IN THE UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION

In re:	§	
	§	
UTEX INDUSTRIES, INC.,	§	Case No. 04-34427-H4-11
	§	
	§	
Debtor.	§	

NOTICE OF FILING AUDITED ANNUAL REPORT AND CLAIMS SUMMARY

The Utex Industries, Inc. Successor Trust (the "Trust") hereby files its Audited Annual Report for the fiscal year ending December 31, 2018, attached hereto as Exhibit A, and a summary of the claims paid during the year ending December 31, 2018 (the "Claims Summary"), attached hereto as Exhibit B.

Pursuant to the provisions of the Utex Industries Successor Trust Agreement, the Trust is providing copies of the Audited Annual Report and the Claims Summary to the Trust Advisory Committee, the Legal Representative and the reorganized debtor.

Dated: March 20, 2019
Dallas, Texas

Respectfully submitted by:

/s/ Briana L. Cioni

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Counsel for the Utex Industries, Inc. Successor Trust

CERTIFICATE OF SERVICE

I hereby certify that on the 20th day of March, 2019, I served a true and correct copy of the foregoing Notice of Filing Audited Annual Report and Claims Summary and Exhibits A and B thereto by electronic mail on the members of the Trust Advisory Committee (Russell W. Budd, Eric Bogdan and Patrick N. Haines) and the Legal Representative (Richard B. Schiro) and by United States Mail, postage prepaid, to the Reorganized Debtor, Utex Industries, Inc., Attn: Mr. Ray Snow, 10810 Old Katy Road, Houston, Texas 77043.

/s/ Briana L. Cioni

EXHIBIT A

UTEX INDUSTRIES, INC. SUCCESSOR TRUST

Financial Statements
with
Report of Independent Auditors

Years Ended December 31, 2018 and 2017

UTEX INDUSTRIES, INC. SUCCESSOR TRUST

Table of Contents

	Page
Report of Independent Auditors	1 - 2
Financial Statements:	
Statements of Fund Deficit	3
Statements of Changes in Fund Deficit	4
Statements of Changes in Investments	5
Notes to Financial Statements	6 - 15

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REPORT OF INDEPENDENT AUDITORS

To the Trustee of Utex Industries, Inc. Successor Trust

We have audited the accompanying financial statements of Utex Industries, Inc. Successor Trust, which comprise the statements of fund deficit as of December 31, 2018 and 2017, and the related statements of changes in fund deficit and investments 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 financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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 entity'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 entity'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, the fund deficit of the Trust as of December 31, 2018 and 2017, and the changes in fund deficit and investments for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Notes 1 and 6, the Trust is intended to be self-liquidating. The current year fund deficit includes the Trustee's estimate of the aggregate future liability to arise from Asbestos Claims filed with the Trust, resulting in a substantial deficit. Currently, there are no additional insurance proceeds to be recovered and available to settle these claims.

Restriction on Use

This report is intended for the information and use of the Trustee, management of the Trust, and for filing with the United States Bankruptcy Court for the Southern District of Texas – Houston Division, and should not be used by anyone other than those specified parties. This restriction is not intended to limit distribution of this report, which, upon filing with the United States Bankruptcy Court for the Southern District of Texas – Houston Division, is a matter of public record.

BKM Sowan Horan, LLP

Addison, Texas
March 5, 2019

UTEX INDUSTRIES, INC. SUCCESSOR TRUST

Statements of Fund Deficit

	December 31, 2018	December 31, 2017
ASSETS		
Investments, at fair value (cost of $3,262,456 and $3,346,012, respectively)	$ 3,185,524	$ 3,287,622
Prepaid expenses and other assets	10,914	11,888
Total assets	3,196,438	3,299,510
LIABILITIES		
Accrued asbestos injury claims	129,722,212	146,312,616
Accrued expenses	2,336	-
Total liabilities	129,724,548	146,312,616
Fund deficit	$ (126,528,110)	$ (143,013,106)

See accompanying notes to financial statements.

