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February 24, 2020

Dear Customers:

Almost three years ago, Boltex and Weldbend sued Ulma Forja and its U.S. subsidiary in Texas federal court for false advertising. In September 2019, we had a two-week trial, and the jury unanimously found in our favor – and against Ulma – on all counts, and issued a multi-million dollar verdict. Long and short, the jury found that Ulma falsely advertised millions of A105 carbon steel flanges sold to U.S. customers by claiming those flanges were *normalized* and *ASTM-compliant* when they were not. The jury also found that Ulma intentionally deceived its customers, acting maliciously or fraudulently, and awarded us punitive damages.

On February 7, 2020, U.S. District Court Judge Andrew Hanen issued a final judgment against Ulma, affirming the jury's findings of liability. That same day, Judge Hanen issued two orders, explaining his reasoning behind the judgment, and entering a permanent injunction against Ulma, that includes a *recall of all falsely advertised flanges*.

In fact, if you are an Ulma distributor, Ulma should have contacted you by now:

[T]o recall any product which purports to be normalized or be ASTM A105 or ASTM A105N compliant which has not been normalized according to ASTM A961 or ASTM A941. Alternatively, Defendants may avoid recalling those flanges if they relabel/rebrand or otherwise redesignate (by some means that is either actually on the flange or accompanies the flange in question) those flanges so that they accurately reflect that they have not been normalized and are not compliant with the standards set out in ASTM A105. As stated above, any flanges that do not have said corrective labeling shall be recalled and Defendants are hereby enjoined from selling those in the United States

We have not seen any Ulma recall letter. But we know that Ulma circulated a “Dear Customer” letter, spinning the Judge’s rulings to make it seem as though *Ulma* won at trial, when in fact Ulma lost badly. Remarkably, Ulma claims that the Judge “did not question the quality of Ulma’s A105 flanges,” and did not “challenge” that “since mid-December 2017, Ulma has heat treated all of its A105 flanges in accordance with ASTM A961 or A941.” In another letter sent to at least some customers, Ulma claimed to “confirm” it heat-treated all of its A105 flanges per ASTM A961 and A941 since mid-December 2017. None of this is accurate.

Ulma’s CEO, Jesus Urien, signed these letters. This is the same Mr. Urien who signed another “Dear Customer” letter, in May 2017, telling customers that everything Boltex and Weldbend said in the lawsuit was “untrue,” that Ulma really did heat-treat its flanges, and that Ulma would prove that at trial. But as Ulma actually admitted at trial, and as Judge Hanen found, that letter was a lie:

At trial, Iosu Bastida, the sales director of Ulma USA, acknowledged that the 2017 letter [signed by Mr. Urien] was incorrect and that Ulma Piping knew that it was not normalizing its flanges consistent with the ASTM standards when it sent the letter refuting the allegations in this suit and accusing Plaintiffs of lying.

Not surprisingly, what Ulma said in its recent letters – just like its May 2017 letter – is simply untrue. To begin with, Ulma’s claim that Judge Hanen “did not question the quality” of Ulma’s flanges is nonsense. The Judge understands – even if Ulma does not – that “[i]mproving the physical properties of flanges through normalization is important, as flanges can be used in extreme high-temperature, high-pressure, corrosive environments.” Thus, he held:

Mislabeled the qualities and characteristics of a product, like the flanges in question, which are used throughout the petroleum industry, is a dangerous practice. The evidence demonstrates that distributors and end users rely on this labelling as the only other way to make sure the products meet specifications is destructive testing. Accurate labeling, marketing, and advertising is essential.

“MANUFACTURERS OF QUALITY FORGED PRODUCTS”

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As the Judge found, Ulma’s “false advertising here relates to the integrity of pipelines carrying oil and gas.” “Should a flange crack, it could result in leaks that severely harm the environment or cause damage to life or property.” If that doesn’t speak to quality, we don’t know what does.

In addition, the jury and the Judge did *not* accept Ulma’s claim it really started heat-treating all of its A105 flanges by the end of 2017. First, the Judge rejected Ulma’s claims about so-called “in-line normalization,” which he ruled “is not consistent with ASTM standards.” “Ulma never normalized their flanges in the manner required by the ASTM standards, despite the fact that they advertised that their flanges complied with these standards.”

The Judge also said: “The facts adduced at trial show (and the Court so finds) that Defendants intended to deceive customers by mislabeling the flanges and that they continued to do so after 2017, when this action was filed.”

During the relevant time period, at least 95% of the flanges Ulma advertised and sold into the United States which purported to be normalized and ASTM-compliant were not normalized in compliance with the ASTM standards. . . . Thus, most of their advertising was false.

The damages period in this case ran from May 2015 through May 2019.

