

# LIBBEY INC

## FORM 10-K405

(Annual Report (Regulation S-K, item 405))

Filed 3/28/2000 For Period Ending 12/31/1999

Address	300 MADISON AVE PO BOX 10060 TOLEDO, Ohio 43604
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Industry	Personal & Household Prods.
Sector	Consumer/Non-Cyclical
Fiscal Year	12/31

**SECURITIES AND EXCHANGE COMMISSION**  
WASHINGTON, D. C. 20549

**FORM 10-K**

(Mark One)

Annual Report Pursuant to Section 13 or 15(d) of the  
Securities Exchange Act of 1934  
For the fiscal year ended December 31, 1999

or

Transition Report Pursuant to Section 13 or 15(d) of the  
Securities Exchange Act of 1934

**LIBBEY INC.**

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

1-12084  
(Commission  
file number)

34-1559357  
(IRS Employer  
Identification No.)

300 Madison Avenue, Toledo, Ohio  
(Address of principal executive offices)

43604  
(Zip Code)

Registrant's telephone number, including area code: (419)325-2100

**Securities registered pursuant to Section 12(b) of the Act:**

Title of each class -----	Name of each exchange on which registered -----
Common Stock, \$.01 par value	New York Stock Exchange

**Securities registered pursuant to Section 12(g) of the Act: None**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes  No   
--- ---

(Cover page 1 of 2 pages)

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

The aggregate market value (based on the consolidated tape closing price on March 15, 2000) of the voting stock beneficially held by non-affiliates of the registrant was approximately \$399,858,461. For the sole purpose of making this calculation, the term "non-affiliate" has been interpreted to exclude directors and executive officers of the registrant. Such interpretation is not intended to be, and should not be construed to be, an admission by the registrant or such directors or executive officers that any such persons are "affiliates" of the registrant, as that term is defined under the Securities Act of 1934.

The number of shares of common stock, \$.01 par value, of the registrant outstanding as of March 15, 2000 was 15,220,126.

#### **DOCUMENTS INCORPORATED BY REFERENCE**

Certain information required by Items 10, 11, 12 and 13 of Form 10-K is incorporated by reference into Part III hereof from the registrant's Proxy Statement for The Annual Meeting of Shareholders to be held Thursday, May 4, 2000 ("Proxy Statement").

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## PART I

### ITEM 1. BUSINESS

#### GENERAL

Libbey is a leading supplier of tabletop products in the U.S. and Canada. The products are also exported to more than 100 countries. Libbey designs and markets, under the LIBBEY(R) brand name, an extensive line of high-quality glass tableware, ceramic dinnerware and metal flatware. Libbey also manufactures and markets ceramic dinnerware under the Syracuse China(R) brand name through its subsidiary Syracuse China. Through its World Tableware subsidiary, Libbey also imports and sells flatware, holloware and ceramic dinnerware. Through its joint venture, Vitrocrisa, the Company has established reciprocal distribution agreements giving Libbey exclusive distribution rights for Vitrocrisa's glass tableware products in the U.S. and Canada, and Vitrocrisa the exclusive distribution rights for Libbey's glass tableware products in Latin America.

Libbey also has an agreement to be the exclusive distributor of Luigi Bormioli glassware in the U.S. and Canada for foodservice users. Luigi Bormioli is a highly regarded supplier of high-end glassware which is used in the finest eating and drinking establishments.

Acquisitions have been and will be a critical part of the strategy to grow the top line and bottom line. The Company's strategy is to be a more global provider of glass tableware and a provider of a broader supply of products to the foodservice industry. This strategy is primarily focused on two fronts: 1) acquiring foodservice supply companies, enabling Libbey to become a broader supplier of products to its foodservice distributors and 2) leveraging its proprietary glass-making technology internationally through joint ventures, outright acquisitions or new green meadow facilities.

The acquisitions of Libbey Canada and joint venture investment in Vitrocrisa have made Libbey the leader in glass tableware in North America. The Company's manufacturing capabilities are more competitive today than they have ever been. We plan to grow this capability with further expansion overseas. South America is of particular interest, given the growth in trade in the Western Hemisphere and the growing demand in key markets.

#### PRODUCTS

Libbey's tabletop products consist of glass tableware, ceramic dinnerware, metal flatware and metal holloware. Libbey's glass tableware includes tumblers, stemware, mugs, plates, bowls, ashtrays, bud vases, salt and pepper shakers, canisters, candle holders and various other items.

Vitrocrisa's product assortment includes, in addition to the product types produced by Libbey, glass bakeware and handmade glass tableware, which are additional product categories which Libbey now offers. In addition, Vitrocrisa products include glass coffee pots, blender jars, meter covers and other industrial glassware sold principally to original equipment manufacturers.

Through its distribution agreement with Luigi Bormioli, Libbey is a supplier of high-end glassware, which is used in the finest eating and drinking establishments.

Through its Syracuse China and World Tableware subsidiaries, Libbey sells a wide range of ceramic dinnerware products. These include plates, bowls, platters, cups, saucers and other tabletop accessories.

Through its World Tableware subsidiary, Libbey sells an extensive selection of metal flatware. These include knives, forks, spoons and serving utensils. In addition, World Tableware sells metal holloware, which includes serving trays, chafing dishes, pitchers and other metal tabletop accessories.

## **DOMESTIC SALES**

Approximately 88% of Libbey's sales are to domestic customers, and are sold domestically for a broad range of uses. Libbey sells both directly to end users of the product and through networks of distributors and utilizes both a direct sales force and manufacturers' representatives. Libbey has the largest manufacturing, distribution and service network among North American glass tableware manufacturers.

Libbey defines the U.S. glass tableware market to include glass beverageware, ovenware, cookware, dinnerware, serveware, floral items, items used for specialized packaging, specialized bottles, handmade glassware and lead crystal valued at less than \$5 per piece. Libbey has, according to management estimates, the leading market share in glass tableware sales in U.S. foodservice applications and glass beverageware sales in retail. The majority of Libbey's tabletop sales to foodservice end users are made through a network of approximately 500 independent foodservice distributors. The distributors, in turn, sell to a wide variety of foodservice establishments, including national and regional hotel chains, national restaurant chains, individually owned bars, restaurants and casinos. Syracuse China and World Tableware are recognized as long-established suppliers of high quality ceramic dinnerware and flatware, respectively. They are both among the leading suppliers of their respective product categories to foodservice end users.

Libbey's retail customers are principally mass merchants and discount stores. In recent years, Libbey has been able to increase its total sales by increasing its sales to traditional department stores and specialty housewares stores. With this expanded retail representation, Libbey is better positioned to successfully introduce profitable new products.

Libbey also sells imported dinnerware and metal flatware to retailers in the United States and Canada under the LIBBEY(R) brand name. Libbey sources this ceramic dinnerware and metal flatware by leveraging the relationships it has with its existing suppliers for World Tableware products for foodservice applications. Libbey operates four factory outlet stores located at or near each of its United States manufacturing locations.

Libbey is one of the leading suppliers of glassware for industrial applications in the U.S., according to management estimates. Industrial uses include candle and gift packaging, floral purposes and lighting. The craft industries and gourmet food packing companies are also industrial consumers of glassware. Libbey has expanded its sales to industrial users by offering ceramic items. Libbey believes that its success with industrial applications is based on its extensive manufacturing and distribution network, which enables it to provide superior service, and its broad product offering, which allows Libbey to meet its customers' desire for differentiated glassware products. The production capabilities and broad product portfolio of Vitrocrisa enabled Libbey to expand its product offering for its industrial customers.

Another application of Libbey's products is for use as a premium. Fast-food restaurant chains use glassware as incentives or premiums as an example. Libbey believes that its success with premium customers is dependent upon custom design, varied production capabilities and the ability to produce large quantities of product in a short period of time.

Libbey also sells its tabletop products to supermarket chains for continuity programs. In 1999, Libbey sold tabletop products through continuity programs to over 5,600 supermarkets in the U.S. and Canada.

### **INTERNATIONAL EXPANSION AND EXPORT SALES**

Libbey exports its products through independent agents and distributors to over 100 countries throughout the world, competing in the tabletop markets of Latin America, Asia and Europe. Through its export operation, Libbey sells its tabletop product to foodservice, retail and premium customers internationally. Libbey's share of glass tableware foodservice sales in Canada is estimated by management at 70%.

Libbey's export sales, which include sales to customers in Canada, represent approximately 12% of total sales in 1999. Libbey believes that expanding its sales to export markets represents an important growth opportunity for the future.

Libbey currently has technical assistance agreements with companies covering operations in various countries. In 1999, Libbey performed services for licensees in seven countries. These agreements, which cover areas ranging from manufacturing and engineering assistance to support in functions such as marketing, sales and administration, allow Libbey to participate in the worldwide growth of the glass tableware industry and to keep abreast of potential sales and marketing opportunities in those countries. During 1999, Libbey's

technical assistance agreements and licenses produced royalties of \$4.4 million. Libbey also sells machinery, primarily glass-forming machinery, to certain parties with which it has technical assistance agreements.

## **MANUFACTURING**

Libbey owns and operates three glass tableware manufacturing plants in the United States located in Toledo, Ohio; Shreveport, Louisiana and City of Industry, California. A glass tableware manufacturing plant in Wallaceburg, Ontario, Canada ceased operation in May 1999. Libbey owns and operates a ceramic dinnerware plant in Syracuse, New York. Libbey operates distribution centers located at or near each of its manufacturing facilities (See "Properties"). In addition, Libbey operates distribution centers for its Vitrocrisa-supplied products in Laredo, Texas and World Tableware products near Chicago, Illinois.

The glass tableware manufacturing and distribution centers are strategically located (geographically) to enable Libbey to supply significant quantities of its product to virtually all of its customers in a short period of time. Libbey is the only glass tableware producer operating more than two manufacturing facilities in the United States.

The manufacture of Libbey's glass tableware products involves the use of automated processes and technologies. Much of Libbey's glass tableware production machinery was designed by Libbey and has evolved and been continuously refined to incorporate technology advancements. In addition, Libbey has installed robotics technology in certain of its labor-intensive manufacturing processes. Libbey believes that its production machinery and equipment continue to be adequate for its needs in the foreseeable future.

Libbey's glass tableware products are generally produced using one of two manufacturing methods or, in the case of certain stemware, a combination of such methods. Most of Libbey's tumblers and stemware and certain other glass tableware products are produced by forming molten glass in molds with the use of compressed air and are known as "blown" glass products. Libbey's other glass tableware products and the stems of certain of its stemware are "pressware" products which are produced by pressing molten glass into the desired product shape.

Ceramic dinnerware is also produced through the forming of raw materials into the desired product shape and is either manufactured at Libbey's Syracuse, New York production facility or imported by World Tableware from primarily Thailand, China and Indonesia. All metal flatware and metal holloware are sourced by Libbey's World Tableware subsidiary primarily from Japan, Korea, Thailand, Indonesia and China.

Libbey employs a team of engineers whose responsibilities include continuing efforts to improve and upgrade Libbey's manufacturing facilities, equipment and processes. In addition, they provide engineering required to manufacture new products and implement the



large number of innovative changes continuously being made to Libbey's product designs, sizes and shapes.

All of the raw materials used by Libbey, principally sand, lime, soda ash and clay, have historically been available in adequate supply from multiple sources. However, for certain raw materials, there may be temporary shortages due to weather or other factors, including disruptions in supply caused by raw material transportation or production delays. Such shortages have not previously had and are not expected to have a material adverse effect on Libbey's operations in the future.