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UTEX INDUSTRIES, INC. SUCCESSOR TRUST

Statements of Changes in Fund Deficit

	Years Ended December 31,	
	2018	2017
Fund deficit, beginning of year	**$ (143,013,106)**	$ (172,939,829)
Additions		
Investment income	**83,815**	66,002
Net change in unrealized gain on investments	**-**	12,362
Decrease in accrued asbestos injury claims	**16,512,670**	29,937,100
Total additions	**16,596,485**	30,015,464
Deductions		
Operating and legal expenses	**92,946**	88,741
Net change in unrealized loss on investments	**18,543**	-
Total deductions	**111,489**	88,741
Fund deficit, end of year	**$ (126,528,110)**	$ (143,013,106)

See accompanying notes to financial statements.

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UTEX INDUSTRIES, INC. SUCCESSOR TRUST

Statements of Changes in Investments

	Years Ended December 31,	
	2018	2017
Investment inflows		
Net earnings from investments	**$ 65,272**	$ 78,364
Investment outflows		
Operating and legal expenses	**89,636**	82,316
Asbestos claim payments	**77,734**	1,200
Total cash outflows	**167,370**	83,516
Net decrease in investments	**(102,098)**	(5,152)
Investments, beginning of year	**3,287,622**	3,292,774
Investments, end of year	**$ 3,185,524**	$ 3,287,622

See accompanying notes to financial statements.

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Note 1 – Description of the Trust

General

The Utex Industries, Inc. Successor Trust (the "Trust") was established pursuant to the Order Confirming the Plan of Reorganization of Utex Industries, Inc. ("Utex"), a Texas corporation, (the "Debtor") dated December 31, 2003 (the "Plan"). On March 26, 2004, Utex filed a bankruptcy petition seeking to reorganize under the provisions of chapter 11 of the U.S. Bankruptcy Code as a pre-packaged bankruptcy case. The Debtor's Plan, supported by the Legal Representative and the Asbestos Claimants' Committee, was confirmed by order of the United States Bankruptcy Court for the Southern District of Texas - Houston Division (the "Bankruptcy Court") and affirmed by the United States District Court for the Southern District of Texas - Houston Division (the "District Court") on June 17, 2004 (the "Confirmation Order"). The Confirmation Order provides, among other things, for a means of dealing with the Debtor's liability to persons holding valid Asbestos Claims. As of the petition date, the Debtor was named as a defendant in personal injury and wrongful death actions seeking recovery for damages allegedly caused by the presence of, or exposure to, asbestos or asbestos-containing products. The confirmed Plan created the Trust, the assets of which will be used to resolve and satisfy Asbestos Claims asserted against the Debtor as and to the extent provided in the Confirmation Order, the Plan and the Claims Resolution Procedures (the "CRP"). It is the intent of the Debtor and the Trustee that the Trust constitute a qualified settlement fund through mechanisms that provide reasonable assurance that the Trust will value, and be in a financial position to pay, all Asbestos Claims that involve similar claims in substantially the same manner, in strict compliance with the terms of the Utex Industries, Inc. Successor Trust Agreement (the "Trust Agreement"), within the meaning of Treasury Regulation 1.468B-1 et seq, promulgated under Section 468B of the Internal Revenue Code (the "IRC") and in compliance with the requirements of a trust set forth in Section 524(g)(2)(B)(i) of the Bankruptcy Code. The Plan became effective August 6, 2004 (the "Effective Date").

Claims

The purpose of the Trust is to assume any and all liabilities of the Debtor, its successors in interest and their Affiliates, with respect to persons holding bona fide Asbestos Claims by fully, fairly and expeditiously compensating such claimants pursuant to the provisions of the Trust Agreement and the CRP.

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Note 1 – Description of the Trust – (Continued)

Termination

The Trust shall automatically terminate on the date (the "Termination Date") ninety (90) days after the first to occur of the following events:

- All Asbestos Claims duly filed with the Trust have been liquidated and settled or otherwise resolved, and twelve (12) consecutive months have elapsed during which no new Asbestos Claim has been filed with the Trust, provided that if the Trustee, in his or her reasonable discretion, determines during such 90-day period that it is likely that new Asbestos Claims will subsequently be filed, then the Trust shall not terminate;

- If the Trustee has procured and has in place irrevocable insurance policies and has established claims handling agreements and other necessary arrangements with suitable third parties adequate to discharge all expected remaining obligations and expenses of the Trust in a manner consistent with this Trust Agreement and the CRP, the date on which the Bankruptcy Court enters an order approving such insurance and other arrangements;

- If in the judgment of the Trustee, with the consent of the TAC and the Legal Representative, which consent shall not be unreasonably withheld, that the continued administration of the Trust is uneconomic or adverse to the best interest of the Persons holding Asbestos Claims; or

- Twenty-one (21) years less ninety-one (91) days pass after the death of the last survivor of all the descendants of George Herbert Walker Bush living on the date hereof.

