Trust as of December 31, 2012 and 2011 and the related changes in net claimants' equity and cash flows for the years then ended, in accordance with the special-purpose method of accounting described in Note 2.

Basis of Accounting

As described in Note 2, these 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. Our opinion is not modified with respect to this matter.

Restriction on Use

Our report is intended solely for the information and use of the Trustee, the Legal Representative, the Trust Advisor, the beneficiaries of the Trust and the United States Bankruptcy Court for the District of Minnesota and is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which, upon filing with the United States Bankruptcy Court for the District of Minnesota, is a matter of public record.

Messerli & Schadow

MESSERLI & SCHADOW, PLLP
Certified Public Accountants

April 29, 2013

API, INC. ASBESTOS SETTLEMENT TRUST
STATEMENTS OF NET CLAIMANTS' EQUITY
DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
ASSETS:		
Current Assets:		
Cash and cash equivalents	\$ 508,176	\$ 465,554
Money market funds	265,486	458,315
Insurance settlement receivable	3,225,000	-
Note receivable	1,300,000	1,300,000
Investments	7,877,794	9,195,789
Principal protected note	151,887	250,000
Prepaid expenses	6,357	-
Total current assets	<u>\$ 13,334,700</u>	<u>\$ 11,669,658</u>
Other Assets:		
Note receivable	<u>\$ 17,225,000</u>	<u>\$ 18,525,000</u>
Total other assets	<u>\$ 17,225,000</u>	<u>\$ 18,525,000</u>
Total Assets	<u>\$ 30,559,700</u>	<u>\$ 30,194,658</u>
LIABILITIES:		
Current Liabilities:		
Accounts payable	\$ 41,287	\$ 21,133
Claims processing fees payable	18,800	12,200
Total current liabilities	<u>\$ 60,087</u>	<u>\$ 33,333</u>
NET CLAIMANTS' EQUITY	<u>\$ 30,499,613</u>	<u>\$ 30,161,325</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, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Revenues:		
Interest income	\$ 251,680	\$ 330,340
Dividend income	34,737	42,751
Gain/(loss) on investments	248,872	703,931
Loss on investment impairment	-	(250,000)
Claim processing fees and miscellaneous income	2,295	2,160
Total revenue	<u>\$ 537,584</u>	<u>\$ 829,182</u>
Operating Expenses:		
Accounting fees	\$ 21,823	\$ 25,704
Bank charges	93	38
Conferences and seminars	-	695
Insurance	5,745	5,055
Investment management fees	43,235	47,496
Legal fees	1,642	40,034
Office expenses	1,559	1,353
Professional services	8,600	3,600
Trustee, legal representative and trust advisor fees	391,411	360,039
Total operating expenses	<u>\$ 474,108</u>	<u>\$ 484,014</u>
Change in net claimants' equity	\$ 63,476	\$ 345,168
Net claimants' equity, beginning of period	30,161,325	32,876,793
Contributions to net claimants' equity	3,425,000	-
Distributions from net claimants' equity	<u>3,150,188</u>	<u>3,060,636</u>
Net claimants' equity, end of period	<u>\$ 30,499,613</u>	<u>\$ 30,161,325</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, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
CASH INFLOWS:		
Investment income	\$ 387,016	\$ 471,317
Proceeds from note receivable	1,300,000	1,300,000
Proceeds from sale of investments	4,064,219	9,028,654
Proceeds from insurance settlement	200,000	-
Receipt of claim search fees	1,295	1,560
Receipt of claim processing payments	18,800	11,600
	<u>\$ 5,971,330</u>	<u>\$ 10,813,131</u>
CASH OUTFLOWS:		
Distributions to claimants	\$ 3,057,480	\$ 2,738,611
Disbursements for trust operating expenses	451,283	518,050
Purchases of investments	2,307,323	7,648,946
Litigation expenses related to additions to claimants' equity	101,422	379,278
Refund of claim processing payments	11,200	9,800
	<u>\$ 5,928,708</u>	<u>\$ 11,294,685</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	\$ 42,622	\$ (481,554)
CASH AND CASH EQUIVALENTS, beginning of period	<u>465,554</u>	<u>947,108</u>
CASH AND CASH EQUIVALENTS, end of period	<u>\$ 508,176</u>	<u>\$ 465,554</u>

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

API, INC. ASBESTOS SETTLEMENT TRUST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

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, software and insurance premiums.