## **SALES AND MARKETING**

Libbey has its own sales representatives located strategically throughout the U.S. and Canada who call on customers and distributors. In late 1998, Libbey expanded its sales force by retaining the services of 25 manufacturing representatives organizations. These manufacturing representatives organizations are in addition to over 80 Libbey sales professionals located in various metropolitan areas throughout the U.S. and Canada. The majority of Libbey's tabletop sales to foodservice end users are made through approximately 500 independent distributors, who serve a vital function in the distribution of Libbey's products and with whom Libbey works closely in connection with marketing and selling efforts. Most of Libbey's retail, industrial and premium market sales are made directly by Libbey's sales force.

Libbey also has a marketing staff located at its corporate headquarters in Toledo, Ohio engaged in developing strategies relating to product development, pricing, distribution, advertising and sales promotion.

## **CUSTOMERS**

The customers for Libbey's tabletop products include approximately 500 foodservice distributors. In addition, Libbey sells to mass merchants, department stores, retail distributors, national retail chains and specialty housewares stores, supermarkets and industrial companies and others who use Libbey's products for promotional and other private uses. No single customer or group of customers accounts for 10% or more of Libbey's sales, although the loss of any of Libbey's major customers could have a material effect on Libbey. Sales for premium applications tend to be more unpredictable from year to year, and Libbey is less dependent on such business than it is on the foodservice, retail and industrial.

## **COMPETITORS**

Libbey's business is highly competitive, with the principal competitive factors being customer service, brand name, product quality, delivery time and price. Principal competitors in domestic glass tableware are Anchor Hocking (a unit of Newell Rubbermaid Inc.), a supplier of glass beverageware and one of the leading suppliers of glass bakeware to retail markets in the U.S.; Arc International, a private French company, which Libbey believes is the second leading supplier of glass beverageware in the U.S.; Indiana Glass Company (a unit of Lancaster Colony Corporation), which participates in various aspects of the U.S. market; and Oneida LTD., which expanded its glassware offering in 1998 through an import arrangement. The principal competitors in U.S. ceramic dinnerware are Homer Laughlin (a private U.S. company) and Rego China and Buffalo China (units of Oneida LTD.). The principal competitors in metal flatware are Oneida LTD. and Delco. Some of Libbey's competitors have substantially greater financial and other resources than Libbey.

In recent years, Libbey has experienced increasing competition from foreign manufacturers, including Arc International (France) and Kedaung (Indonesia), principally in retail. Libbey's joint venture investment in, and distribution agreement with, Vitrocrisa are expected to continue to enhance Libbey's ability to compete against foreign competitors.

## **PATENTS, TRADEMARKS AND LICENSES**

Based upon market research and market surveys, Libbey believes its Libbey trade name as well as product shapes and styles enjoy a high degree of consumer recognition and are valuable assets. Libbey believes that the Libbey, Syracuse China and World Tableware trade names are material to its business.

Libbey has rights under a number of patents which relate to a variety of products and processes. Libbey does not consider that any patent or group of patents relating to a particular product or process is of material importance to its business as a whole.

## **SEASONALITY**

Due primarily to the impact of consumer buying patterns and production activity, Libbey's profits tend to be strongest in the third quarter and weakest in the first quarter of each year. As a consequence, with the exception of 1998, profits typically range between 37% and 42% in the first half of each year and 58% to 63% in the second half of the year.

## ENVIRONMENTAL MATTERS

Libbey's operations, in common with those of industry generally, are subject to numerous existing and proposed laws and governmental regulations designed to protect the environment, particularly regarding plant wastes and emissions and solid waste disposal. Libbey has shipped, and continues to ship, waste materials for off-site disposal. Although Libbey is not named as a potentially responsible party in any waste disposal site matters pending prior to June 24, 1993, the date of Libbey's initial public offering and separation from Owens-Illinois, Owens-Illinois has been named as a potentially responsible party or other participant in connection with certain waste disposal sites to which Libbey may also have shipped wastes and bears some responsibility. Owens-Illinois has agreed to defend and hold harmless Libbey in connection with any such matters identified and pending as of June 24, 1993 and to indemnify it against any resulting costs and liabilities from such matters in excess of \$3 million. Libbey believes that if it is necessary to draw upon this indemnification, collection is probable. Pursuant to the indemnification agreement, Owens-Illinois is defending Libbey in a suit instituted by the Board of Lucas County Ohio Commissioners on January 4, 1999 against Owens-Illinois, Libbey and numerous other defendants (59 companies have been named in the complaint as potentially responsible parties) in the United States District Court for the Northern District of Ohio seeking to recover past and future costs incurred in response to the release or threatened release of hazardous substances at the King Road landfill. Owens-Illinois also defended Libbey in certain other similar matters including the Dura Landfill, which was settled in 1998 with Libbey's share estimated to be approximately \$151,000.

Subsequent to June 24, 1993, Libbey has been named a potentially responsible party at three sites all of which have been settled for immaterial amounts. No further sums are expected to be paid with respect to these sites unless unusual and unanticipated contingencies occur.

Through its Syracuse China subsidiary, Libbey acquired on October 10, 1995 from The Pfaltzgraff Co. and certain of its subsidiaries the assets operated as Syracuse China. The Pfaltzgraff Co. entered into an order of consent effective November 1, 1994 with the New York State Department of Environmental Conservation (NYSDEC) which requires Pfaltzgraff to prepare a Remedial Investigation and Feasibility Study (RI/FS) to develop a remedial action plan for a site in Syracuse, New York (which includes among other items a landfill and wastewater and sludge ponds and adjacent wetlands located on the property purchased by Syracuse China Company) and to remediate the site. As part of the Asset Purchase Agreement, the Syracuse China Company agreed to share a part of the remediation and related expense up to a maximum of fifty percent of such costs with a maximum limit for Syracuse China Company of \$1,350,000. Notwithstanding the foregoing, Syracuse China Company is not a party to the decree. The RI/FS is complete and the design of the remediation project prepared by an independent environmental remediation engineering firm is currently being reviewed by the NYSDEC. It is anticipated that a final design will be approved so that construction of the approved remedy will begin in 2000.

In addition, Syracuse China Company has been named as a potentially responsible party by reason of its potential ownership of the sub-site with respect to certain property adjoining its plant which has been designated a sub-site of a superfund site. Libbey believes that any contamination of such sub-site was caused by and will be remediated by other parties at no cost to Syracuse China. Such other parties have acquired ownership of the sub-site which should end any responsibility of Syracuse China with respect to the sub-site. In any event, any expense with respect to such sub-site for which Syracuse China may be deemed responsible would likely be shared with Pfaltzgraff pursuant to the Asset Purchase Agreement.

Libbey regularly reviews the facts and circumstances of the various environmental matters affecting Libbey, including those which are covered by indemnification. Although not free of uncertainties, Libbey believes that its share of the remediation costs at the various sites, based upon the number of parties involved at the sites and the estimated cost of undisputed work necessary for remediation based upon known technology and the experience of others, will not be material to Libbey. There can be no assurance, however, that Libbey's future expenditures in such regard will not have a material adverse effect on Libbey's financial position or results of operations.

In addition, occasionally the federal government and various state authorities have investigated possible health issues that may arise from the use of lead or other ingredients in enamels such as those used by Libbey on the exterior surface of its decorated products. Capital expenditures for property, plant and equipment for environmental control activities were not material during 1999. Libbey believes that it is in material compliance with all federal, state and local environmental laws, and Libbey is not aware of any regulatory initiatives that would be expected to have a material effect on Libbey's products or operations.

## **NUMBER OF EMPLOYEES**

Libbey employed approximately 3,287 persons at December 31, 1999. A majority of the glass tableware employees are U.S.-based hourly workers covered by six collective bargaining agreements which were entered into in the fourth quarter of 1998 and expire at various times during the fourth quarter of 2001. As a result of the capacity realignment plan, Libbey terminated the employment of most of the approximately 560 Canadian-based employees during 1999. The ceramic dinnerware hourly employees are covered by a collective bargaining agreement which expired in March 1999 and has subsequently been renegotiated to expire in March 2002. Libbey considers its employee relations to be good.

## **ITEM 2. PROPERTIES**

The following information sets forth the location of the Company's principal manufacturing and distribution facilities at December 31, 1999. The Company also operates distribution facilities at or near each of its manufacturing facilities as well as at the distribution centers set forth below:

### **Manufacturing Facilities**

Syracuse, New York  
Toledo, Ohio  
Shreveport, Louisiana  
City of Industry, California

### **Distribution Centers**

Vitrocrista - Laredo, Texas  
World Tableware - West Chicago, Illinois

The Company's headquarters, the World Tableware offices, some warehouses, sales offices and outlet stores are located in leased space.

All of the Company's operating properties are currently being utilized for their intended purpose and are owned in fee. The Company believes that its facilities are well maintained and adequate for its planned production requirements at those facilities over the next three to five years.

## **ITEM 3. LEGAL PROCEEDINGS**

The Company is involved in various routine legal proceedings arising in the ordinary course of its business. The Company is not engaged in any legal proceeding which would be deemed to be material to the Company.

## **ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

None.

## EXECUTIVE OFFICERS OF THE REGISTRANT

Set forth below are the names and the ages, positions and offices held (as of the date hereof), and a brief account of the business experience of each executive officer of the Company.

NAME ----	AGE ---	POSITION -----
John F. Meier Chairman and Chief Executive Officer	52	Chairman of the Board and Chief Executive Officer since June 1993; Executive Vice President and General Manager from December 1990 to June 1993.
Richard I. Reynolds Executive Vice President and Chief Operating Officer	53	Executive Vice President and Chief Operating Officer since November 1995; Vice President and Chief Financial Officer from June 1993 to November 1995; Vice President and Director of Finance and Administration from January 1989 to June 1993.
L. Frederick Ashton Vice President, General Sales Manager	59	Vice President, General Sales Manager since November 1990.
Arthur H. Smith Vice President, General Counsel and Secretary	64	Vice President, General Counsel and Secretary since June 1993; Secretary of the Company since 1987 and Senior Counsel and Assistant Secretary of Owens-Illinois, Inc. from 1987 to June 1993.
Kenneth G. Wilkes Vice President and Chief Financial Officer	42	Vice President and Chief Financial Officer since July 1999 after serving as Vice President, Chief Financial Officer and Treasurer of the company since November 1995. From August 1993 to November 1995 he was Vice President and Treasurer. Previously employed as Senior Corporate Banker, Vice President with The First National Bank of Chicago from 1981.

NAME ----	AGE ---	POSITION -----
Kenneth A. Boerger Vice President and Treasurer	42	Vice President and Treasurer since July 1999. Previously, from 1994 to July 1999 was Corporate Controller and Assistant Treasurer. From 1980 to 1994 held various financial and accounting positions.
John A. Zarb Vice President and Chief Information Officer	48	Vice President and Chief Information Officer since April 1996. Previously from 1991 to April 1996 employed by AlliedSignal Inc. in information technology senior management positions in Europe and the U.S.
Daniel P. Ibele Vice President, Marketing and Specialty Operations	39	Vice President, Marketing and Specialty Operations since September 1997; Vice President and Director of Marketing at Libbey since 1995. From 1983 to 1995 held various marketing and sales positions.
Timothy T. Paige Vice President and Director of Human Resources	42	Vice President and Director of Human Resources since January 1997; Director of Human Resources from May 1995 to January 1997. From 1991 to May 1995 employed by Frito-Lay, Inc. in Human Resources management positions.

