
API, Inc. Asbestos Settlement Trust

ANNUAL REPORT OF THE TRUSTEE, 2008

API, INC. ASBESTOS SETTLEMENT TRUST

April 20, 2009

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
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 2008.

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 2008. 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

April 20, 2009

Page 2

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

The Trust has received Claims during 2008, and has made payments on Claims during 2008. Claims received, and payments made by the Trust in 2008 are: (1) Supplemental payments made to Qualified Current Direct Claimants holding Estimated Asbestos Claims ("Estimated Asbestos Claims"), pursuant to the 2008 receipt of certain Settling Insurer funds, and the increase in the Payment Sum Percentage, (2) Supplemental payments to previously approved, non-Estimated Claimants as a result of the increase in the Payment Sum Percentage, and, (3) new Claims received and paid during 2008.

The summary of payments made as Supplemental payments made to Estimated Claims (1) is attached as Exhibit B.

The summary of 2008 payments made as Supplemental payments to previously approved, non-Estimated Claimants (2), and new Claims (3), 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

EXHIBIT A

API, INC. ASBESTOS SETTLEMENT TRUST

FINANCIAL STATEMENTS

DECEMBER 31, 2008 and 2007

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT

STATEMENTS OF NET CLAIMANTS' EQUITY

STATEMENTS OF CHANGES IN NET CLAIMANTS' EQUITY

STATEMENTS OF CASH FLOWS

NOTES TO FINANCIAL STATEMENTS

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

Andrea R. Kulig, CPA
Cora E. Leland, CPA
Travis A. Dahle



517 Titus Building
6550 York Avenue South
Minneapolis, MN 55435
Phone 952-927-8350
Fax 952-927-8489
larry@messerli-schadow.com
chris@messerli-schadow.com

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying special-purpose statements of net claimants' equity of API, Inc. Asbestos Settlement Trust as of December 31, 2008 and 2007 and the related statements of changes in net claimants' equity and cash flows for the year ended December 31, 2008 and 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 audits provide 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, 2008 and 2007 and the related statements of changes in net claimants' equity and cash flows for the year ended December 31, 2008 and 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
Certified Public Accountants

March 11, 2009

API, INC. ASBESTOS SETTLEMENT TRUST
STATEMENTS OF NET CLAIMANTS' EQUITY
DECEMBER 31, 2008 AND 2007

	2008	2007
ASSETS:		
Current Assets:		
Cash and cash equivalents	\$ 790,037	\$ 172,889
Note receivable (Note 3)	1,300,000	1,300,000
Insurance settlements receivable, net of legal fees of \$10,747,173	-	53,112,972
Investments (See Note 5)	20,394,094	4,698,445
Principal protected notes (See Note 6)	3,500,000	-
Prepaid expenses	-	246
Total current assets	\$ 25,984,131	\$ 59,284,552
Other Assets:		
Note receivable (Note 3)	\$ 22,425,000	\$ 23,725,000
Total other assets	\$ 22,425,000	\$ 23,725,000
Total Assets	\$ 48,409,131	\$ 83,009,552
LIABILITIES:		
Current Liabilities:		
Accounts payable	\$ 21,586	\$ 60,490
Claims payable	578,325	-
Claims processing fees payable	800	8,400
Total current liabilities	\$ 600,711	\$ 68,890
NET CLAIMANTS' EQUITY	\$ 47,808,420	\$ 82,940,662

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

API, INC. ASBESTOS SETTLEMENT TRUST
STATEMENTS OF CHANGES IN NET CLAIMANTS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2008 AND THE PERIOD
FROM INCEPTION (FEBRUARY 5, 2007) THROUGH DECEMBER 31, 2007