On the Termination Date, to the extent that there are any Trust Assets remaining after payment, in full, of all Allowed Asbestos Claims and the payment, in full, of all Trust Expenses, such excess Trust Assets shall be transferred to a charity qualified under Section 501(c)(3) of the IRC, which charity is to be determined by the Trustee; provided, however, that such charitable purpose, if practical, shall be related to the treatment of or research regarding asbestos-related disorders.

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Note 2 – Summary of Significant Accounting Policies

Basis of presentation

The financial statements of the Trust are prepared under the accrual method of accounting and in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Subsequent events

The Trust has evaluated events and transactions subsequent to the date of the financial statements for matters requiring recognition or disclosure in the financial statements. The accompanying financial statements consider events through March 5, 2019, the date on which the financial statements were available to be issued.

Investments

Investments are measured at fair value. Changes in fair value are recorded as reductions or increases to the fund balance (deficit). The Trust records securities transactions on a trade-date basis. Dividend income is recorded on the ex-dividend date. Interest is recorded on an accrual basis. All investments are considered to be available for sale.

Fair value of investments

The Trust measures its investments at fair value, according to a hierarchy of valuation techniques. The following are the levels of the hierarchy and a brief description of the type of valuation information ("inputs") that qualifies an investment for each level:

- Level 1 - Unadjusted quoted prices for identical assets or liabilities in active markets.

- Level 2 - Inputs other than Level 1 that are based on observable market data. These include: quoted prices for similar assets in active markets, quoted prices for identical assets in inactive markets, inputs that are observable that are not prices (such as interest rates, credit risks, etc.) and inputs that are derived from or corroborated by observable markets.

- Level 3 - Developed from unobservable data, reflecting the investment manager's assumptions.

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Note 2 – Summary of Significant Accounting Policies – (Continued)

Fair value of investments – continued

When quoted prices in active markets for identical assets are available, these quoted market prices are used to determine the fair value of financial assets and classify these assets as Level 1. In other cases where a quoted market price for identical assets in an active market is either not available or not observable, fair value is estimated using valuation methodologies based on available and observable market information or a matrix pricing model. These financial assets would then be classified as Level 2. If quoted market prices are not available, fair value is determined using broker quotes or an internal analysis of each investment's financial performance and cash flow projections. In these instances, financial assets will be classified based upon the lowest level of input that is significant to the valuation. Thus, financial assets may be classified in Level 3 even though there may be some significant inputs that may be readily available.

From time to time the Trust may hold investments where there is no active market or the market is dislocated. When determining the fair value of such investments the valuation depends on facts and circumstances requiring significant management judgment. It is acceptable to use inputs based on management estimates or assumptions, or for management to make adjustments to observable inputs to determine fair value when markets are not active and relevant observable inputs are not available.

Fund balance (deficit)

The initial funding, all other assets received, and all payments made by the Trust are recorded directly to the fund balance (deficit). Estimates of certain liabilities are also recorded directly to the fund balance (deficit) when they become estimable and probable. Portions of the fund balance (deficit) are used to fund the legal and operational expenses of the Trust.

Insurance proceeds and insurance settlements

All, or a portion of, future proceeds to be paid to the Trust through the execution of a settlement agreement with an insurer will be recognized as an accrued receivable if and when all of the following conditions are met:

- The Trust has obtained an executed copy of the settlement agreement.
- Future payments due to the Trust are in settlement of policies that have been exhausted by claims incurred by the Trust, and the terms of settlement can reasonably be assumed to be satisfied.
- The future claims paying ability of the insurer is deemed to be collectible, and the insurer holds a Standard & Poor's rating of AA- or better.

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Note 2 – Summary of Significant Accounting Policies – (Continued)

Insurance proceeds and insurance settlements – continued

Unless the unpaid amounts due under an insurance settlement qualify as accrued receivables, future payments will be recognized on a cash (as received) basis in the corresponding accounting period. The Trust expects no additional proceeds from insurers.

The Trust has no pending insurance settlements receivable and does not expect to collect any additional proceeds from insurers.

Claims and claim expenses

Claims and claim expenses are recorded when they become estimable and probable.