**PART II**

**ITEM 5. MARKET FOR COMMON STOCK AND RELATED SHAREHOLDER MATTERS**

Libbey Inc. common stock is listed for trading on the New York Stock Exchange under the symbol LBY. The price range for the Company's common stock on the New York Stock Exchange as reported by the New York Stock Exchange was as follows:

	1999		1998	
	High	Low	High	Low
First Quarter	\$33	\$24 1/8	\$39 1/4	\$32 1/4
Second Quarter	\$33 3/4	\$27 1/8	\$39 1/2	\$35 3/4
Third Quarter	\$31 15/16	\$28 3/8	\$38 7/16	\$28 1/4
Fourth Quarter	\$29 3/4	\$24 5/8	\$33 5/8	\$28 3/8

On March 1, 2000, there were 1,222 registered common shareholders of record. The Company has paid a regular quarterly cash dividend of \$.075 per share beginning with the fourth quarter of 1993. The declaration of future dividends is within the discretion of the Board of Directors of the Company and will depend upon, among other things, business conditions, earnings and the financial condition of the Company.



**ITEM 6. SELECTED FINANCIAL DATA**

Dollars in thousands, except per-share data	1999	1998	1997(a)	1996	1995
<b>OPERATING RESULTS</b>					
Net sales	\$460,592	\$436,522	\$411,966	\$397,656	\$357,546
Total revenues	464,989	439,548	415,053	400,354	360,082
Cost of sales	321,633	321,949	295,009	288,538	257,945
Selling, general and administrative expenses	64,131	54,191	49,585	44,620	38,953
Capacity realignment charges	991	20,046	--	--	--
Income from operations	78,234	43,362	70,459	67,196	63,184
Equity earnings	2,915	8,880	3,570	--	--
Other income (expenses) -- net	13	1,493	(732)	1,302	499
Earnings before interest and income taxes	81,162	53,735	73,297	68,498	63,683
Interest expense -- net	12,501	12,674	14,840	14,962	13,974
Income before income taxes	68,661	41,061	58,457	53,536	49,709
Provision for income taxes	25,233	15,618	22,331	20,986	19,685
Net income	43,428	25,443	36,126	32,550	30,024
<b>PER-SHARE DATA:</b>					
Basic net income	2.69	1.45	2.33	2.16	2.00
Diluted net income	2.64	1.42	2.27	2.12	1.97
Dividends paid	0.30	0.30	0.30	0.30	0.30
<b>OTHER INFORMATION</b>					
EBIT	81,162	53,735	73,297	68,498	63,683
EBITDA	99,915	73,241	93,193	89,983	81,841
Depreciation	14,717	15,852	16,826	19,275	16,885
Amortization	4,036	3,654	3,070	2,210	1,273
Capital expenditures	9,428	17,486	18,408	15,386	20,198
Dividends paid	4,821	5,253	4,550	4,511	4,501
Employees (average)	3,552	3,969	4,136	4,110	3,870
<b>BALANCE SHEET DATA</b>					
Total assets	434,395	439,671	449,600	315,733	321,815
Working capital (b)	77,794	75,930	89,942	65,823	74,795
Long-term debt	170,000	176,300	200,350	202,851	248,721
Shareholders' equity (deficit)	91,843	94,860	99,989	(18,447)	(47,116)

(a) Includes the results of the Vitro Transactions beginning in September.

(b) Current assets less current liabilities excluding short-term debt.

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

### HISTORICAL FINANCIAL DATA

The following table presents certain results of operations data for Libbey for the periods indicated:

(Dollars in thousands)	YEAR ENDED DECEMBER 31,		
	1999	1998	1997
Net sales	\$460,592	\$436,522	\$411,966
Gross profit	\$138,959	\$114,573	\$116,957
As a percentage of sales	30.2%	26.2%	28.4%
Income from operations - excluding capacity realignment charge	\$ 79,225	\$ 63,408	\$ 70,459
As a percentage of sales	17.2%	14.5%	17.1%
Income from operations - after capacity realignment charge	\$ 78,234	\$ 43,362	\$ 70,459
As a percentage of sales	17.0%	9.9%	17.1%
Earnings before interest and income taxes	\$ 81,162	\$ 53,735	\$ 73,297
As a percentage of sales	17.6%	12.3%	17.8%
Net income	\$ 43,428	\$ 25,443	\$ 36,126
As a percentage of sales	9.4%	5.8%	8.8%

Management is not aware of any events or uncertainties that are likely to have a material impact on the Company's prospective results of operations or financial condition. The modest rate of inflation experienced over the last three years has not had a significant effect on the Company's financial results. Significant increases in inflation in the future could have a material impact on the Company's financial results if it is not able to raise prices to its customers.

### RESULTS OF OPERATIONS

COMPARISON OF 1999 WITH 1998 Net sales for 1999 of \$460.6 million were 5.5% higher than the net sales of \$436.5 million reported in 1998. Sales increases were recorded in all of the company's operations, with Syracuse China experiencing double-digit sales growth as well as a record performance in total foodservice glassware sales. Both glassware and dinnerware sales were positively impacted by sales associated with the millennium. In 1998, the company expanded its sales resources by retaining a network of manufacturing representative organizations to complement its factory sales force. Management believes this greater sales coverage also contributed to sales growth. Libbey's export sales, which include sales to Libbey's customers in Canada, decreased to \$56.2 million from \$58.1 million

in 1998. The decrease was the result of the decision to exit the production of bottleware in Canada, which reduced sales by \$4.5 million.

GROSS PROFIT increased 21.3% to \$139.0 million in 1999 from \$114.6 million in 1998 and increased as a percentage of sales to 30.2% from 26.2% over this period. Gross margin increased due to higher sales of more profitable products and lower costs due to improved utilization of the company's glassware plants.

INCOME FROM OPERATIONS was \$78.2 million in 1999 compared with \$43.4 million in 1998 and increased as a percentage of net sales to 17.0% from 9.9% in the year-ago period. Excluding the effect of the capacity realignment charge, income from operations would have totaled \$79.2 million in 1999 compared with \$63.4 million in the year-ago period, or an improvement of 24.9%. The higher operating income was primarily the result of improved utilization of the company's glassware plants and record sales.

EARNINGS BEFORE INTEREST AND INCOME TAXES (EBIT) increased 51.0% to \$81.2 million in 1999 compared with \$53.7 million in 1998, and increased as a percentage of net sales to 17.6% from 12.3% in the year-ago period. Excluding the capacity realignment charge, EBIT would have been \$82.2 million in 1999 compared with \$73.8 million in 1998, an increase of 11.3%. The increase was attributable to higher operating income which more than offset lower equity earnings at the company's joint venture in Mexico.

NET INCOME increased 70.7% to \$43.4 million compared with \$25.4 million in 1998, and increased as a percentage of net sales to 9.4% from 5.8% in the year-ago period. Excluding the impact of the capacity realignment charge, net income would have been \$44.1 million in 1999 compared with \$37.9 million in 1998, an increase of 16.3%. The increase is attributable to higher income from operations combined with a lower effective tax rate of 36.75% compared with 38.0% in the year-ago period. The reduction in the company's effective tax rate is primarily attributable to lower state income taxes.

### **CAPACITY REALIGNMENT CHARGE**

On December 31, 1998, the Board of Directors of the company approved a capacity realignment plan, which included reallocating a portion of the current production of the company's Wallaceburg, Ontario, facility to its glassware facilities in the United States to improve its cost structure and more fully utilize available capacity. In 1999, a portion of Wallaceburg's production was absorbed by the company's joint venture in Mexico, Vitrocrista. The company is servicing its Canadian glass tableware customers from its remaining manufacturing and distribution network, which includes locations in Toledo, Ohio; Shreveport, Louisiana; and City of Industry, California. The company has exited the production of bottleware, a niche, low-margin business for the company. In addition to the recorded capacity realignment charge in the fourth quarter of 1998 of \$20.0 million, the company recorded an additional charge in 1999 of approximately \$1.0 million, which included \$1.4 million for cost related to the disposition of fixed assets and \$0.4 million for

write-off of inventories and other costs partly offset by a \$0.8 million reduction for severance and related employee costs.

The Wallaceburg facility ceased production in May 1999, and the limited warehouse operations that remain will terminate in early 2000. The fixed assets, supply inventories and repair parts not transferred have been written down to a nominal amount. The Wallaceburg property is presently held for sale; however, if a buyer is not located, it will be abandoned. The company terminated the employment of virtually all of its 560 salary and hourly employees and included severance and related employee costs in its capacity realignment charge at the time when such severance amounts were disclosed to the employees. These severance and related employee costs were paid primarily when production ceased.

The capacity realignment was instrumental in reducing the company's cost structure and improving its profitability. Productivity improvements and better leveraging existing infrastructure at its glassware facilities and the availability of cost-effective capacity at the company's joint venture enabled these changes.

**COMPARISON OF 1998 WITH 1997** Net sales for 1998 of \$436.5 million were 6.0% higher than the net sales of \$412.0 million reported in 1997. The primary contributing factor to the increase was the inclusion of sales of World Tableware and sales associated with the company's distribution agreement with Vitrocrisa for the full year. These businesses were acquired on August 29, 1997, and 1997 results reflect only four months of operation. Sales of the company's glassware products were approximately the same as last year, as the inclusion of a full year's sales of glassware pursuant to the Vitrocrisa distribution agreement offset declines in the company's sales to export, retail and foodservice customers. The company experienced higher unit sales in glassware, which were offset by lower average unit selling prices. Sales at Syracuse China were higher because of higher average unit sales prices resulting from a change in sales mix to larger dinnerware items. Libbey's export sales, which include sales to Libbey's customers in Canada, decreased to \$58.1 million from \$60.2 million in 1997. The decrease was partly the result of lower sales to customers in the Far East and South America primarily due to increases in prices resulting from the strength of the U.S. dollar.

**GROSS PROFIT** decreased 2.0% to \$114.6 million in 1998 from \$117.0 million in 1997 and declined as a percentage of sales to 26.2% from 28.4% over this period. Gross margins declined because of higher manufacturing expenses, the impact of lower production levels to reduce inventories and the inclusion of the sales for a full year of glassware pursuant to the Vitrocrisa distribution agreement and World Tableware, both of which experience gross margins less than the company's average. Expense increases were partly attributable to higher maintenance expenses and the write-off of redundant assets late in the year.

**INCOME FROM OPERATIONS** was \$43.4 million in 1998 compared with \$70.5 million in 1997 and declined as a percentage of net sales to 9.9% from 17.1% in the year-ago period. Lower

gross profit margins and the impact of a \$20.0 million capacity realignment charge in the fourth quarter were factors contributing to the decrease in the margin. Before this charge, income from operations as a percentage of sales was 14.5%. In addition, the decrease is attributable to higher selling, general and administrative expenses partly related to the inclusion of the expenses of World Tableware for a full year.

EARNINGS BEFORE INTEREST AND INCOME TAXES (EBIT) were \$53.7 million in 1998, compared with \$73.3 million in 1997, and declined as a percentage of net sales to 12.3% from 17.8% in the year-ago period. Excluding the impact of the \$20.0 million capacity realignment charge, EBIT as a percentage of net sales would have been 16.9%. The reduction is attributable to the lower income from operations as a percentage of sales, which more than offset an increase in equity earnings to \$8.9 million from \$3.6 million in 1997. The higher equity earnings resulted primarily from the inclusion of a full year of earnings from the company's investment in Vitrocrisa, which occurred on August 29, 1997.

NET INCOME was \$25.4 million, compared with \$36.1 million in 1997 and declined as a percentage of net sales to 5.8% from 8.8% in the year-ago period. The decline is attributable to lower income from operations as a percentage of sales, which more than offset lower interest expenses and a lower effective tax rate of 38.0% compared with 38.2% in the year-ago period. The reduction in the company's effective tax rate is primarily attributable to an increase in tax credits.

