API, Inc. Asbestos Settlement Trust

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.

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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.

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The summary of Initial Payments made on Estimated Asbestos Claims is attached as Exhibit C.[1]

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

[1] 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.

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EXHIBIT A

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API, Inc. Asbestos Settlement Trust

Financial Statements

December 31, 2007

MESSERLI & SCHADOW PLLP

Certified Public Accountants

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

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

MESSERLI & SCHADOW PLLP
Certified Public Accountants

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 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

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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	$	59,284,552
Other Assets:		
Note receivable (Note 4)	$	23,725,000
Total other assets	$	23,725,000
Total Assets	$	83,009,552
LIABILITIES:		
Current Liabilities:		
Accounts payable	$	60,490
Claims processing fees payable		8,400
Total current liabilities	$	68,890
NET CLAIMANTS' EQUITY	$	82,940,662

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	$	215,524
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	$	3,084,814
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

See Notes to Financial Statements.

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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
	$ 27,214,769
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
	$ 27,041,880
NET INCREASE IN CASH AND CASH EQUIVALENTS	$ 172,889
CASH AND CASH EQUIVALENTS, beginning of period	-
CASH AND CASH EQUIVALENTS, end of period	$ 172,889

See Notes to Financial Statements.

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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.

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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.

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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:

	Cost	Market Value
Mutual fund – UBS Select Prime Institutional fund	$ 4,698,445	$ 4,698,445

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	23,725,000
	$ 25,025,000

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.

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

NOTE 6 NET CLAIMANTS' EQUITY

The contributions to claimants' equity are comprised of the following at December 31, 2007:

API, Inc. promissory note	$ 26,000,000
Initial funding of Trust per Court Confirmation Order	15,000,000
Insurance settlements receivable, net of legal fees	53,112,972
	$ 94,112,972

The distributions from claimants' equity are comprised of the following at December 31, 2007:

Distributions to claimants	$ 7,958,459
Legal fees related to insurance settlements	344,561
	$ 8,303,020

The distributions to claimants' represent a payment sum percentage of approximately 13.46% of the allowed liquidated value per claimant 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.

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 35%.

NOTE 8 RELATED PARTY TRANSACTIONS

During the period ended December 31, 2007, the Trust incurred fees of $532,561 from members of the advisory committee in their roles as trustee, legal representative and trust advisor. Of this amount, $47,143 is included in accounts payable on the statement of net claimants' equity as of December 31, 2007.

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

NOTE 9 CONCENTRATIONS

The Trust has a significant amount of receivables due from seven insurance companies. The amount of loss the Trust would incur should these companies default is not determinable. The settlement agreements were mutually agreed upon by the Trust and the insurance companies and were approved by the courts which minimizes the risk of this credit concentration.

Financial instruments that potentially subject the Trust to concentrations of credit risk consist principally of cash and investments. Accounts are insured by the Federal Deposit Insurance Corporation or the Securities Investors Protection Insurance Corporation up to $100,000 and $500,000, respectively. At December 31, 2007, the Trust's uninsured balances totaled $4,250,609.

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EXHIBIT B

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

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

MESSERLI & SCHADOW PLLP
Certified Public Accountants

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

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

We have audited the special-purpose financial statements of API, Inc. Asbestos Settlement Trust (the Trust) for the period from inception (February 5, 2007) through December 31, 2007 and have issued our report thereon dated March 31, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated January 16, 2008, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute assurance that the special-purpose financial statements are free of material misstatement and are fairly presented in accordance with the special-purpose basis of accounting used for presentation as described in Note 2 to the financial statements. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities or illegal acts, including fraud and defalcations, may exist and not be detected by us.

As part of our audit, we considered the internal control of API, Inc. Asbestos Settlement Trust. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Trust management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by API, Inc. Asbestos Settlement Trust are described in Note 2 to the financial statements. We noted no transactions entered into by the Trust during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no material estimates affecting the financial statements for the period ended December 31, 2007.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. These adjustments may include those proposed by us but not recorded by the Trust that could potentially cause future financial statements to be materially misstated, even though we have concluded that such adjustments are not material to the current financial statements. We proposed no audit adjustments that could, in our judgment, either individually or in the aggregate, have a significant effect on the Trust's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principal to the Trust's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

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Issues Discussed prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards with management each year prior to retention as the Trust's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit for the period ended December 31, 2007. We wish to thank the Trust and its staff for assistance provided us during the performance of the audit.

This information is intended solely for the use of management of the API, Inc. Asbestos Settlement Trust and should not be used for any other purpose.

Messerli & Schadow, PLLP

MESSERLI & SCHADOW, PLLP
Certified Public Accountants

March 31, 2008

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