API, INC. ASBESTOS SETTLEMENT TRUST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

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, 2012 and 2011, the net operating loss carryforward available for use in future years was \$3,440,248 and \$3,261,316, 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, 2012, 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.

Adoption of Accounting Standard

Effective January 1, 2012, the Trust adopted ASU 2011-04, *Fair Value Measurements*. The statement expands the framework for measuring fair value and expands disclosure about fair value measurements for Level 3 inputs.

API, INC. ASBESTOS SETTLEMENT TRUST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

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.

Date of Trustee Review

In preparing these financial statements, the Trust has evaluated events and transactions for potential recognition or disclosure through April 29, 2013, the date the special-purpose financial statements were available to be issued.

NOTE 3. NOTE RECEIVABLE

Note receivable as of December 31, 2012 and 2011 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, 2012, the note was receivable as follows:

Receivable within one year	\$ 1,300,000
Receivable in future years	<u>17,225,000</u>
	<u>\$ 18,525,000</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.

API, INC. ASBESTOS SETTLEMENT TRUST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE 4. FAIR VALUE MEASUREMENTS (continued)

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. Fair values of assets measured on a recurring basis at December 31, 2012 and 2011 are as follows:

		Fair Value at December 31, 2012 Using Inputs Considered as:		
	Fair Value	Level 1	Level 2	Level 3
Mutual Fund-Fixed Income	\$ 1,087,127	\$ 1,087,127	\$ --	\$ --
U.S. Government Bonds and Notes	200,460	--	200,460	--
Municipal Bonds:				
S&P Rated AAA	1,821,318		1,821,318	
S&P Rated AA	2,590,493		2,590,493	
S&P Rated A	2,178,396		2,178,396	
Total Municipal Bonds	<u>6,590,207</u>	<u>--</u>	<u>6,590,207</u>	<u>--</u>
	\$ 7,877,794	\$ 1,087,127	\$ 6,790,667	\$ --
Money Market Funds	265,486	265,486	--	--
Principal Protected Note	151,887	--	--	151,887
Total	<u>\$ 8,295,167</u>	<u>\$ 1,352,613</u>	<u>\$ 6,790,667</u>	<u>\$ 151,887</u>

		Fair Value at December 31, 2011 Using Inputs Considered as:		
	Fair Value	Level 1	Level 2	Level 3
Mutual Fund-Fixed Income	\$ 988,592	\$ 988,592	\$ --	\$ --
U.S. Government Bonds and Notes	213,566	--	213,566	--
Municipal Bonds:				
S&P Rated AAA	3,138,025		3,138,025	
S&P Rated AA	1,670,562		1,670,562	
S&P Rated A	3,185,044		3,185,044	
Total Municipal Bonds	<u>7,993,631</u>	<u>--</u>	<u>7,993,631</u>	<u>--</u>
	\$ 9,195,789	\$ 988,592	\$ 8,207,197	\$ --
Money Market Funds	458,315	458,315	--	--
Principal Protected Note	250,000	--	--	250,000
Total	<u>\$ 9,904,104</u>	<u>\$ 1,446,907</u>	<u>\$ 8,207,197</u>	<u>\$ 250,000</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, 2012 and 2011, the Trust did not have significant transfers of investments between Level 1 and Level 2.

API, INC. ASBESTOS SETTLEMENT TRUST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE 4. FAIR VALUE MEASUREMENTS (continued)

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 is based on a broker quote for similar securities in the marketplace.

Level 3 Fair Value Measurements:

During the year ended December 31, 2008, the Trust invested in a principal protected note issued by Lehman Brothers. The note called for the return of the principal amount of the investment (\$1,000,000) and potentially earnings if certain criteria were met. The note was scheduled to mature during the year ended December 31, 2009.

During the year ended December 31, 2008, Lehman Brothers declared bankruptcy. The Trust filed a proof of claim with the bankruptcy court. Trust management reduced the estimate of the recoverable amount of the note from \$1,000,000 to \$500,000 during the year ended December 31, 2008. The Trust reduced the recoverable amount from \$500,000 to \$250,000 during the year ended December 31, 2011. The \$250,000 reduction of the estimate of the recoverable amount was reflected on the statement of changes in net claimants' equity as loss on investment impairment for the year ended December 31, 2011. During the year ended December 31, 2012, \$98,113 was received from the bankruptcy trustee.