### **CAPITAL RESOURCES AND LIQUIDITY**

Libbey's financial condition at year-end 1999 reflects the effects of the company's improved cash flow, share repurchases and the capacity realignment reserve. Net cash provided by operating activities increased to \$68.7 million from \$51.3 million in 1998. Higher net income and lower inventories more than offset \$11.1 million in capacity realignment payments and higher receivables. Reductions in inventories were experienced in all the company's operations and are attributable to the company's efforts to improve asset utilization.

Capital expenditures were \$9.4 million in 1999 compared with \$17.5 million in 1998 and included scheduled maintenance and investment in higher-productivity machinery and equipment. Capital expenditures for 2000 are expected to be in the range of \$20.0 to \$22.0 million. Cash of \$42.8 million was used by the company to repurchase 1,623,000 shares of its common stock. Since mid-1998, the company has repurchased 2,498,000 shares for \$70.1 million. Board authorization remains for the purchase of an additional 1,127,000 shares. Before the use of \$42.8 million in cash to repurchase shares, the company generated \$55.9 million of free cash flow, the strongest operating cash flow performance in the company's history.

Libbey had total debt of \$178.7 million at December 31, 1999, compared with \$191.2 million at December 31, 1998. The decrease was primarily attributable to the net cash provided from operations. Libbey had additional debt capacity of \$204.8 million at December 31, 1999, under the Bank Credit Agreement. Libbey has entered into interest rate protection

agreements with respect to \$75.0 million of its debt. The average interest rate for the company's borrowings related to the interest rate protection agreements is 6.68% with an average maturity of 2.3 years at December 31, 1999.

Of Libbey's outstanding indebtedness, \$103.7 million is subject to fluctuating interest rates at December 31, 1999. A change of one percentage point in such rates would result in a change in interest expense of approximately \$1.0 million on an annual basis.

The company is not aware of any trends, demands, commitments or uncertainties that will result or that are reasonably likely to result in a material change in Libbey's liquidity. The company believes that its cash from operations and available borrowings under the Bank Credit Agreement will be sufficient to fund its operating requirements, capital expenditures and all other obligations (including debt service and dividends) throughout the remaining term of the Bank Credit Agreement. In addition, the company anticipates refinancing the Bank Credit Agreement at or prior to the maturity date of May 1, 2002, to meet the company's longer-term funding requirements

#### **YEAR 2000**

Libbey developed and initiated plans that addressed the possible exposures related to the impact of the Year 2000 on its computer systems, equipment, business and operations. The company completed all Year 2000 readiness work on time and experienced no significant problems. The company expensed approximately \$235,000 in connection with this project. With respect to capital expenditures, approximately an additional \$2.0 million was spent on upgrades to the company's enterprise resource planning system, other systems and desktop and laptop computers that also address Year 2000 compliance. There are no material expenditures expected to be incurred in the future related to the Year 2000 issue. The company sees no continued exposure to the Year 2000 problem.

#### **ITEM 7a. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK**

The company is exposed to market risks due to changes in currency values, although the majority of the company's revenues and expenses are denominated in the U.S. dollar. The currency market risks include devaluations and other major currency fluctuations relative to the U.S. dollar that could reduce the cost competitiveness of the company's products compared to foreign competition and the effect of exchange rate changes to the value of the Mexican peso relative to the U.S. dollar and the impact of those changes on the earnings and cash flow of the company's joint venture in Mexico, Vitrocrisa, expressed under U.S. GAAP.

The company is exposed to market risks associated with changes in interest rates in the U.S. However, the company has entered into Interest Rate Protection Agreements ("Rate

Agreements") with respect to \$75.0 million of debt as a means to manage its exposure to fluctuating interest rates. The Rate Agreements effectively convert this portion of the company's borrowings from variable rate debt to a fixed-rate basis, thus reducing the impact of interest rate changes on future income. The average interest rate for the company's borrowings related to the Rate Agreements at December 31, 1999, was 6.68% for an average remaining period of 2.3 years. Total remaining debt not covered by the Rate Agreements has fluctuating interest rates with a weighted average rate of 6.42% at December 31, 1999. The company had \$103.7 million of debt subject to fluctuating interest rates at December 31, 1999. A change of one percentage point in such rates would result in a change in interest expense of approximately \$1.0 million on an annual basis.

The interest rate differential to be received or paid under the Rate Agreements is being recognized over the life of the Rate Agreements as an adjustment to interest expense. If the counterparts to these Rate Agreements fail to perform, the company would no longer be protected from interest rate fluctuations by these Rate Agreements. However, the company does not anticipate nonperformance by the counterparts. At December 31, 1999, the carrying value of the long-term debt approximates its fair value based on the company's current incremental borrowing rates. The fair market value for the company's Interest Rate Protection Agreements at December 31, 1999, was \$0.9 million. The fair value of long-term debt is estimated based on borrowing rates currently available to the company for loans with similar terms and maturities. The fair value of the company's Rate Agreements is based on quotes from brokers for comparable contracts. The company does not expect to cancel these agreements and expects them to expire as originally contracted.

#### **OTHER INFORMATION**

This document and supporting schedules contain "forward-looking" statements as defined in the Private Securities Litigation Reform Act of 1995. Such statements only reflect the company's best assessment at this time, and are indicated by words or phrases such as "goal," "expects," "believes," "will," "estimates," "anticipates" or similar phrases.

Investors are cautioned that forward-looking statements involve risks and uncertainty, that actual results may differ materially from such statements, and that investors should not place undue reliance on such statements.

Important factors potentially affecting performance include devaluations and other major currency fluctuations relative to the U.S. dollar that could reduce the cost-competitiveness of the company's products compared to foreign competition; the effect of high inflation in Mexico and exchange rate changes to the value of the Mexican peso and the earnings and cash flow of the company's joint venture in Mexico, Vitrocrisa, expressed under U.S. GAAP; the inability to achieve savings and profit improvements at targeted levels in the company's glassware sales from its capacity realignment efforts and re-engineering programs, or within the intended time periods; inability to achieve targeted manufacturing efficiencies at Syracuse China and cost synergies between World Tableware and the company's other operations; significant increases in interest rates that increase the company's borrowing

costs and per unit increases in the costs for natural gas, corrugated packaging and other purchased materials; protracted work stoppages related to collective bargaining agreements; increased competition from foreign suppliers endeavoring to sell glass tableware in the United States; major slowdowns in the retail, travel or entertainment industries in the United States or Canada; whether the company completes any significant acquisition, and whether such acquisitions can operate profitably.



## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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## **REPORT OF INDEPENDENT AUDITORS**

### **THE BOARD OF DIRECTORS AND SHAREHOLDERS LIBBEY INC.**

We have audited the accompanying consolidated balance sheets of Libbey Inc. as of December 31, 1999 and 1998, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1999. Our audits also included the financial statement schedule listed in the index at Item 14(a). These financial statements and schedule are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits. We did not audit the 1999 and 1998 financial statements of Vitrocrisa, S. de R.L. de C.V. (formerly Vitrocrisa, S.A. de C.V.), a corporation in which Libbey Inc. has a 49% equity interest, which statements reflect total assets of \$220.9 million and \$193.4 million as of December 31, 1999 and 1998, respectively. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to data included for Vitrocrisa, S. de R.L. de C.V., is based solely on the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Libbey Inc. at December 31, 1999 and 1998, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

**ERNST & YOUNG LLP**

Toledo, Ohio  
January 28, 2000

**LIBBEY INC.**  
Consolidated Balance Sheets

Dollars in thousands	December 31,	
	1999	1998
<b>ASSETS</b>		
Current assets:		
Cash	\$ 3,918	\$ 3,312
Accounts receivable:		
Trade, less allowances of \$3,869 and \$3,636	59,492	48,474
Other	2,837	1,323
	62,329	49,797
Inventories:		
Finished goods	80,547	81,770
Work in process	5,829	5,763
Raw materials	2,844	3,134
Operating supplies	669	695
	89,889	91,362
Prepaid expenses and deferred taxes	8,028	11,108
<b>Total current assets</b>	<b>164,164</b>	<b>155,579</b>
Other assets:		
Repair parts inventories	5,684	8,633
Intangibles, net of accumulated amortization of \$2,647 and \$2,343	9,558	9,862
Pension assets	14,625	10,701
Deferred software, net of accumulated amortization of \$6,181 and \$3,974	5,728	6,299
Other assets	379	754
Equity investments	82,835	80,437
Goodwill, net of accumulated amortization of \$14,651 and \$13,126	46,328	47,935
	165,137	164,621
Property, plant and equipment at cost	217,584	235,713
Less accumulated depreciation	112,490	116,242
	105,094	119,471
<b>Total assets</b>	<b>\$434,395</b>	<b>\$439,671</b>

See accompanying notes.

**LIBBEY INC.**  
**Consolidated Balance Sheets**  
(Continued)

Dollars in thousands	December 31,	
	1999	1998
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Notes payable	\$ 8,655	\$ 14,932
Accounts payable	29,126	22,605
Salaries and wages	22,804	14,413
Capacity realignment reserve	3,692	19,929
Accrued liabilities	24,777	22,702
Income taxes	5,971	--
Total current liabilities	95,025	94,581
Long-term debt	170,000	176,300
Deferred taxes	18,392	16,184
Other long-term liabilities	6,594	6,689
Nonpension retirement benefits	52,541	51,057
Shareholders' equity:		
Common stock, par value \$.01 per share, 50,000,000 shares authorized, 17,747,753 shares issued including 2,498,000 Treasury shares (17,707,570 shares issued including 875,000 Treasury shares in 1998)	152	168
Capital in excess of par value	282,734	281,956
Treasury stock	(70,061)	(27,250)
Deficit	(119,995)	(158,602)
Cumulative foreign currency translation adjustment	(987)	(1,412)
Total shareholders' equity	91,843	94,860
Total liabilities and shareholders' equity	\$434,395	\$439,671

See accompanying notes.

**LIBBEY INC.**  
**Consolidated Statements of Income**

Dollars in thousands, except per-share amounts	Year ended December 31,		
	1999	1998	1997
=====			
REVENUES:			
Net sales	\$460,592	\$436,522	\$411,966
Royalties and net technical assistance income	4,397	3,026	3,087
-----			
Total revenues	464,989	439,548	415,053
Costs and expenses:			
Cost of sales	321,633	321,949	295,009
Selling, general and administrative expenses	64,131	54,191	49,585
Capacity realignment charges	991	20,046	--
-----			
	386,755	396,186	344,594
-----			
INCOME FROM OPERATIONS	78,234	43,362	70,459
Other income (expense):			
Equity earnings	2,915	8,880	3,570
Other - net	13	1,493	(732)
-----			
	2,928	10,373	2,838
-----			
Earnings before interest and income taxes	81,162	53,735	73,297
Interest expense - net	(12,501)	(12,674)	(14,840)
-----			
Income before income taxes	68,661	41,061	58,457
Provision for income taxes	25,233	15,618	22,331
-----			
NET INCOME	\$ 43,428	\$ 25,443	\$ 36,126
=====			
NET INCOME PER SHARE:			
Basic	\$2.69	\$1.45	\$2.33
Diluted	\$2.64	\$1.42	\$2.27
=====			

