

Chart 1

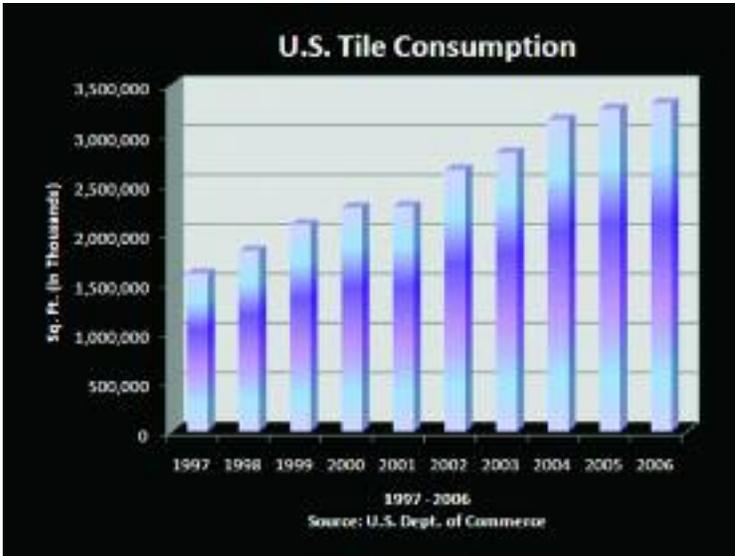
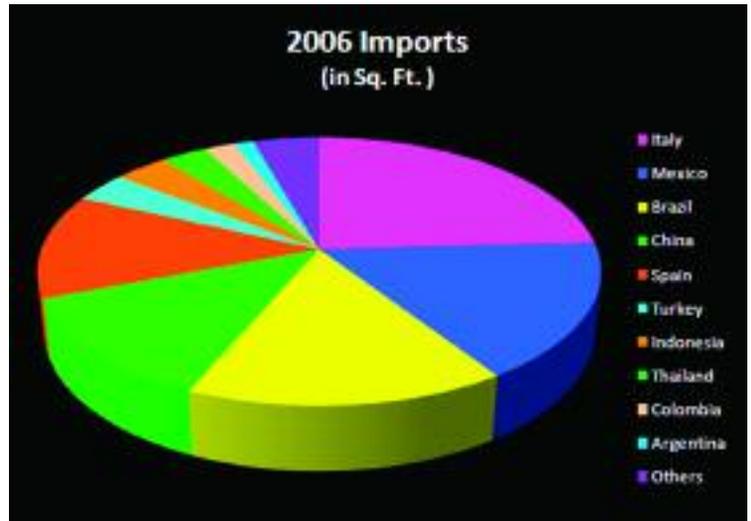