Activity in Level 3 investments for the years ended December 31, 2012 and 2011 was as follows:

	<u>2012</u>	<u>2011</u>
Balance at January 1	\$ 250,000	\$ 500,000
Recoveries from bankruptcy proceedings	(98,113)	--
Unrealized loss	--	(250,000)
Balance at December 31	<u>\$ 151,887</u>	<u>\$ 250,000</u>

NOTE 5. INVESTMENT INCOME

Investment income consists of:

	<u>2012</u>	<u>2011</u>
Realized gain on investments	\$ 219,910	\$ 255,215
Unrealized gain on investments	28,962	448,716
Gain on investments	<u>\$ 248,872</u>	<u>\$ 703,931</u>
Interest income	251,680	330,340
Dividend income	<u>34,737</u>	<u>42,751</u>
Total investment income	<u>\$ 535,289</u>	<u>\$ 1,077,022</u>

API, INC. ASBESTOS SETTLEMENT TRUST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE 6. 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 35%.

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, 2012 and 2011, 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, 2012 and 2011, the Trust did not have uncertain tax positions for which they recorded a tax liability. The Trust believes they are no longer subject to federal or state income tax examinations for years prior to December 31, 2009.

NOTE 7. NET CLAIMANTS' EQUITY

The contributions to claimants' equity were comprised of the following at December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Insurance case settlements	\$ 3,425,000	\$ --

The distributions from claimants' equity were comprised of the following at December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Distributions to claimants	\$ 3,057,480	\$ 2,738,611
Litigation expenses related to insurance settlements	92,708	322,025
	<u>\$ 3,150,188</u>	<u>\$ 3,060,636</u>

The distributions to claimants represent a payment sum percentage of 30 percent of the allowed liquidated value per claimant as of December 31, 2012 and 2011, 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. 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 will not be made until the Trustee determines the Trust is financially capable of making enhanced payments.

API, INC. ASBESTOS SETTLEMENT TRUST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE 8. RELATED PARTY TRANSACTIONS

During the years ended December 31, 2012 and 2011, the Trust incurred fees of \$3,600 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, 2012 and 2011 on the statements of changes in net claimants' equity. As of December 31, 2012 and 2011, \$1,800 and \$0, respectively, are included in accounts payable on the statements of net claimants' equity.

During the years ended December 31, 2012 and 2011, the Trust incurred legal fees of \$1,642 and \$36,441, respectively, for professional services provided by the law firm in which the Trustee is a principal member. These amounts are included in legal fees on the statements of changes in net claimants' equity.

During the years ended December 31, 2012 and 2011, the Trust incurred fees of \$391,411 and \$360,039, respectively, from members of the advisory committee in their roles as trustee, legal representative and trust advisor. Of these amounts, \$36,070 and \$5,069 are included in accounts payable on the statements of net claimants' equity as of December 31, 2012 and 2011, 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 by February 10, 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, 2012, the reimbursement obligation for the insurance carrier had not exceeded 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.

API, INC. ASBESTOS SETTLEMENT TRUST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

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. As Home Insurance Company is in liquidation, it is not anticipated that the Trust will receive the entire settlement amount. The Trust has recorded a receivable from Home Insurance Company for 15 percent of the settlement amount, \$3,225,000, which is the expected initial distribution to Class II claimants. This is reflected as insurance settlement receivable on the statements of net claimants' equity. The amount of the potential additional receipts under the settlement is undeterminable at this time and has not been reflected in the financial statements.

In 2008, the Trust sued Zurich American Insurance Company, as successor of Home Insurance Company, for denied asbestos claims under the insurance policy. Both parties had filed cross-motions for summary judgment in July 2011 and oral arguments were heard on the motions in November 2011. During the year ended December 31, 2012, the Trust reached a settlement agreement with Zurich American Insurance Company. The settlement was for \$200,000, which the Trust received in 2012. This is included in contributions to net claimants' equity on the statements of changes in net claimants' equity for the year ended December 31, 2012.

NOTE 11. CONCENTRATIONS AND CREDIT RISK

The Trust had significant concentrations of credit risk as a result of maintaining its bank accounts with aggregate balances in excess of federal insurance coverage. As of December 31, 2012 and 2011, the maximum loss that would have resulted from that risk was \$258,576 and \$251,318, respectively, which represents the excess of bank deposits over the amount that would have been covered by federal insurance.