See accompanying notes

**LIBBEY INC.**  
**Consolidated Statements of Shareholders' Equity**

Dollars in thousands, except per-share data	Shares	Common Stock Amount	Capital in Excess of Par Value	Treasury Stock	Deficit	Accumulated Other Comprehensive Income/(Loss)	Total
Balance January 1, 1997	15,061,231	\$151	\$191,909		\$(210,368)	\$(139)	\$(18,447)
Comprehensive income:							
Net income					36,126		36,126
Effect of exchange rate fluctuation						(463)	(463)
Comprehensive income							35,663
Stock options exercised	219,700	1	4,704				4,705
Stock offering net of \$573 expenses	2,300,000	23	82,595				82,618
Dividend -- \$0.30 per share					(4,550)		(4,550)
Balance December 31, 1997	17,580,931	175	279,208		(178,792)	(602)	99,989
Comprehensive income:							
Net income					25,443		25,443
Effect of exchange rate fluctuation						(810)	(810)
Comprehensive income							24,633
Stock options exercised	126,639	1	2,748				2,749
Purchase of shares for treasury	(875,000)	(8)		\$(27,250)			(27,258)
Dividend -- \$0.30 per share					(5,253)		(5,253)
Balance December 31, 1998	16,832,570	168	281,956	(27,250)	(158,602)	(1,412)	94,860
Comprehensive income:							
Net income					43,428		43,428
Effect of exchange rate fluctuation						425	425
Comprehensive income							43,853
Stock options exercised	40,183	1	778				779
Purchase of shares for treasury	(1,623,000)	(17)		(42,811)			(42,828)
Dividend -- \$0.30 per share					(4,821)		(4,821)
Balance December 31, 1999	15,249,753	\$152	\$282,734	\$(70,061)	\$(119,995)	\$(987)	\$91,843

See accompanying notes

**LIBBEY INC.**  
**Consolidated Statements of Cash Flow**

Dollars in thousands	1999	Year ended December 31, 1998	1997
<b>OPERATING ACTIVITIES</b>			
Net income	\$43,428	\$25,443	\$36,126
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	14,717	15,852	16,826
Amortization	4,036	3,654	3,070
Equity earnings	(2,915)	(8,880)	(3,570)
Capacity realignment charge	991	20,046	--
Nonpension retirement benefit cost in excess of payments	1,419	(1,417)	1,309
Deferred income taxes	4,274	(498)	2,028
Other	1,579	1,468	316
Changes in operating assets and liabilities:			
Accounts receivable	(10,202)	1,566	(5,226)
Inventories	1,404	8,693	(9,558)
Prepaid expenses	640	9	(506)
Other assets	(3,141)	(5,126)	(3,534)
Accounts payable	6,313	(2,859)	647
Accrued liabilities	8,342	(5,499)	2,274
Other liabilities	(2,174)	(1,175)	(1,586)
<b>Net cash provided by operating activities</b>	<b>68,711</b>	<b>51,277</b>	<b>38,616</b>
<b>INVESTING ACTIVITIES</b>			
Additions to property, plant and equipment	(9,428)	(17,486)	(18,408)
Vitro acquisition and equity investments	--	--	(106,750)
Dividends received from equity investments	517	14,232	--
Other	94	1,639	654
<b>Net cash used in investing activities</b>	<b>(8,817)</b>	<b>(1,615)</b>	<b>(124,504)</b>
<b>FINANCING ACTIVITIES</b>			
Net bank credit facility activity	(6,300)	(23,751)	(2,097)
Other net borrowing activity	(6,217)	4,547	5,860
Stock offering	--	--	82,618
Stock options exercised	779	2,749	4,705
Treasury shares purchased	(42,828)	(27,258)	--
Dividends	(4,821)	(5,253)	(4,550)
<b>Net cash provided by (used in) financing activities</b>	<b>(59,387)</b>	<b>(48,966)</b>	<b>86,536</b>
Effect of exchange rate fluctuations on cash	99	(18)	(4)
Increase in cash	606	678	644
Cash at beginning of year	3,312	2,634	1,990
<b>CASH AT END OF YEAR</b>	<b>\$ 3,918</b>	<b>\$ 3,312</b>	<b>\$ 2,634</b>

See accompanying notes

**LIBBEY INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(DOLLARS IN THOUSANDS, EXCEPT SHARE DATA)

1. **BASIS OF PRESENTATION** The consolidated financial statements include the accounts of Libbey Inc. and all wholly owned subsidiaries ("the Company"). The preparation of financial statements in conformity with generally accepted accounting principles requires 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. **SIGNIFICANT ACCOUNTING POLICIES BUSINESS** The Company operates in one business segment, tableware products. The Company designs, manufactures and markets an extensive line of high-quality, machine-made glass beverageware, other glass tableware and ceramic dinnerware to a broad group of customers in the foodservice, retail, industrial and premium areas. Most of the Company's sales are to customers in North America. The Company also imports and distributes ceramic dinnerware and flatware and has a 49% interest in a glass tableware manufacturer in Mexico.

**INVENTORY VALUATION** The Company uses the last-in, first-out (LIFO) cost method of inventory valuation for over 70% of its inventories. If inventories valued on the LIFO method had been valued at standard or average costs, which approximate current costs, inventories would be higher than reported by \$9,726, \$11,203 and \$11,720 at December 31, 1999, 1998 and 1997, respectively. The remaining inventories are valued at either standard or average cost which approximate current costs.

**GOODWILL** Goodwill, which resulted from the excess of purchase cost over net assets acquired, is being amortized over 40 years. The Company periodically reviews goodwill to assess recoverability, generally based upon expectations of nondiscounted cash flows and operating income.

**INTANGIBLES** Intangibles resulted from valuations assigned by independent appraisers for future revenues from technical assistance agreements and trademarks acquired.

**DEFERRED SOFTWARE** Deferred software is the cost of software packages purchased and the cost associated with the installation of the software. This cost is amortized over 5 years.



The Company periodically reviews the software to assess plans to replace the existing programs before the 5 years.

**PROPERTY, PLANT AND EQUIPMENT** Depreciation is provided on the straight-line method over the estimated useful lives of the assets, generally 3 to 10 years for equipment and furnishings and 20 to 40 years for buildings and improvements.

**STOCK OPTIONS** The Company accounts for employee stock options in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees."

**INCOME TAXES** Deferred income taxes are determined based on temporary differences between financial reporting and tax bases of assets and liabilities and are measured using the tax rates and laws that are expected to be in effect when the differences are expected to reverse.

**REVENUE RECOGNITION** Revenue is recognized when the product is shipped. The Company generally does not accept a return unless it is preauthorized.

**ROYALTIES AND NET TECHNICAL ASSISTANCE** Royalties and net technical assistance income are accrued based on the terms of the respective agreements, which typically specify that a percentage of the licensee's sales be paid to the Company monthly, quarterly or semi-annually in exchange for the Company's assistance with manufacturing and engineering and support in functions such as marketing, sales and administration.

**FOREIGN CURRENCY TRANSLATION** The assets and liabilities of the Company's wholly owned foreign subsidiary are translated at current exchange rates, and any related translation adjustments are recorded directly in shareholders' equity. The 49% investment in Vitrocrisa is accounted for using the equity method with the U.S. dollar being the functional currency.

**OTHER COMPREHENSIVE INCOME/(LOSS)** Other comprehensive income/(loss) for the Company consists of foreign currency translation adjustment. Disclosure of comprehensive income/(loss) is incorporated into the Statement of Shareholders' Equity for all years presented.

**NEW ACCOUNTING STANDARDS** In June 1998, the Financial Accounting Standards Board issued Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" (Statement 133) which establishes new procedures for accounting for derivatives and hedging activities and supersedes and amends a number of existing standards. Statement 133 is effective for fiscal years beginning after June 15, 2000, and the Company has not determined its impact.

**TREASURY STOCK** Treasury stock purchases are recorded at cost. During 1999 and 1998 the Company purchased 1,623,000 and 875,000 shares of treasury stock at an average cost of \$26.39 and \$31.15, respectively.

INCOME PER SHARE OF COMMON STOCK The following table sets forth the computation of basic and diluted earnings per share:

Year ended December 31,	1999	1998	1997
Numerator for diluted earnings per share -- net income that is available to common shareholders	\$43,428	\$25,443	\$36,126
Denominator for basic earnings per share -- weighted-average shares outstanding	16,151,169	17,523,564	15,479,704
Effect of dilutive securities -- employee stock options	325,834	392,132	457,353
Denominator for diluted earnings per share -- adjusted weighted-average shares and assumed conversions	16,477,003	17,915,696	15,937,057
Basic earnings per share	\$ 2.69	\$ 1.45	\$ 2.33
Diluted earnings per share	\$ 2.64	\$ 1.42	\$ 2.27

3. ACQUISITION AND EQUITY INVESTMENTS On August 29, 1997, the Company completed a series of transactions with Vitro S.A. (collectively the "Vitro Transactions") for a cash purchase price of approximately \$104.4 million and the assumption of certain liabilities, financed through borrowings under the Bank Credit Agreement. The primary components of the Vitro Transactions included the Company becoming: (i) a 49% equity owner in Vitrocrisa; (ii) the exclusive distributor of Vitrocrisa's glass tableware products in the U.S. and Canada and Vitrocrisa becoming the exclusive distributor of Libbey glass tableware products in Latin America; (iii) the owner of substantially all of the assets and certain liabilities of the business formerly known as WorldCrisa, renamed World Tableware; and (iv) the owner of a 49% interest in the business of Crisa Industrial, L.L.C., which distributes industrial glassware in the U.S. and Canada for Vitrocrisa. As a result of the Vitro Transactions, the Company consolidates the financial results of World Tableware and includes in its financial results sales of Vitrocrisa's glass tableware in the U.S. and Canada pursuant to the distribution agreement.

The equity interests in Vitrocrisa and Crisa Industrial, L.L.C. were recorded as equity investments of \$82.2 million, which exceeded the underlying equity in net assets by approximately \$66.0 million. This amount is being amortized over 40 years as a charge to equity earnings. The acquisition of World Tableware was accounted for under the purchase method of accounting for financial reporting purposes, and an allocation of the purchase price to the underlying net assets acquired has been made. The excess of the aggregate

purchase price over the fair value of assets acquired of approximately \$11.8 million was recorded as goodwill and is being amortized over 40 years. The operating results of World Tableware and the equity earnings of Vitrocrisa and Crisa Industrial, L.L.C. have been included in the consolidated financial statements since the date of acquisition.

The following unaudited pro forma results of operations assume the acquisition and equity investments occurred as of January 1, 1996 (in thousands, except per-share amounts):

Year ended December 31,	1997
-----	-----
Net revenues	\$455,453
Net income	\$ 36,901
Net income per share:	
Basic	\$2.38
Diluted	\$2.32

The pro forma financial information is not necessarily indicative of the operating results that would have occurred had the Vitro Transactions been consummated as of January 1, 1996, nor are they necessarily indicative of future operating results.

Summarized combined financial information for equity investments is as follows:

December 31,	1999	1998
-----	-----	-----
Current assets	\$ 77,462	\$ 61,457
Non-current assets	129,915	134,208
	-----	-----
Total assets	207,377	195,665
Current liabilities	93,431	90,037
Other liabilities and deferred items	96,389	96,068
	-----	-----
Total liabilities and deferred items	189,820	186,105
	-----	-----
Net assets	\$ 17,557	\$ 9,560
=====	=====	=====

Year ended December 31,	1999	1998	1997(1)
Net sales	\$189,699	\$172,562	\$ 71,413
Cost of sales	129,667	114,250	44,172
Gross profit	60,032	58,312	27,241
Operating expenses	21,260	19,765	10,651
Income from operations	38,772	38,547	16,590
Other income (loss)	(1,058)	1,003	217
Earnings before finance costs and taxes	37,714	39,550	16,807
Interest expense	10,871	14,061	4,327
Translation gain (loss)	(1,392)	4,433	1,500
Earnings before income taxes and profit sharing	25,451	29,922	13,980
Income taxes and profit sharing	16,040	8,336	5,540
Net income	\$ 9,411	\$ 21,586	\$ 8,440

(1)Results after the investment date of August 29, 1997

4. PROPERTY, PLANT AND EQUIPMENT Property, plant and equipment consists of the following:

December 31,	1999	1998
Land	\$ 15,184	\$ 15,184
Buildings	33,047	31,495
Machinery and equipment	154,406	169,249
Furniture and fixtures	11,577	11,961
Construction in progress	3,370	7,824
	217,584	235,713
Less accumulated depreciation	112,490	116,242
Net property, plant and equipment	\$105,094	\$119,471

5. OTHER ACCRUED LIABILITIES Other accrued liabilities include accruals for insurance of \$5,510 and \$6,109 and various incentive programs of \$14,510 and \$11,865 at December 31, 1999 and 1998, respectively.

