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To Our Most Valued Customers

This is an update of HTI's investigation of a marking problem involving certain grade 5 fasteners imported into the United States. There is some misleading and exaggerated information circulating in the market, and we hope this clears up any confusion resulting from these reports.

The original products affected were hex head cap screws ¼, 5/16, and 3/8 diameter, manufactured by Tycoons Worldwide Group located in Thailand and marked with a "TY" manufacturer's identification.

HTI was one of several importers of this product. The affected parts represented a small percentage of our total sales of grade 5 material, but this matter has been our top priority since it was first discovered. Our controls and procedures, while extensive, proved inadequate in preventing this particular problem and we found the need to take corrective action. As your supplier, we accept responsibility and sincerely apologize for any difficulties you incurred as a result.

We owe you an explanation as to what happened and why.

Tycoons has been a supplier to the fastener industry in the United States for many years. They began exporting product from Thailand in the late 1990's, but an affiliated Company also operating under the Tycoons name has been producing and exporting fasteners for more than 20 years.

The factory in Thailand is a modern, integrated, state of the art production facility. In addition to producing screws and bolts, they also produce and sell wire rod. They are a large, well established fastener manufacturing company, publicly owned and operated by fastener executives with decades of production experience.

HTI began visiting the factory on a regular basis beginning in the late 1990's and our executive team continues to visit often. In 2007, we commissioned a full factory audit of the Tycoons facility by an independent firm specializing in quality systems review. HTI began placing test orders for hex head cap screws in 2007. As order volumes increased, we employed a third party testing firm to work in the factory for days at a time while our product was tested. We continued with this approach through the first phase of production orders. After nine months of satisfactory results, we migrated to a skip lot testing procedure and had finished goods tested at an independent accredited laboratory. In 2007 and 2008, we had over 4,000 lots of product tested. Inspections included tests for dimensional, physical and mechanical properties, as provided by the standard.

Our first indication of a potential problem came when we received results of a chemical analysis that indicated parts did not meet the minimum carbon content required by the SAE J429 standard. At first we thought it was an isolated nonconformance, but further investigation revealed that Tycoons used a steel type (10B21) that did not meet the requirements of the specification.

We immediately notified Tycoons to discontinue use of 10B21 steel and to scrap all remaining product in their inventory and in production. We systematically reviewed our entire inventory, isolated

nonconforming product and quarantined it so that no further shipments could be released. After gathering data related to the sale of nonconforming parts, we notified you and sought to recover your remaining inventory. Simultaneously, we retained an independent product expert to advise us on the technical issues.

We subsequently began a review of all other graded product and identified a similar problem with certain grade 5 carriage bolts manufactured by Zhejiang New Oriental Fastener Co., Ltd., and marked with an "NDF" manufacturer's identification.

I would like to reiterate that this is a product marking issue only. To date, there have been no reported performance problems or failures. To quote directly from the letter issued by our technical expert, Salim Brahimi of IBECA Technologies:

**"The parts in question were manufactured using 10B21 steel, which is a very common and reliable grade of steel for fastener manufacturing, classified as *carbon boron steel*. The use of boron increases the quench response, characterized by hardenability during heat treatment. Conversely, boron makes it possible to lower the carbon from levels typically found in *medium carbon steel*. Boron steels allow for improved formability during cold heading, while achieving the required strength following heat treatment. The problem in this case resulted from the factory having identified these parts as SAE J429 Grade 5. The standard allows for the use of carbon boron steel, but requires the parts be designated Grade 5.2, and have a slightly modified head marking from Grade 5 parts.**

**It is important to emphasize that the parts are not defective or "bad." Rather, they are incorrectly identified. The parts fully conform to SAE J429 Grade 5.2.**

**To address the question of interchangeability, the mechanical and physical requirements differ slightly between Grade 5 and Grade 5.2; but by all practical consideration they are the same. Furthermore, SAE J429 specifies the same minimum tempering temperature of 800 °F for both materials. These identical requirements mean that there are no significant differences in performance criteria or applicability between Grade 5 and Grade 5.2 parts.**

**Your customers should be informed and reassured that they have not been sold parts that are defective or even subpar. They have simply been supplied parts that were incorrectly identified."**

Although import entry documents were properly filed with accurate classification and duties, HTI subsequently filed a voluntary disclosure with U.S. Customs alerting them of the marking problem and all relevant facts. As importer of record, we felt this was our obligation. We have not been contacted by Customs, nor are we aware of any activity typically associated with a Customs investigation.

Corrective action has been taken to prevent future occurrences. First, we reiterate all required elements of the standards to our suppliers. Second, we perform thorough reviews of material certifications to verify fundamental aspects are correct and to specification. Finally, we added chemical analysis to our testing regime.

Some in our industry have portrayed this problem as a result of a "buy cheap" strategy, implying that cost is all that matters. We categorically reject this characterization. We hold ourselves to certain standards and the most important is to supply a high quality part. A secondary core mission is to deliver cost savings. We understand your requirements for low cost, high quality parts. That is the fundamental reason an import sector exists in our industry. Furthermore, we have a long history as an importer and realize that parts migrate from one country to the next over time. The parts purchased today in Taiwan were once manufactured in the United States, Europe and Japan. We believe it is our responsibility to lead the way in seeking and developing alternative sources of supply, new countries of origin and lower cost solutions on your behalf. We operate within a framework of quality and integrity, but also recognize that the best sources of supply change over time.

HTI stands behind the product we supply. We are committed to working through this issue with you. We remain ready to answer your questions and meet our obligations. Our primary concerns are for the health of your business and your continued confidence in us. The potential impact on our profits has not affected our decision making. Fortunately, the financial strength of HTI and our ownership made it possible to take all the necessary steps to correct this problem without impacting our ability to serve you in other areas. Rest assured, we will not allow this or any similar problem to recur.

We appreciate your cooperation in helping us deal with this difficult and unfortunate situation and will keep you updated if any new information becomes available.

Thank you for your business.

Sincerely,

*Mike*

Michael T Wrenn  
President / CEO