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.

Pre-2012 New Claims Paid 2012

Claimant	Decedent	State	Disease	Date Filed	Payment 1	Paid (1)
Smith, Mardell		MN	V - Pleural	07/02/2010	\$9,045.00	04/02/2012
Knowlen, Richard		MN	III - Other Cancers	10/07/2010	\$22,140.00	01/31/2012
Blotsky, LouAnn (PR)	Blotsky, Raymond	ND	I - Malignant Mesothelioma	10/08/2010	\$35,126.10	04/02/2012
Johnson, Rebecca (Trustee)	Johnson, Franklin Dennis	MN	IV - Asbestosis	03/11/2011	\$17,160.00	01/31/2012
Rutten, John T.		MN	I - Malignant Mesothelioma	04/06/2011	\$94,875.00	01/31/2012
Iozzo, John		MN	I - Malignant Mesothelioma	04/06/2011	\$94,875.00	09/18/2012
Cormier, Gregory (Trustee)	Comier, Richard F.	MN	IV - Asbestosis	05/17/2011	\$17,160.00	01/10/2012
Holton, Larry Gene		MN	V - Pleural	06/20/2011	\$9,045.00	01/10/2012
Fellman, Mark J. (Trustee)	Bohn, Willard Eugene	MN	I - Malignant Mesothelioma	06/27/2011	\$94,875.00	04/02/2012
Buzick, Cheryl (Trustee)	Buzick, Arthur	ND	II - Lung Cancer	08/12/2011	\$13,433.10	12/04/2012
Morrow, Ronald L., Jr. (Trustee)	Morrow, Ronald L., Sr.	MN	I - Malignant Mesothelioma	10/10/2011	\$94,875.00	01/10/2012
Fontaine, Donald T.		MN	I - Malignant Mesothelioma	10/14/2011	\$94,875.00	01/31/2012
Weinner, David J.		MN	I - Malignant Mesothelioma	11/02/2011	\$94,875.00	01/03/2012
Blommer, John M.		MN	I - Malignant Mesothelioma	11/14/2011	\$94,875.00	10/08/2012
Gorder, Raymond E.		MN	IV - Asbestosis	11/21/2011	\$17,160.00	01/10/2012
Delsing, Michael D.		MN	I - Malignant Mesothelioma	11/30/2011	\$94,875.00	01/10/2012
Froom, Donald C.		MN	V - Pleural	12/05/2011	\$9,045.00	01/10/2012
Michels, Robert		MN	IV - Asbestosis	12/06/2011	\$17,160.00	01/10/2012
Chalkline, Harold		MN	V - Pleural	12/08/2011	\$9,045.00	04/02/2012