6. INCOME TAXES The provision (credit) for income taxes consists of the following:

Year ended December 31,	1999	1998	1997
Current:			
Federal	\$ 21,062	\$ 11,383	\$ 15,906
Foreign	(2,498)	3,330	2,345
State and local	2,395	1,403	2,052
	20,959	16,116	20,303
Deferred:			
Federal	1,154	5,874	1,500
Foreign	3,530	(7,049)	368
State and local	(410)	677	160
	4,274	(498)	2,028
Total:			
Federal	22,216	17,257	17,406
Foreign	1,032	(3,719)	2,713
State and local	1,985	2,080	2,212
	\$ 25,233	\$ 15,618	\$22,331

The provision for income taxes was calculated based on the following components of earnings (loss) before income taxes:

Year ended December 31,	1999	1998	1997
Domestic	\$65,996	\$ 52,091	\$50,734
Foreign	2,665	(11,030)	7,723
	\$68,661	\$ 41,061	\$58,457

A reconciliation from the statutory U.S. federal tax rate of 35% to the consolidated effective tax rate is as follows:

Year ended December 31,	1999	1998	1997
Statutory U.S. federal tax rate	35.0%	35.0%	35.0%
Increase in rate due to:			
State and local income taxes, net of related federal taxes	1.9	3.3	2.5
Amortization of goodwill	1.2	2.0	0.9
Other	(1.35)	(2.3)	(0.2)
Consolidated effective tax rate	36.75%	38.0%	38.2%

Income taxes paid in cash amounted to \$13,849, \$17,078 and \$16,570 for the years ended December 31, 1999, 1998 and 1997, respectively.

Significant components of the Company's deferred tax liabilities and assets are as follows:

December 31,	1999	1998
Deferred tax liabilities:		
Property, plant and equipment	\$ 20,055	\$ 22,600
Inventories	5,677	4,105
Pension	4,835	3,531
Intangibles and other assets	14,508	12,125
Total deferred tax liabilities	45,075	42,361
Deferred tax assets:		
Accrued nonpension retirement benefits	19,683	19,206
Other accrued liabilities	9,814	6,611
Receivables	803	321
Capacity realignment reserve	1,346	7,451
Other	1,301	523
Total deferred tax assets	32,947	34,112
Net deferred tax liabilities	\$ 12,128	\$ 8,249

Net deferred tax liabilities are included in the consolidated balance sheets as follows:

December 31,	1999	1998
Noncurrent deferred taxes	\$ 18,392	\$ 16,184
Prepaid expenses	(6,264)	(7,935)
Net deferred tax liabilities	\$ 12,128	\$ 8,249

7. PENSION PLANS AND NONPENSION RETIREMENT BENEFITS The Company has pension plans covering substantially all employees. Benefits generally are based on compensation for salaried employees and length of service for hourly employees. The Company's policy is to fund pension plans such that sufficient assets will be available to meet future benefit requirements.

The components of the benefit obligation, plan assets and funded status of the plans are as follows:

	December 31,	
	1999	1998
	-----	-----
Change in benefit obligation:		
Benefit obligation, beginning of year	\$168,566	\$162,526
Service cost	3,825	3,799
Interest cost	11,836	11,395
Plan amendments	544	6,793
Actuarial (gain) loss	(14,735)	(2,748)
Benefits paid	(11,795)	(13,199)
	-----	-----
Benefit obligation, end of year	\$158,241	\$168,566
	-----	-----
Change in plan assets:		
Fair value of plan assets, beginning of year	\$219,435	\$201,424
Actual return on plan assets	38,764	31,210
Benefits paid	(11,795)	(13,199)
	-----	-----
Fair value of plan asset, end of year	\$246,404	\$219,435
	-----	-----
Funded status of plan	\$ 88,163	\$ 50,869
Unrecognized net gain	(79,294)	(45,728)
Unrecognized prior year service cost	5,756	5,560
	-----	-----
Prepaid pension benefit cost	\$ 14,625	\$ 10,701
	-----	-----

The actuarial present value of benefit obligations is based on a discount rate of 7.75% in 1999 and 7.0% in 1998. The expected long-term rate of return on assets is 10.0% in 1999 and 1998. A salary growth rate of 5.0% was used in 1999 and 4.5% in 1998. Future benefits are assumed to increase in a manner consistent with past experience. Plan assets primarily include marketable equity securities and government and corporate debt securities.

The components of the net pension expense are as follows:

	Year-ended December 31,		
	1999	1998	1997
	-----	-----	-----
Service cost (benefits earned during the period)	\$ 3,825	\$ 3,799	\$ 3,373
Interest cost on projected benefit obligation	11,836	11,395	11,479
Expected return on plan assets	(19,248)	(17,256)	(16,013)
Prior service cost amortization	348	166	(75)
Actuarial gain recognized	(685)	--	(275)
	-----	-----	-----
Net pension credit	\$ (3,924)	\$ (1,896)	\$ (1,511)
	=====	=====	=====

The Company also sponsors certain other employee retirement benefit plans which in the aggregate resulted in an expense of \$2,082, \$1,977 and \$1,975 in 1999, 1998 and 1997, respectively.

The Company also provides certain retiree health care and life insurance benefits covering substantially all salaried and hourly employees. Employees are generally eligible for benefits upon retirement and completion of a specified number of years of creditable service. Benefits for most hourly retirees are determined by collective bargaining. Under a cross-indemnity agreement, Owens-Illinois assumed liability for the nonpension retirement benefits of Company retirees who had retired as of June 18, 1993.

The components of the nonpension retirement benefit obligation and amounts accrued are as follows:

	December 31,	
	1999	1998
Change in accumulated postretirement benefit obligation:		
Benefit obligation, beginning of year	\$ 17,471	\$ 30,699
Service cost	532	698
Interest cost	1,475	1,485
Plan amendments	3,863	(12,413)
Actuarial gain	(1,869)	(2,124)
Benefits paid	(1,151)	(874)
Benefit obligation, end of year	\$ 20,321	\$ 17,471
Funded status of plan	\$(20,321)	\$(17,471)
Unrecognized actuarial gain	(16,758)	(16,464)
Unrecognized prior year service cost	(15,462)	(17,122)
Prepaid (accrued) benefit cost	\$(52,541)	\$(51,057)

The provision for nonpension retirement benefit costs consists of the following:

	Year ended December 31,		
	1999	1998	1997
Service cost (benefits earned during the period)	\$ 533	\$ 698	\$ 1,236
Amortization	933	(2,517)	(1,639)
Interest cost on nonpension retirement benefit obligation	1,475	1,485	2,408
Net nonpension retirement benefit cost (credit)	\$2,941	\$ (334)	\$ 2,005

Assumed health care cost inflation is based on a gradual decrease to an ultimate rate of 5.0%. A one percentage point increase in these rates would have increased the nonpension



retirement expense by \$75 and the benefit obligation by \$941. A one percentage point decrease in these rates would have decreased the net nonpension retirement expense by \$83 and the benefit obligation by \$1,050. The assumed discount rate used in determining the accumulated nonpension retirement benefit obligation was 7.75% for 1999 and 7.0% for 1998. The increase in 1999 in the accumulated postretirement benefit obligation related to coverage of additional employees for medical expense. The reduction in 1998 in the accumulated postretirement benefit obligation related to plan amendments which provided for retiree contributions and annual cost limits. The Company continues to fund these nonpension retirement benefit obligations as claims are incurred.

The Company also provides retiree health care benefits to certain union hourly employees through participation in a multi-employer retiree health care benefit plan. Approximately \$400, \$443 and \$388 was charged to expense for the years ended December 31, 1999, 1998 and 1997, respectively.

**8. LONG-TERM DEBT** The Company and its Canadian subsidiary have an unsecured agreement ("Bank Credit Agreement" or "Agreement") with a group of banks that provides for a Revolving Credit and Swing Line Facility ("Facility") permitting borrowings up to an aggregate total of \$380.0 million, maturing May 1, 2002. Swing Line borrowings are limited to \$25.0 million with interest calculated at the prime rate minus the Commitment Fee Percentage. Revolving Credit borrowings bear interest at the Company's option at either the prime rate minus the Commitment Fee Percentage or a Eurodollar rate plus the Applicable Eurodollar Margin. The Commitment Fee Percentage and Applicable Eurodollar Margin vary depending on the Company's performance against certain financial ratios. The Commitment Fee Percentage and the Applicable Eurodollar Margin were .15% and .275%, respectively, at December 31, 1999. The Company may also elect to borrow up to a maximum of \$190.0 million under a Bid Rate loan alternative of the Facility at floating rates of interest. The Company had \$170.0 and \$176.3 million outstanding under the Facility at December 31, 1999 and 1998, respectively. The Facility also provides for the issuance of \$38.0 million of letters of credit, with such usage applied against the \$380.0 million limit. At December 31, 1999, the Company had \$5.2 million in letters of credit outstanding under the Facility.

The Company has entered into Interest Rate Protection Agreements ("Rate Agreements") with respect to \$75.0 million of debt as a means to manage its exposure to fluctuating interest rates. The Rate Agreements effectively convert this portion of the Company's borrowings from variable rate debt to a fixed-rate basis, thus reducing the impact of interest rate changes on future income. The average interest rate for the Company's borrowings related to the Rate Agreements at December 31, 1999, was 6.68% for an average remaining period of 2.3 years. Total remaining debt not covered by the Rate Agreements has fluctuating interest rates with a weighted average rate of 6.47% at December 31, 1999.

The interest rate differential to be received or paid under the Rate Agreements is being recognized over the life of the Rate Agreements as an adjustment to interest expense. If the counterparts to these Rate Agreements fail to perform, the Company would no longer be protected from interest rate fluctuations by these Rate Agreements. However, the Company does not anticipate nonperformance by the counterparts.

The Company must pay a commitment fee ("Commitment Fee Percentage") on the total credit provided under the Bank Credit Agreement. No compensating balances are required by the Agreement. The Agreement requires the maintenance of certain financial ratios, restricts the incurrence of indebtedness and other contingent financial obligations and restricts certain types of business activities and investments.

Annual maturities for all the Company's long-term debt through 2002 are as follows: 2000 through 2001 - none; 2002 - \$170.0 million.

At December 31, 1999, the carrying value of the long-term debt approximates its fair value based on the Company's current incremental borrowing rates. The fair market value for the Company's Rate Agreements at December 31, 1999 was \$0.9 million. The fair value of long-term debt is estimated based on borrowing rates currently available to the Company for loans with similar terms and maturities. The fair value of the Company's Rate Agreements is based on quotes from brokers for comparable contracts. The Company does not expect to cancel these agreements and expects them to expire as originally contracted.

The Company guarantees \$25.0 million of Vitrocrisa Holdings' debt as of December 31, 1999.

Interest paid in cash amounted to \$12,297, \$12,392 and \$14,337 for the years ended December 31, 1999, 1998 and 1997.

9. STOCK OPTIONS The Company has two stock option plans for key employees: (1) the Libbey Inc. Amended and Restated Stock Option Plan for Key Employees and (2) the 1999 Equity Participation Plan of Libbey Inc. The plans provide for the granting of Incentive Stock Options and Nonqualified Options to purchase 2,800,000 shares of the Company's common stock at a price not less than the fair market value on the date the option is granted.