While Ulma claims December 2017 is when it allegedly stopped *manufacturing* non-normalized flanges advertised as “normalized” and “A105N,” we now know that Ulma continued *marketing and selling* non-normalized flanges as “normalized” and “A105N” to customers in 2018 and 2019. As Peio Errasti, Ulma’s Director of Quality Assurance admitted:

- Q. You know that you did continue to sell all the way into 2019 some non-normalized flanges?
A. Yes. We had some in stock that went before we scrapped all the material that we had in the inventory, inline -- produced inline normalized, yes.

Ulma’s CFO, Nerea Villar, confirmed this. In 2018 and 2019, Ulma picked up the phone or responded to your Purchase Orders for normalized goods knowing – and not telling you – that you were playing Russian Roulette with the flanges they sent.

Moreover, Ulma kept *manufacturing* non-normalized flanges after the end of 2017, but still advertised them as normalized. Boltex and Weldbend’s metallurgical expert Dr. Dana Medlin conducted scientific testing on four of Ulma’s A105 flanges manufactured in 2018. His results showed that three out of four Ulma flanges, manufactured in 2018, *had not been normalized*.

Further, Ulma offered no furnace charts at trial to prove it actually heat-treated its flanges after 2017. Indeed, during the case, Ulma produced almost no heat treatment records, despite internal written procedures – and industry practice – that require documentation of heat treatments. As Ms. Villar, Ulma’s CFO admitted, procedures that are “not documented [are] not done.”

Ultimately, Judge Hanen found “Ulma continued to market and sell non-normalized flanges as ‘normalized’ and ‘A105N’ to its customers in 2018 and 2019.” In other words, “even after the filing of this lawsuit, Defendants continued to falsely advertise their flanges as normalized and compliant with the ASTM standards when they were not.” Because of this, the Judge concluded “an injunction is necessary in this case,” because “if Defendants continue to manufacture and sell flanges that are labeled as being ASTM A105 compliant and/or normalized when they are not, that practice will continue to harm Plaintiffs and others in this marketplace.” Boltex and Weldbend “have the right to compete in a fair market that evaluates products based on their relative merits and price, as opposed to falsely advertised qualities”. But “without this injunction, Plaintiffs will continue to suffer harm.”

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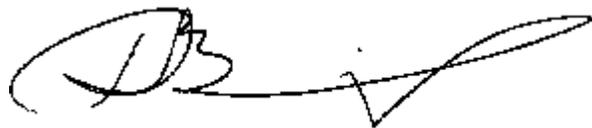
Despite all this, in its recent “Dear Customer” letter, Ulma brags that the Judge held “Boltex and Weldbend are not entitled to the entire \$31 million jury award,” and the court “cut the proposed jury award by approximately 80% . . .” But Ulma forgets to mention a few important things.

First, the Judge *upheld* the jury’s award of punitive damages, stating: “the Court finds ample evidence of malice in Ulma’s conduct.” But Texas law imposes a “cap” on punitive damages, and under the Judge’s reading of the law, Boltex and Weldbend had to “elect” to take recovery under either state law or federal law, and we chose federal. None of this, however, changes the jury’s verdict, “by clear and convincing evidence” that the harm Ulma inflicted on Boltex and Weldbend “resulted from malice or fraud.”

In addition, the jury “found that Ulma Piping gained \$26 million from its false advertising and unfair competition from May 5, 2013 to May 31, 2019.” The Judge found “that profit figure to be ***both reasonable and supported by the evidence***, and the Court ***adopts the same.***” However, the Judge was concerned that Boltex and Weldbend were only two competitors among a larger group, and that Ulma’s unjust profits were “gained at the expense of all competitors in the flange marketplace, not just the Plaintiffs.” *Id.* Because of this, the Judge “adjust[ed] the award to Plaintiffs herein to be consistent with the market shares of the entire carbon steel flange market . . .” *Id.* While we do not necessarily agree with this reasoning, the Judge’s explanation doesn’t exonerate Ulma at all—it highlights the widespread harm Ulma’s lies caused honest companies.

In the end, after all of Ulma’s known misrepresentations, you have to answer some straight-forward questions: ***How can you trust Ulma?*** Why should you give Ulma’s latest letter any credit? What is Ulma doing about the millions of falsely advertised flanges it sold, going back to at least 2013? When will Ulma take real responsibility and actually correct the situation it caused? And ultimately, are you doing right by your own customers and clients, shareholders and stakeholders, by taking this risk and trusting Ulma after it lied to you time after time after time? Wouldn’t it be better to deal with honest, law-abiding companies you can trust.

Finally, if you are inclined to trust that Ulma won’t deceive you – again – despite its decades of deliberate misrepresentations, we encourage you to follow the sound advice of Ronald Reagan: “Trust, but verify.” Ulma’s SOPs required the company to keep a record of all heat treatments. Ulma could not produce any furnace charts at trial, but maybe it will do so for you.



Frank V. Bernobich

President