Chart 3/Table 3



State of the Industry Overview: U.S. Ceramic Tile Market

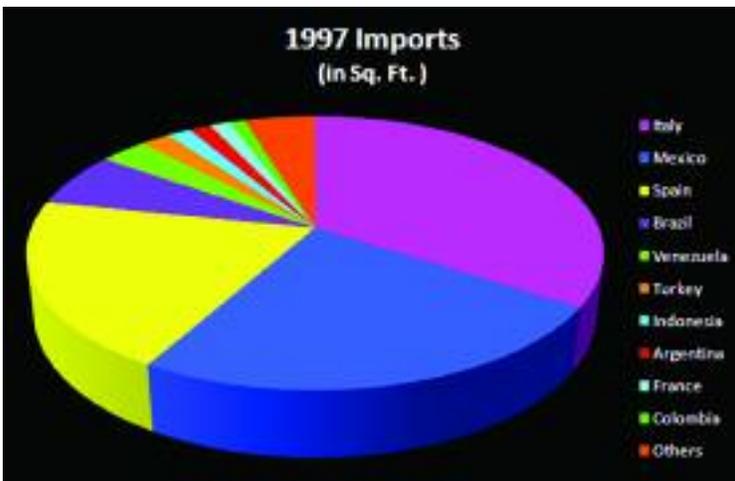


Chart 2/Table 2

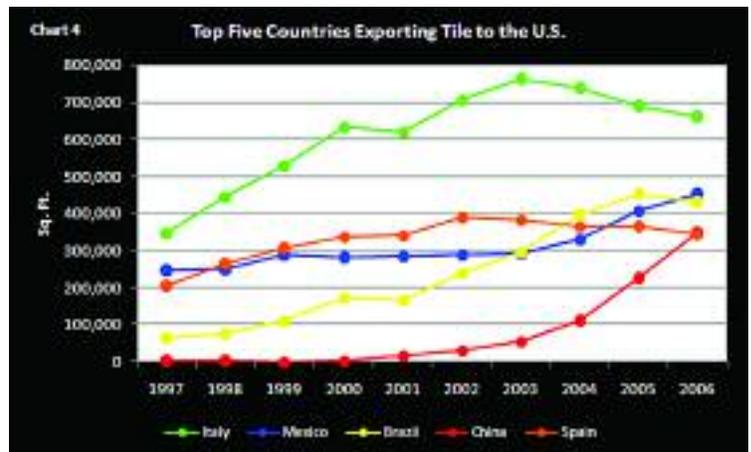


Chart 4

The Market in 2006

The U.S. ceramic tile market continued to expand and experience growth in 2006. Consumption of tile increased 1.8% last year – from 3.26 billion sq. ft. in 2005 to 3.32 billion sq. ft. Domestic shipments of tile decreased with 630 million sq. ft. shipped domestically in 2006, a decrease of 4.3% from 2005 (658 million sq. ft.).¹

Although overall total consumption set a new record, the increase in 2006 (1.8% overall) is slightly less than the 3.5% seen in 2005, due to the slowdown in the new housing market and resulting decline in overall floor covering sales. Remodeling and commercial markets, however, continued to bolster tile sales overall.

Imports' percent share of the U.S. ceramic tile market (in square feet) continued to rise in 2006 and comprised 82.4% of the total market. This follows the trend of imports' gaining ground over the last 15 years. Imports were 46.2% of the market 30 years ago, and in each year since 1992, they have consisted of more than 50% of total consumption.

From where is this tile coming? The top five countries from which tile was imported (in millions of sq. ft.) in 2006 were²:

- Italy – 661 - decreased 4.1% from '05
- Mexico – 452 - increased 10.6% from '05
- Brazil – 430 - decreased 4.8% from '05
- China – 346 - increased 53.9% from '05
- Spain – 346 - decreased 5.0% from '05

Based on dollar value, however, we get a different picture of the import market:

- Italy – increased 0.7% from '05
- Spain – increased 3.4% from '05
- Mexico – increased 9.7% from '05
- Brazil – decreased 2.9% from '05
- China – increased 60.5% from '05

Overall, this resulted in a modest increase in price per square foot (of imported tile) of \$0.01 per sq. ft.

Other statistical trends include:

- 2006 U.S. consumption of Italian tile (in sq. ft.) fell for the third straight year.
- U.S. consumption of Spanish tile (in sq. ft.) decreased in 2006 for the

Table 1

Year	Shipments (in thousands sq. ft.)			Total Consumption	% Change from Previous Year
	Imports	Exports			
2006	629,672	2,732,199	45,107	3,316,764	1.8
2005	658,198	2,638,359	37,022	3,259,535	3.5
2004	695,386	2,488,181	34,727	3,148,840	11.8
2003	614,955	2,231,188	28,938	2,817,205	6.6
2002	649,488	2,034,634	41,705	2,642,417	16.2
2001	591,080	1,716,371	33,306	2,274,145	0.5
2000	620,064	1,685,716	42,685	2,263,094	8.4

Table 2

Year: 1997

Rank	Country	Sq. Ft. (thousands)	% of Total Imports
1	Italy	349,403	34.2%
2	Mexico	246,252	24.1%
3	Spain	204,440	20.0%
4	Brazil	66,242	6.5%
5	Venezuela	32,142	3.1%
6	Turkey	20,498	2.0%
7	Indonesia	16,437	1.6%
8	Argentina	14,851	1.5%
9	France	13,647	1.3%
10	Colombia	10,791	1.1%
Total		884,049	95.3%