Options become exercisable as determined at the date of the grant by the Compensation Committee of the Board of Directors. Unless an earlier expiration date is set at the time of the grant or results from termination of an optionee's employment or a merger, consolidation, acquisition, liquidation or dissolution of the Company, Incentive Stock Options expire ten years after the date of the grant and Nonqualified Options expire ten years and a day after the grant.

The Company has elected to follow APB No. 25, "Accounting for Stock Issued to Employees," in accounting for employee stock options. The alternative fair value accounting provided for under FASB No. 123, "Accounting for Stock-Based Compensation," requires use of option valuation models that were not developed for use in valuing employee stock options. Under APB No. 25, no compensation expense is recognized because the exercise price of the Company's employee stock options equals the market price of the underlying stock at the date of grant.

In the opinion of management, the existing fair value models do not provide a reliable measure of the value of employee stock options. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. The Company's employee stock options have characteristics significantly different from those of traded options. In addition, option valuation models require highly subjective assumptions including the expected stock price volatility. Changes in these assumptions can materially affect the fair value estimate.

Pro forma information regarding net income and earnings per share is required by Statement 123, which also requires that the information be determined as if the Company has accounted for its employee stock options granted subsequent to December 31, 1994 under the fair-value method of that Statement. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions by year:

Assumption	1999	1998	1997
-----	----	----	----
Risk-free interest rates	6.0%	5.5%	5.8%
Dividend yield	1.0%	0.8%	0.8%
Volatility	.29	.29	.26

The weighted average fair value of options granted in 1999, 1998 and 1997 was \$12.22, \$15.22 and \$13.59, respectively.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma information follows (in thousands, except earnings per-share information):

Year ended December 31,	1999	1998	1997
Net income:			
Reported	\$43,428	\$25,443	\$36,126
Pro forma	\$42,365	\$24,435	\$35,466
Earnings per share:			
Basic			
Reported	\$2.69	\$1.45	\$2.33
Pro forma	\$2.62	\$1.39	\$2.29
Diluted			
Reported	\$2.64	\$1.42	\$2.27
Pro forma	\$2.57	\$1.36	\$2.23

Pro forma effect on net income for 1999, 1998 and 1997 is not representative of the pro forma effect on net income in future years because it does not take into consideration pro forma compensation expense related to grants made prior to 1995.

Stock option activity is as follows:

	Number of Shares	Weighted-Average Exercise Price	Price Range Per Share
-----			
January 1, 1998			
Outstanding	1,351,285	16.45	\$13.00-\$36.63
Exercisable	1,151,809	14.45	
Granted	159,200	38.33	
Canceled	500	38.44	
Exercised	126,639	14.17	
-----			
December 31, 1998			
Outstanding	1,383,346	19.17	\$13.00-\$38.44
Exercisable	1,112,447	15.46	
Granted	164,450	31.25	
Canceled	500	38.44	
Exercised	40,183	13.27	
-----			
DECEMBER 31, 1999			
Outstanding	1,507,113	20.64	\$13.00-\$38.44
Exercisable	1,196,708	17.32	
-----			

The following information is as of December 31, 1999:

	Options with an exercise price of \$13.00 per share	Options with an exercise price greater than \$13.00 per share
Options outstanding	767,352	739,761
Weighted-average exercise price	\$13.00	\$28.57
Remaining contractual life	3.4	7.2
Options exercisable	767,352	429,356
Weighted-average exercise price	\$13.00	\$25.05

10. SHAREHOLDERS' RIGHTS PLAN The Company has a Shareholders' Rights Plan designed to ensure that all of the Company's shareholders receive fair and equal treatment in the event of any proposal to acquire control of the Company. The Plan defines Existing Holder to mean Baron Capital Group, Inc. together with all of its Affiliates and Associates (including without limitation, Ronald Baron, BAMCO, Inc., Baron Capital Management, Inc. and Baron Asset Fund). Under the Plan, the Company's Board of Directors declared a distribution of one right for each outstanding common share of the Company. Each right will entitle shareholders to buy 1/100th of a share of newly created Series A Junior Participating Preferred Stock at an exercise price of \$55 per right. The rights will not be exercisable until a person acquires beneficial ownership of 20% (or in the case of an Existing Holder, 25%) of the Company's common shares or makes a tender offer for at least 20% (or in the case of an Existing Holder, 25%) of its common shares. Percentage increases resulting from share repurchases by the Company or inadvertence do not cause the rights to become exercisable. After the time that a person acquires beneficial ownership of 20% (or in the case of an Existing Holder, 25%) of the Company's common shares, the holders of the rights may be permitted to exercise such rights to receive the Company's common shares having market value of twice the exercise price. The rights are redeemable at \$0.001 per right at any time before the tenth day after a person has acquired 20% (or in the case of an Existing Holder, 25%) or more of the outstanding common shares. The redemption period may be extended under certain circumstances. If at any time after the rights become exercisable and not redeemed, the Company is acquired in a merger or other business combination transaction in which the Company is not the surviving party, the rights will entitle a holder to buy a number of shares of common stock of the acquiring company having a market value of twice the exercise price of each right.

11. OPERATING LEASES Rental expense for all operating leases, primarily for warehouses, was \$5,299, \$5,684 and \$5,983 for the years ended December 31, 1999, 1998 and 1997, respectively. Future minimum rentals under operating leases are as follows: 2000--\$3,872; 2001--\$2,784; 2002--\$2,211; 2003--\$2,018; 2004--\$1,637; and 2005 and thereafter--\$6,060.

12. CAPACITY REALIGNMENT CHARGE On December 31, 1998, the Company, with the approval of the Board of Directors, adopted a formal, written and specific plan to realign the production capacity of the Company. The primary thrust of the plan was the closing of the Wallaceburg, Ontario, manufacturing and distribution facility, the realignment of its production and distribution activities to other facilities and the Company's Mexican joint venture partner and the exiting of the glass bottle business serviced out of Wallaceburg. The Company recorded a capacity realignment charge of approximately \$20.0 million in the fourth quarter of 1998, which included \$10.0 million for severance and related employee costs, \$7.6 million for write-off of fixed assets (primarily equipment) and \$2.4 million for supply inventories, repair parts and other costs. An additional charge was recorded in the first quarter of 1999 of \$2.2 million, which included \$1.5 million for enhanced severance and related employee costs, \$0.3 million for write-off of fixed assets (primarily equipment) and \$0.4 million for write-off of inventories and other costs.

The Wallaceburg facility ceased production in May 1999, and the limited remaining warehouse operations will terminate in early 2000. The fixed assets, supply inventories and repair parts not transferred have been written down to a nominal amount. The Wallaceburg property is presently held for sale; however, if a buyer is not located, it will be abandoned. The Company terminated the employment of virtually all of its 560 salary and hourly employees and included severance and related employee costs in its capacity realignment charge at the time when such severance benefits were disclosed to the employees. These severance and related employee costs were paid primarily when production ceased.

During the fourth quarter of 1999, the Company assessed the capacity realignment reserve by activity and reduced it by approximately \$1.2 million, primarily for a reduction in severance and related costs. This resulted in a net provision for 1999 of approximately \$1.0 million. The majority of the capacity realignment reserve balance at December 31, 1999 is for the demolition of glass furnaces and the related costs to ready the plant facility for sale or abandonment and the remaining disposition of certain fixed assets and inventories.

The following table sets forth the details and activity of the various components of the capacity realignment reserve during 1999:

Activity	Balance as of January 1, 1999	Provision Charged to Expense	Write-off of Assets to Reserve	Cash Payments	Effect of Translation Adjustment	Balance as of December 31, 1999
Severance and related employee costs	\$ 9,946	\$(758)		\$ (9,243)	\$330	\$ 275
Asset write-downs:						
Fixed assets	7,619	1,367	\$(5,891)	(326)	223	2,992
Inventories and other	2,364	382	(988)	(1,508)	175	425
Total	\$19,929	\$ 991	\$(6,879)	\$(11,077)	\$728	\$3,692

13. INDUSTRY SEGMENT INFORMATION Effective the fourth quarter of 1998, the Company adopted Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" (Statement 131) which superseded Statement No. 14, "Financial Reporting for Segments of a Business Enterprise." Statement 131 establishes standards for the way that public business enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected information about operating segments in interim and annual financial reports. Statement 131 also establishes standards for related disclosures about products and services, geographic areas and major customers. The adoption of Statement 131 did not affect the Company's results of operations or financial position.

The Company's revenues from external customers are derived from tabletop products. The Company does not have any customers who represent 10% or more of total sales. The Company's operations by geographic areas for 1999, 1998 and 1997 are presented below. Intercompany sales to affiliates represent products that are transferred between geographic areas on a basis intended to reflect as nearly as possible the market value of the products. The long-lived assets include net fixed assets, goodwill and equity investments.

	United States -----	Foreign -----	Eliminations -----	Consolidated -----
1999				
Net sales:				
Customers	\$404,355	\$56,237		\$460,592
Intercompany	17,962	4,040	\$(22,002)	--
-----				
Total	\$422,317	\$60,277	\$(22,002)	\$460,592
Long-lived assets	\$154,909	\$79,348		\$234,257
1998				
Net sales:				
Customers	\$378,420	\$58,102		\$436,522
Intercompany	25,429	12,853	\$(38,282)	--
-----				
Total	\$403,849	\$70,955	\$(38,282)	\$436,522
Long-lived assets	\$161,105	\$86,738		\$247,843
1997				
Net sales:				
Customers	\$351,768	\$60,198		\$411,966
Intercompany	26,291	15,530	\$(41,821)	--
-----				
Total	\$378,059	\$75,728	\$(41,821)	\$411,966
Long-lived assets	\$161,256	\$93,562		\$254,818



## SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

The following tables present selected quarterly financial data for the years ended December 31, 1999 and 1998:

1999 Dollars in thousands, except per-share data	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net sales	\$95,280	\$112,923	\$112,017	\$140,372
Cost of sales	71,344	72,694	74,808	102,787
Gross profit	23,936	40,229	37,209	37,585
Earnings before interest and income taxes(1)	9,474	24,947	24,983	21,758
Net income(1)	3,983	13,639	13,888	11,918
Net income per share				
Basic	\$0.24	\$0.84	\$0.85	\$0.76
Diluted	\$0.24	\$0.82	\$0.84	\$0.74

(1) In the first quarter of 1999, the Company recorded a capacity realignment charge of \$2.2 million pre-tax and \$1.4 million after-tax. In the fourth quarter of 1999, the Company recorded a capacity realignment credit of \$1.2 million pre-tax and \$0.8 million after-tax.

1998 Dollars in thousands, except per-share data	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net sales	\$90,088	\$113,673	\$109,604	\$123,157
Cost of sales	67,360	79,569	76,801	98,219
Gross profit	22,728	34,104	32,803	24,938
Earnings (loss) before interest and income taxes(2)	13,351	25,612	26,247	(11,475)
Net income (loss)(2)	6,105	13,747	14,254	(8,663)
Net income per share				
Basic	\$0.35	\$0.78	\$0.81	\$(0.50)
Diluted	\$0.34	\$0.76	\$0.79	\$(0.49)

(2) In the fourth quarter of 1998, the Company recorded a capacity realignment charge of \$20.0 million pre-tax and \$12.4 million after-tax.

## **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

### **PART III**

## **ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT**

Information with respect to executive officers is set forth herein immediately following Item 4 of Part I. Information with respect to non-officer directors is included in the Proxy Statement in the section entitled "Election of Directors" and such information is incorporated herein by this reference. The section in the Proxy Statement entitled "General Information - Compliance with Section 16(a) of the Exchange Act" is also incorporated herein by this reference.