Statements of changes in investments

The accompanying statements of changes in investments represent the various inflows and outflows of cash during the reporting periods in order to reconcile the changes in investments, at fair value, from the beginning to the end of the respective year on the cash basis.

Concentration of credit risk

Financial instruments, which potentially subject the Trust to concentrations of credit risk, consist primarily of cash equivalents and investments. The Trust maintains cash equivalents at financial institutions it considers to be of high credit quality. At times, the Trust may have cash deposits in banks that exceed federally insured limits. The Trust has not experienced any losses in such accounts and does not believe it is exposed to any significant risk of loss related to cash.

The Trust's investments are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the value of investments will occur in the near term and such changes could materially affect the value of the Trust's portfolio.

Use of estimates

The preparation of the financial statements in conformity with GAAP requires the Trustee to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions and deductions to the fund deficit during the reporting periods.

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Note 2 – Summary of Significant Accounting Policies – (Continued)

Use of estimates - continued

Significant items subject to such estimates and assumptions include the carrying value of accrued asbestos injury claims, the fair value of investments, and the realization of deferred tax assets. Actual results could differ from these estimates.

Income taxes

Deferred tax assets and liabilities are determined based upon differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted rates and laws that will be in effect when the differences are expected to reverse. A valuation allowance is established when it is more likely than not that the deferred tax assets may not be realized.

The amount of income taxes the Trust pays is subject to ongoing audits by federal authorities. The Trust's estimate of the potential outcome of any uncertain tax issues is subject to management's assessment of relevant risks, facts, and circumstances existing at that time. The Trust uses a more likely than not threshold for financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. To the extent that the Trust's assessment of such tax positions changes, the change in estimate is recorded in the period in which the determination is made. The Trust reports tax-related interest and penalties as a component of income tax expense and operating expenses, respectively.

Note 3 – Claims Resolution

The CRP was approved by the Bankruptcy Court and the District Court pursuant to the Confirmation Order. The CRP provides for processing, allowing or disallowing, liquidating, and paying all Asbestos Claims arising from exposure to asbestos or asbestos-containing products as required by the Plan and the Trust Agreement. The Trustee administers and allows or disallows Asbestos Claims in accordance with the CRP.

Note 4 – Trust Advisor and Legal Representative

Pursuant to the Plan and the Trust Agreement, two advisory positions were established: the Trust Advisory Committee (the "TAC") and the Legal Representative. The TAC represents all holders of Asbestos Claims arising from exposure to asbestos or asbestos-containing products as required by the Plan and the Trust Agreement, excluding unknown holders of such Claims.

Utex Asbestos Trust Annual Reports, 2018 annual report
ACL Doc 14137 · Page 16 of 22
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Note 4 – Trust Advisor and Legal Representative – (Continued)

Neither the TAC nor its members serve in a fiduciary capacity to the Trust. The Legal Representative serves in a fiduciary capacity representing the interests of the unknown asbestos claimants for the purpose of protecting the rights of individuals who may subsequently assert demands. As required by the Plan and the Trust Agreement, the TAC and Legal Representative provide consultative services to the Trustee regarding specific issues affecting the Trust. Additionally, the Plan provides for instances in which consent of the TAC and the Legal Representative must be obtained by the Trustee before implementing a decision, subject to Bankruptcy Court approval in the event of a disagreement between the parties.

Note 5 – Investments and Fair Value Measurements

The Trust had a cumulative net unrealized holding loss on investments of $76,932 and $58,390 at December 31, 2018 and 2017, respectively.

The estimated fair values of the Trust's investments are as follows at December 31:

	2018		2017	
	Cost	**Fair Value**	Cost	Fair Value
Cash equivalents	$ **57,809**	$ **57,809**	$ 141,574	$ 141,574
Mutual fund	**3,204,647**	**3,127,715**	3,204,438	3,146,048
	$ **3,262,456**	$ **3,185,524**	$ 3,346,012	$ 3,287,622

The following is a description of the valuation methodologies used for financial assets measured at fair value, including the general classification of such assets pursuant to the valuation hierarchy.

Cash equivalents

Cash equivalents consist primarily of cash balances and amounts receivable/payable for unsettled securities transactions held/initiated at the clearing brokers of the Trust and money market funds and are carried at cost, which approximates fair value, and are classified as Level 1.