Table 3

Year: 2006

Rank	Country	Sq. Ft. (thousands)	% of Total Imports
1	Italy	660,816	24.2%
2	Mexico	452,002	16.5%
3	Brazil	430,279	15.8%
4	China	346,463	12.7%
5	Spain	346,179	12.7%
6	Turkey	99,147	3.6%
7	Indonesia	97,741	3.6%
8	Thailand	85,169	3.1%
9	Colombia	56,523	2.1%
10	Argentina	36,626	1.3%
Total		2,732,198	95.6%

Table 4

The top ten countries from which tile was imported through 2nd quarter 2007 based on sq. ft. were:

Country	Sq Ft.through 2nd Qtr. 2007	Sq Ft.through 2nd Qtr. 2006	2007/2006 % Change	2006/2005 % Change
Italy	268,749,483	344,931,680	-22.1%	-4.9%
Mexico.....	223,307,149	228,229,213	-2.2%	15.6%
Brazil	165,843,281	215,813,901	-23.2%	-4.4%
China	152,442,364	149,984,894	1.6%	52.9%
Spain	118,323,523	182,756,920	-35.3%	-3.4%
Turkey	36,922,279	50,110,615	-26.3%	-17.4%
Thailand.....	32,337,359	46,717,104	-30.8%	7.7%
Colombia.....	21,321,660	28,659,235	-25.6%	49.8%
Indonesia.....	18,799,589	55,851,382	-66.3%	12.9%
Argentina.....	14,575,400	17,318,986	-15.8%	2.0%

Future Indicators and Key Influences

Value of Dollar vs. Other Currencies

The value of the Euro increased almost 10 % from 2005-2006 vs. the U.S. dollar, and has continued to get stronger in 2007. The Chinese Yuan and Brazilian Real also made gains in 2006-2007, with the buying power of dollars' shrinking against these currencies. The dollar increased in relation to the Mexican Peso, however.

Mortgage rates

The housing market is affected greatly by mortgage rates, which in turn influences the usage of tile. The average 30-yr. fixed mortgage rates have steadily risen from 5.87% in 2005 to 6.41% in 2006 and to 6.57% in August 2007. (Source: Freddie Mac)

Table 5

Value of U.S. Dollar Vs. Selected Currencies (2000 – Aug. 2007) — \$1 buys:

End of December of Year	Euro	Chinese Yuan	Mexican Peso	Brazilian Real
August 2007	0.73	7.56	11.09	1.97
2006	0.76	7.80	10.80	2.14
2005	0.84	8.07	10.63	2.34
2004	0.74	8.28	11.15	2.74
2003	0.79	8.28	11.24	2.88
2002	0.95	8.28	10.43	3.54
2001	1.12	8.28	9.16	2.31
2000	1.06	8.28	9.62	1.95

fourth straight year.

- 2006 U.S. tile consumption from Brazil also declined, 4.8% from 2005 to 2006.
- U.S. consumption of Mexican tile increased in 2006 for the seventh straight year, up 10.6% over 2005.
- China, which accounts for 12.7% (2006) of all tile imported to the U.S., continues to make a tremendous impact on the market. It now is the fourth-largest exporter of tile (in sq. ft.) to the U.S., with U.S. consumption of Chinese tile up 53.9% from 2005.
- Imports, which comprise a large portion of the U.S. tile market, rose from 80.9% of the market in 2005 to 82.4% in 2006.

There are several factors that have led to these trends:

- Weaker U.S. dollar vs. Euro
- More Italian companies manufacturing in the U.S.
- In general, imports from higher-cost producing countries declined, while imports

from lower-cost countries increased.

As one can see from Tables 2 and 3, the main countries from which tile is imported have remained relatively the same in the past 10 years, although market share is now more widely dispersed. The emergence of China (0.2 % of U.S. tile imports in 1997; 12.7% in 2006) has also made a major impact on the industry.

Chart 4 shows the trend over the last decade of the top 5 countries from which tile was imported (in thousands of sq. ft.).