	2008	2007
Revenues:		
Interest income	\$ 123,847	\$ 2,433
Dividend income	566,986	213,091
Unrealized loss on investments	(69,904)	-
Realized gain on sale of investments	17,546	-
Loss on investment impairment (See Note 6)	(500,000)	-
Claim processing fees and miscellaneous income	3,300	-
Total revenue	\$ 141,775	\$ 215,524
Operating Expenses:		
Accounting fees	\$ 21,353	\$ 4,251
Bank charges	524	444
Insurance	3,390	2,316
Investment management fees	40,270	-
Legal fees	29,849	2,541,239
Professional services	32,808	-
Trustee, legal representative and trust advisor fees	358,611	532,561
Website development and maintenance costs	1,896	4,003
Total operating expenses	\$ 488,701	\$ 3,084,814
Change in net claimants' equity	\$ (346,926)	\$ (2,869,290)
Net claimants' equity, beginning of period	82,940,662	-
Contributions to net claimants' equity (See note 7)	24,536	94,112,972
Distributions from net claimants' equity (See note 7)	34,809,852	8,303,020
Net claimants' equity, end of period	\$ 47,808,420	\$ 82,940,662

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

API, INC. ASBESTOS SETTLEMENT TRUST
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2008 AND THE PERIOD
FROM INCEPTION (FEBRUARY 5, 2007) THROUGH DECEMBER 31, 2007

	<u>2008</u>	<u>2007</u>
CASH INFLOWS:		
Investment income	\$ 726,572	\$ 215,524
Proceeds from note receivable	1,300,000	975,000
Proceeds pursuant to Confirmation Order	-	15,000,000
Proceeds from insurance settlements	53,137,508	-
Proceeds from sale of investments	20,258,000	11,014,845
Receipt of claim processing payments	22,600	9,400
	<u>\$ 75,444,680</u>	<u>\$ 27,214,769</u>
CASH OUTFLOWS:		
Distributions to claimants	\$ 34,188,544	\$ 7,958,459
Disbursements for trust operating expenses	528,059	3,024,570
Purchases of investments	40,041,746	15,713,290
Legal fees related to insurance settlements	42,983	344,561
Refund of claim processing payments	26,200	1,000
	<u>\$ 74,827,532</u>	<u>\$ 27,041,880</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	\$ 617,148	\$ 172,889
CASH AND CASH EQUIVALENTS, beginning of period	<u>172,889</u>	<u>-</u>
CASH AND CASH EQUIVALENTS, end of period	<u>\$ 790,037</u>	<u>\$ 172,889</u>

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

API, INC. ASBESTOS SETTLEMENT TRUST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 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 7.

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) Investments are recorded at fair market 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.

API, INC. ASBESTOS SETTLEMENT TRUST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Realized gains and losses 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 statements 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 securities. For the year ended December 31, 2008 and the period ended December 31, 2007, the net operating loss carryforward available for use in future years was \$3,100,657 and \$2,869,290, respectively.

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, 2008, 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.

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.

API, INC. ASBESTOS SETTLEMENT TRUST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

NOTE 3 NOTE RECEIVABLE

Note receivable as of December 31, 2008 and 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, 2008, the note was receivable as follows:

Receivable within one year	\$ 1,300,000
Receivable in future years	<u>22,425,000</u>
	<u>\$ 23,725,000</u>

NOTE 4 INSURANCE SETTLEMENTS RECEIVABLE

In January 2008, settlement agreements were approved by the courts with seven insurance companies. The initial gross cash settlement amounts were \$60,500,000 plus interest, net of legal fees related to the settlements. The total receivable at December 31, 2007 was \$53,112,972. 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 to be 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. The amount of the potential additional settlement funds is undeterminable at this time and has not been reflected in the financial statements.

NOTE 5 INVESTMENTS

Investment securities are recorded at market value as measured by quoted prices in an active market. Unrealized losses were \$69,904 and \$0 for the year ended December 31, 2008 and the period ended December 31, 2007, respectively. Realized gain on sale of investments was \$17,546 and \$0 for the year ended December 31, 2008 and the period ended December 31, 2007, respectively.