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Note 5 – Investments and Fair Value Measurements – (Continued)

Mutual fund

The Trust's investment in a mutual fund is publicly traded and is classified as Level 1 because quoted prices are available for this investment in an active market.

Note 6 – Accrued Asbestos Injury Claims

The fund deficit reflects the ultimate amount of Asbestos claims for bodily injury filed, and the aggregate accrued liability therefore, which was estimated by the Trustee and his experts at $129,722,212 and $146,312,616 as of December 31, 2018 and 2017, respectively.

The 2018 liability includes (i) $3,059,435 in pre-bankruptcy Participation Claims settlements to be partially funded by the Collateral Assets, as defined in the Plan, (ii) $6,526,057 in pre-bankruptcy Participation Claims settlements to be partially funded by the Non-Collateral Assets, as defined in the Plan, (iii) $111,287,090 for the unpaid liability of previously paid Claims, and $8,849,630 for liability for Future Claims.

The 2017 liability includes (i) $3,136,369 in pre-bankruptcy Participation Claims settlements to be partially funded by the Collateral Assets, as defined in the Plan, (ii) $6,526,057 in pre-bankruptcy Participation Claims settlements to be partially funded by the Non-Collateral Assets, as defined in the Plan, (iii) $111,187,890 for the unpaid liability of previously paid Claims, and $25,462,300 for liability for Future Claims.

The accrued asbestos claim liability reflects cumulative payments of $4,394,213 and $4,316,479 by the Trust through December 31, 2018 and 2017, respectively, from both collateral and non-collateral assets.

The payment sum percentage for both 2018 and 2017 was 0.8%.

Note 7 – Taxation

The Trust reports its income to the Internal Revenue Service as a designated settlement fund which is taxed at the highest rate applicable to trusts under Section 1(e) of the IRC, which is 37% and 39.6% for the years ending December 31, 2018 and 2017, respectively.

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Note 7 – Taxation – (Continued)

On December 22, 2017, Public Law No. 115-97 generally known as Tax Cut and Jobs Act of 2017 (TCJA), was enacted into law. The TCJA included a number of changes to existing U.S. tax laws that impact the Trust, most notably a reduction of the Trust's maximum tax rate from 39.6% to 37% and adjustments to the terms of net operating loss (NOL) carryforwards. For NOLs created in years beginning after December 31, 2017, the NOLs will be limited to a reduction of 80% of modified taxable income without expiration. NOLs prior to January 1, 2018 will carry forward 20 years under pre-TCJA law and there is no limitation in the reduction of modified taxable income.

As a result of TCJA, the Trust revised the deferred tax assets and liabilities as required due to changes in the statutory rate.

The Trust's federal income tax expense is calculated as follows:

	Years ended December 31,	
	2018	2017
Modified taxable loss before NOL	**$ (9,132)**	$ (22,739)
Tax rate	**37%**	39.6%
Tax benefit generated on modified taxable income	**(3,378)**	(9,005)
Deferred tax expense (benefit)	**(6,861)**	4,895
Change in valuation allowance	**10,239**	(51,597)
Deferred income tax expense on rate changes	**-**	55,707
Net federal tax expense	**$ -**	$ -

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Note 7 – Taxation – (Continued)

The tax effects of temporary differences that give rise to deferred tax assets and liabilities are as follows:

	December 31,	
	2018	2017
Net operating loss carryforward	$ **774,522**	$ 771,144
Unrealized loss on investments	**28,465**	21,604
Valuation allowance	**(802,987)**	(792,748)
Net deferred tax asset	$ -	$ -

The Trust has a net operating loss carryforward of approximately $2,094,000 and $2,085,000 as of December 31, 2018 and 2017, respectively. The future ability of the Trust to benefit from this net operating loss carryforward is uncertain; therefore, management has determined that a valuation allowance for the entire deferred tax asset is necessary since it is not more likely than not that the tax benefits will not be realized.

The Trust has not recognized any income tax liability or expense related to the review of uncertain tax positions.

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EXHIBIT B

UTEX INDUSTRIES, INC. SUCCESSOR TRUST
SUMMARY OF CLAIMS DISPOSED OF DURING THE TIME PERIOD COVERED BY THE AUDITED ANNUAL REPORT FOR THE FISCAL YEAR ENDING DECEMBER 31, 2018

Number of Claims Filed in 2018	Number of Claims Paid in 2018
3	1