2012 New Claims Paid 2012

Claimant	Decedent	State	Disease	Date Filed	Payment 1	Paid (1)
Appert, Patrick A.		ND	I - Malignant Mesothelioma	01/06/2012	\$35,126.10	07/31/2012
Huppertz, Theresa (Trustee)	Huppertz, Peter W.	MN	I - Malignant Mesothelioma	01/10/2012	\$94,875.00	04/25/2012
Husnick, Eugene P., Jr.		MN	V - Pleural	01/17/2012	\$9,045.00	04/25/2012
Dahlman, Christine (Trustee)	Westerson, David R.	MN	II - Lung Cancer	01/30/2012	\$41,115.00	06/20/2012
Peterson, Roger L.		MN	IV - Asbestosis	02/06/2012	\$17,160.00	04/25/2012
McCarthy, Thomas W.		MN	V - Pleural	02/08/2012	\$9,045.00	05/01/2012
Gilman, Stanley		MN	IV - Asbestosis	02/08/2012	\$17,160.00	04/25/2012
Rolfes, Mark A. (Trustee)	Rolfes, Harvey B.	MN	I - Malignant Mesothelioma	02/15/2012	\$94,875.00	04/25/2012
Rantala, William E.		MN	II - Lung Cancer	02/21/2012	\$41,115.00	09/18/2012
Schanno, Mary (Trustee)	Schanno, Melvin L.	MN	I - Malignant Mesothelioma	02/24/2012	\$94,875.00	04/25/2012
Cragoe, Mareese (Adm)	Cragoe, Donald W.	MN	I - Malignant Mesothelioma	03/08/2012	\$94,875.00	05/01/2012
Bruell, Baylin (Trustee)	Fanberg, Joel G.	MN	I - Malignant Mesothelioma	03/19/2012	\$94,875.00	10/08/2012
Frydenlund, Thomas		MN	IV - Asbestosis	03/26/2012	\$17,160.00	09/25/2012
Giguere, Darrel		MN	I - Malignant Mesothelioma	03/27/2012	\$94,875.00	12/04/2012
DeCosse, Lyric (Larry) N.		MN	IV - Asbestosis	03/29/2012	\$17,160.00	09/25/2012
Hamp, Michael J.		MN	I - Malignant Mesothelioma	04/16/2012	\$94,875.00	12/18/2012
Hyland, Loren A.		MN	I - Malignant Mesothelioma	04/23/2012	\$94,875.00	12/04/2012
Bastian, Michael C.		MN	V - Pleural	04/30/2012	\$9,045.00	12/04/2012
Aronen, James		MN	I - Malignant Mesothelioma	05/03/2012	\$94,875.00	12/04/2012
Titus, Patricia (Trustee)	Kaiser, Joseph E.	MN	II - Lung Cancer	05/07/2012	\$41,115.00	12/04/2012
Hasse, Paul G.		MN	V - Pleural	05/09/2012	\$9,045.00	12/04/2012
Ottem, Helen		MN	I - Malignant Mesothelioma	05/10/2012	\$94,875.00	12/04/2012
Gathje, Helen (Trustee)	Gathje, Ronald	MN	II - Lung Cancer	05/16/2012	\$41,115.00	12/04/2012
Price, Betty J.		MN	I - Malignant Mesothelioma	06/06/2012	\$94,875.00	12/04/2012
Matros, William J.		MN	IV - Asbestosis	06/12/2012	\$17,160.00	12/04/2012
Miller, Dennis J.		MN	I - Malignant Mesothelioma	06/13/2012	\$94,875.00	12/04/2012
Pederson, Patricia Ann (PR)	Pederson, Halftan	MN	I - Malignant Mesothelioma	06/22/2012	\$94,875.00	12/04/2012
Andrews, Francis G.		MN	IV - Asbestosis	07/10/2012	\$17,160.00	12/04/2012
Eckstrom, Evelyn (Trustee)	Eckstrom, David B.	MN	II - Lung Cancer	07/13/2012	\$41,115.00	12/04/2012
Kimball, Carla (Adm)	Kimball, Dennis W., Sr.	MN	I - Malignant Mesothelioma	08/03/2012	\$94,875.00	12/04/2012
Nowlan, Roseann (Adm)	Nowlan, Thomas John, Sr.	MN	I - Malignant Mesothelioma	08/07/2012	\$94,875.00	12/04/2012
Armagost, Herschel Clark		MN	IV - Asbestosis	08/09/2012	\$17,160.00	12/18/2012
Kucera, Jacob J. (Trustee)	Kucera, Carol Ann	MN	I - Malignant Mesothelioma	08/17/2012	\$94,875.00	12/04/2012
Welman, Bonnie (Trustee)	Welman, Leland	MN	I - Malignant Mesothelioma	08/20/2012	\$94,875.00	12/04/2012

2012 New Claims Paid 2012

Claimant	Decedent	State	Disease	Date Filed	Payment 1	Paid (1)
Gauthier, Kathy L. (Ext.)	Kelly, David E.	MN	I - Malignant Mesothelioma	09/13/2012	\$94,875.00	12/04/2012
Goetze, James R.		MN	IV - Asbestosis	10/08/2012	\$17,160.00	12/04/2012

2nd Injury Claims Paid 2012

Claimant	Decedent	State	Initial Disease	Disease	2nd Claim Filed	Payment 1	Date (1)	Payment 2	Paid (2)	Payment 3	Paid (3)	Payment 4	Paid (4)	Payment 5	Paid (5)
Sanders, Mary (Trustee)	Sanders, Edward N.	MN	IV - Asbestosis	II - Lung Cancer	07/21/2010	\$9,813.07	02/05/2007	\$14,931.47	03/10/2008	\$11,678.55	04/17/2008	\$3,642.30	11/24/2009	\$1,049.61	01/10/2012