The Market in 2007

Based on first and second quarter 2007 numbers, there has been a dramatic slowdown in the tile market. Consumption, domestic shipments, and imports are all down so far this year. Total U.S. consumption through 2nd quarter 2007 was 1.37 billion sq. ft., down 19.1% from 2nd quarter 2006.

The decline in imports reflects the slowdown in the U.S. tile market in the first half of 2007 (see Table 4).

Population

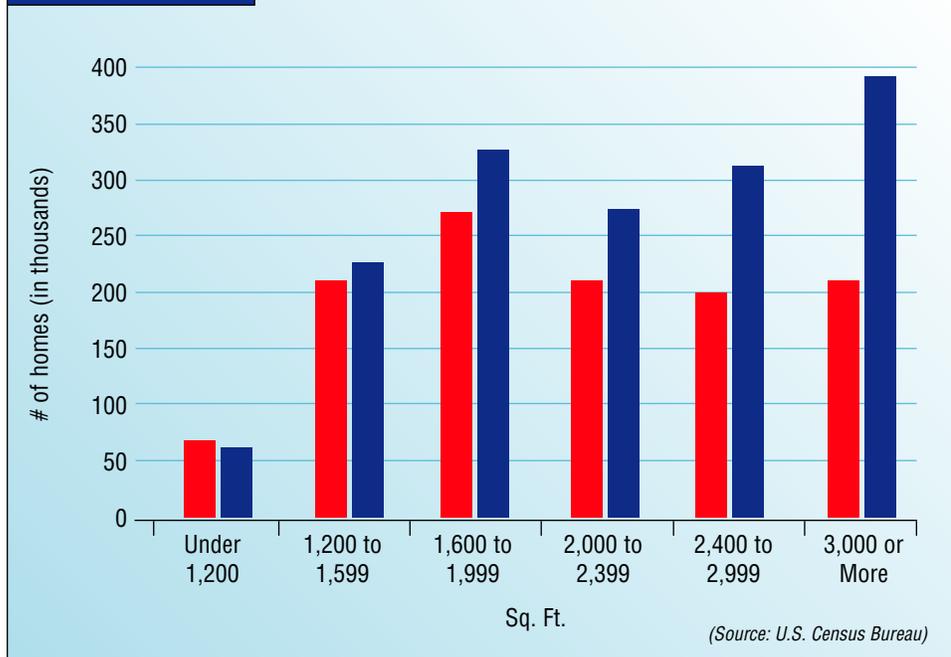
The U.S. population grew to an estimated 298 million in 2006, which is a 6.0% increase over 2000. It is estimated to increase an additional 1% (over 2006's population) in 2007. The U.S. has the world's third-fastest growing population (trailing only China & India), which will require an estimated 100 billion sq. ft. of living space by the year 2030.³ This will result in a higher demand for flooring products, such as tile.

Chart 5/Table 7

New Single-Family U.S. Houses

2000

2006



(Source: U.S. Census Bureau)

Table 6

New Single-Family Housing Starts

Year	Number of Units	% Change from Previous Year
2007*	1,100,000	-25.0
2006	1,465,400	-14.6
2005	1,715,800	6.5
2004	1,610,500	7.4
2003	1,499,000	10.3
2002	1,358,600	6.7
2001	1,273,300	3.4
2000	1,230,900	-5.5

* projected

Table 7

New Single-Family U.S. Houses (in thousands) by Sq. Ft.

Year	Total	Under 1,200	1,200 to 1,599	1,600 to 1,999	2,000 to 2,399	2,400 to 2,999	3,000 or more
2000	1242	78	225	280	226	208	225
2001	1256	71	225	264	226	222	247
2002	1325	66	246	280	237	240	256
2003	1386	73	238	290	257	251	276
2004	1532	69	267	320	274	291	311
2005	1636	60	259	332	298	306	381
2006	1654	69	237	335	287	326	400

(Source: U.S. Census Bureau)

Unemployment

According to the U.S. Dept. of Labor, unemployment fell from 5.1% in 2005 to 4.6% in 2006, and remains at 4.6% as of August 2007.

Housing Starts

Housing starts fell drastically in 2006, and continue to decline through 2007. The number of single-family housing starts fell 14.6% from 2005 to 2006, compared to a 6.5% increase from 2004 to 2005. The NAHB projects the slumping new home market will bottom out at the end of this year or early in 2008.⁴

Despite the decline in new housing starts beginning in 2006, the average size of single-family homes continued to rise to a record 2,456 sq. ft. This is a 1.7% jump over 2005 numbers and a 14.8% rise from 10 years ago, in which the average single-family dwelling was 2,140 sq. ft.⁵ Larger homes, kitchens, and bathrooms mean more need for flooring products like tile. Note the increasing number of homes with 3,000 or more sq. ft. (Table 7).

Remodeling

Remodeling especially impacts the tile industry, as the two rooms most frequently remodeled are kitchens and bathrooms, which also happen to be the two rooms in which tile is most often used. The size and number of rooms in houses continues to rise. The latest data from the U.S. Census Bureau (2005) shows that 59% of new single-family houses have 2-1/2 or more bathrooms, and 96% have at least two bathrooms.

The National Kitchen and Bath Association (NKBA) estimates that in spite of the housing market decline, the remodeling industry will remain steady in 2007. Approximately \$265 billion was spent on kitchen and bath remodeling in 2006, and that number is projected to be \$262 billion, slightly down 1.1%, in 2007.⁶

America's aging Boomer population, with more disposable income than past generations, has fueled the remodeling market, and today's younger generation is more design-savvy and has more money to spend on remodeling, as well.

Summary and Outlook

In spite of the current downturn in the tile industry, there are reasons for optimism. Tile was one of only three floor coverings (along with area rugs and rubber flooring) that saw an increase in sales last year. Ceramic tile also continues to gain a larger share of the floor covering market (10.6% in 2006, up from 9.6% in 2005) and is now third overall behind carpet and area rugs.⁷

Looking ahead to the rest of 2007, based on 1st and 2nd quarter numbers, if the current trend continues for the remaining two quarters of 2007, total consumption would be down a total of 17.2% from 2006.

Also:

GDP is predicted to grow at a 2.0% rate in 2007.⁸

The projected U.S. economic growth for 2008 is 2.8%. This is the lowest growth since 2002.⁹

New housing starts are expected to decline until at least early 2008, with sales' not getting back to the 1.5 million level (i.e. where they were in 2003) until 2010 or 2011.¹⁰ **TILE**

¹ U.S. Dept. of Commerce

² U.S. Dept. of Commerce

³ Builder Magazine

⁴ BUILDER Online News Service July 25, 2007

⁵ U.S. Census Bureau

⁶ Kitchen and Bath Design

⁷ Floor Focus Magazine

⁸ BUILDER Online News Service; September 10, 2007

⁹ BUILDER Online News Service; September 10, 2007

¹⁰ BUILDER Online News Service; July 25, 2007



About the Author

Andrew Whitmire is the Trade Data Analyst for the Tile Council of North America.

Andrew Whitmire

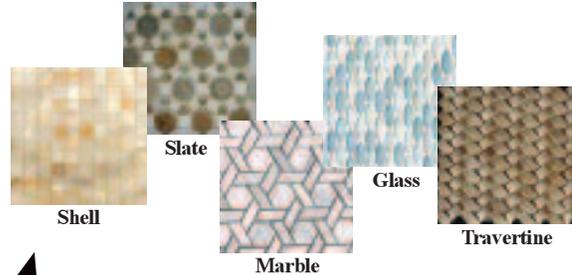
He began working for TCNA in 2003 after getting his B.S. in Marketing and MBA from Clemson University.

What has happened to the World in the past ten years?



- 65 languages lost.
- Scientists have discovered 12,866 stars.
- 3 billion people have been born.
- Rain forest lost 6,070,000 square kilometer.
- 6,035 memorandums have been signed between and amount governments.
- 270 times more people have subscribed to internet.
- 5,670,003 lost dogs found their home.
- Michael Jordan re-emerged 3 times.
- 96,354,426 couples got married.
- 25,354,998 deceived.
- Puccini has developed over three hundred unique tile products.

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