## **ITEMS 11. AND 13. EXECUTIVE COMPENSATION AND CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

The sections entitled "Election of Directors," exclusive of the subsection entitled "Board Meetings and Committees of the Board," and "Executive Compensation," exclusive of the subsections entitled "Compensation Committee Report" and "Performance Graph," which are included in the Proxy Statement, are incorporated herein by this reference.

## **ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The section entitled "Security Ownership of Certain Beneficial Owners and Management," which is included in the Proxy Statement, is incorporated herein by this reference.

## PART IV

### ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULE AND REPORTS ON FORM 8-K

#### a) Index of Financial Statements and Financial Statement Schedule Covered by Report of Independent Auditors.

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Consolidated Balance Sheets at December 31, 1999 and 1998	23
For the years ended December 31, 1999, 1998 and 1997:	
Consolidated Statements of Income	25
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Notes to Consolidated Financial Statements	28
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Financial statement schedule for the years ended December 31, 1999, 1998 and 1997:	
II - Valuation and Qualifying Accounts (Consolidated)	S-1

All other schedules have been omitted since the required information is not present or not present in amounts sufficient to require submission of the schedule or because the information required is included in the consolidated financial statements or the accompanying notes.

The accompanying Exhibit Index is hereby incorporated herein by this reference. The exhibits listed in the accompanying Exhibit Index are filed or incorporated by reference as part of this report.

b) A form 8-K was filed during the fourth quarter, dated October 25, 1999, with respect to the press release announcing the authorization to repurchase up to 875,000 shares of the Company's common stock in open market and negotiated purchases.

(d) Vitrocrisa, S. de R. L. de C.V. Financial Statements as of December 31, 1999 and 1998 and for the years ended December 31, 1999, 1998 and 1997 and Independent Auditors' Report are filed as a part of this Annual Report pursuant to Rule 3.09 of Regulation S-X S-2

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**LIBBEY INC.**

*by: /s/ Kenneth G. Wilkes*

-----  
*Kenneth G. Wilkes  
Vice President and Chief  
Financial Officer*

*Date: March 27, 2000*

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of Libbey Inc. and in the capacities and on the dates indicated.

SIGNATURE -----	TITLE -----
William A. Foley	Director
Peter C. McC. Howell	Director
Gary L. Moreau	Director
Terence P. Stewart	Director
Carol B. Moerdyk	Director
Richard I. Reynolds	Director, Executive Vice President, Chief Operating Officer
John F. Meier	Chairman of the Board of Directors, Chief Executive Officer

By: /s/ Kenneth G. Wilkes  
-----  
Kenneth G. Wilkes  
Attorney-In-Fact

/s/ Kenneth G. Wilkes  
-----  
Kenneth G. Wilkes  
Vice President and Chief Financial Officer  
(Principal Accounting Officer)

Date: March 27, 2000

**INDEX TO FINANCIAL STATEMENT SCHEDULE AND SEPARATE FINANCIAL  
STATEMENTS OF AFFILIATE**

**Page**

Financial Statement Schedule of Libbey Inc. for the years ended December 31, 1999, 1998, and 1997 for Schedule II Valuation and Qualifying Accounts (Consolidated) S-1

Vitrocrista, S. de R. L. de C.V. Financial Statements as of December 31, 1999 and 1998 and for the years ended December 31, 1999, 1998 and 1997 and Independent Auditors' Report S-2

**LIBBEY INC.**  
**SCHEDULE II -- VALUATION AND QUALIFYING ACCOUNTS (Consolidated)**  
**Years ended December 31, 1999, 1998 and 1997**  
(Dollars in thousands)

	Balance at Beginning Of Year -----	Additions Charged (Credited) to Costs and Expenses -----	Other (Note 1) -----	Deductions (Note 2) -----	Balance at End of Year -----
Allowances for Losses and Discounts on Receivables:					
1999	\$3,636 =====	\$1,648 =====	\$ 79 =====	\$1,494 =====	\$3,869 =====
1998	\$3,103 =====	\$1,212 =====	\$132 =====	\$ 811 =====	\$3,636 =====
1997	\$2,279 =====	\$ 439 =====	\$551 =====	\$ 166 =====	\$3,103 =====

(1) The amounts in "Other" represent recoveries of accounts previously charged off as uncollectible and in 1997 amounts established through purchase price accounting for acquisition of World Tableware for Allowances for Losses and Discounts on Receivables.

(2) Deductions from allowances for losses and discounts on receivables represent uncollectible notes and accounts written off.

**CHAVERO, YAMAZAKI, S.C.**  
[LETTERHEAD]

**INDEPENDENT AUDITORS' REPORT**

To the Partners of  
Vitrocrista, S. de R.L. de C.V.  
Monterrey, N.L.

We have audited the accompanying balance sheets of Vitrocrista, S. de R.L. de C.V. (the "Company") (formerly Vitrocrista, S.A. de C.V.) as of December 31, 1999 and 1998, and the related statements of income, changes in partners' equity and changes in financial position for each of the three years in the period ended December 31, 1999, all expressed in thousands of constant Mexican pesos as of December 31, 1999. These financial statements are the responsibility of the Company's management. 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 Mexico, which are substantially the same as those followed in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and that they are prepared in accordance with accounting principles generally accepted in Mexico. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Vitrocrista, S. de R.L. de C.V. as of December 31, 1999 and 1998, and the results of its operations, changes in its partners' equity and changes in its financial position for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in Mexico.

Accounting principles generally accepted in Mexico differ in certain significant respects from accounting principles generally accepted in the United States of America. The application of the latter would have affected the determination of net income for each of the three years in the period ended December 31, 1999, and the determination of partners' equity at December 31, 1999 and 1998 to the extent summarized in note 15.

The accompanying financial statements and the independent auditors' report have been translated into English language for the convenience of readers.

*/s/ DELOITTE & TOUCHE*  
*February 25, 2000*

*DELOITTE TOUCHE*  
*TOHMATSU*



**VITROCRISA, S. DE R.L. DE C.V. (FORMERLY VITROCRISA, S.A. DE C.V.)**

**BALANCE SHEETS**

(Thousands of constant Mexican pesos as of December 31, 1999)

	DECEMBER 31,	
	1999	1998
ASSETS		
Cash and cash equivalents (note 11)	Ps. 1,398	Ps. 16,380
Trade receivables, net of allowance for doubtful accounts of Ps. 20,237 and Ps. 16,091 at December 31, 1999 and 1998, respectively (note 11)	270,161	264,416
Notes receivable from affiliates (note 11)	30,511	
Refundable income taxes and value added tax	48,269	3,609
Other receivables (note 11)	43,528	37,065
Inventories (note 3)	213,832	219,204
	-----	-----
Current assets	607,699	540,674
Investment in shares	9,310	10,457
Deferred income tax and profit sharing to workers (note 9b)	158,610	150,828
Land and buildings (note 4)	387,186	398,059
Machinery and equipment (note 4)	804,744	946,313
Construction in progress	34,870	6,494
Intangible seniority premium and pension asset	91,506	94,510
Other assets	3,850	2,698
	-----	-----
Total assets	Ps. 2,097,775	Ps. 2,150,033
	=====	=====
LIABILITIES		
Short-term debt	Ps. 75,989	Ps. 72,250
Current portion of long-term debt	12,563	88,923
Trade payables	172,792	150,743
Notes payable to affiliates (note 11)	212,864	109,341
Accounts payable to affiliates (note 11)	34,320	21,705
Accrued expenses	60,012	96,522
Other current liabilities	27,795	36,722
	-----	-----
Current liabilities	596,335	576,206
Long-term debt (note 5)	753,564	915,320
Seniority premium and pension plans (note 6)	160,821	151,136
	-----	-----
Long-term liabilities	914,385	1,066,456
	-----	-----
Total liabilities	1,510,720	1,642,662
	-----	-----
Commitments (note 14)		
PARTNERS' EQUITY		
Contributed capital	2,676,538	2,676,538
Paid-in capital	90,452	90,452
Shortfall in restatement of capital	(2,579,220)	(2,501,211)
Minimum pension liability adjustment	(25,372)	(24,617)
Retained earnings	60,348	36,878
Net income for the year	364,309	229,331
	-----	-----
Partners' equity (note 8)	587,055	507,371
	-----	-----
Total liabilities and partners' equity	Ps. 2,097,775	Ps. 2,150,033
	=====	=====

The accompanying notes are an integral part of these financial statements.

**ING. SALVADOR MINARRO LIC. CARLOS NAVARRO LEAL**

**Administrative Director Manager of Comptrollership**

**VITROCRISA, S. DE R.L. DE C.V. (FORMERLY VITROCRISA, S.A. DE C.V.)**

**STATEMENTS OF INCOME**

(Thousands of constant Mexican pesos as of December 31, 1999)

	YEAR ENDED DECEMBER 31,		
	1999	1998	1997
Net sales (note 11)	Ps. 1,867,739	Ps. 1,887,537	Ps. 1,940,692
Cost of sales (note 11)	1,299,478	1,270,716	1,293,496
General, administrative and selling expenses (note 11)	197,013	202,032	204,839
	-----	-----	-----
Operating income	371,248	414,789	442,357
	-----	-----	-----
Interest expense	118,662	146,624	181,355
Interest income	(6,842)	(5,108)	(3,929)
Exchange (gain) loss, net (note 7-c)	(44,441)	235,811	25,679
Gain from monetary position	(125,662)	(197,562)	(165,235)
	-----	-----	-----
Total financing (benefit) cost, net	(58,283)	179,765	37,870
	-----	-----	-----
Income after financing	429,531	235,024	404,487
Other (expense) income, net	(24,817)	553	564
	-----	-----	-----
Income before income tax, profit sharing to workers and extraordinary item	404,714	235,577	405,051
Income and asset tax (note 9)	109,287	69,845	135,650
Profit sharing to workers	9,342	10,639	13,081
	-----	-----	-----
Income before extraordinary item	286,085	155,093	256,320
Extraordinary item (note 10)	78,224	74,238	124,631
	-----	-----	-----
Net income	Ps. 364,309	Ps. 229,331	Ps. 380,951
	=====	=====	=====

The accompanying notes are an integral part of these financial statements.

**VITROCRISA, S. DE R.L. DE C.V. (FORMERLY VITROCRISA, S.A. DE C.V.)**

**STATEMENTS OF CHANGES IN PARTNERS' EQUITY (NOTE 8)**

(Thousands of constant Mexican pesos as of December 31, 1999, except per share amounts)

	CONTRIBUTED CAPITAL	PAID-IN CAPITAL	SHORTFALL IN RESTATEMENT OF CAPITAL	MINIMUM PENSION LIABILITY ADJUSTMENT	(ACCUMULATED DEFICIT) RETAINED EARNINGS	NET INCOME	PARTNERS' EQUITY
Balance at December 31, 1996	Ps. 3,409,022	Ps. 90,452	Ps. (2,412,740)	Ps. (18,428)	Ps. (949,103)	Ps. 330,619	Ps. 449,822
Appropriation of net loss from prior year					330,619	(330,619)	>
Recapitalization	(618,484)				618,484		
Capital stock redemption	(114,000)						(114,000)
Loss from holding non- monetary assets			(52,756)				(52,756)
Minimum pension liability adjustment				18,428			18,428
Net income						380,951	380,951
Balance at December 31, 1997	2,676,538	90,452	(2,465,496)	0	0	380,951	682,445
Appropriation of net income from prior year					380,951	(380,951)	
Dividends (Ps. 344.07 per share)					(344,073)		(344,073)
Loss from holding non- monetary assets			(35,715)				(35,715)
Minimum pension liability adjustment				(24,617)			(24,617)
Net income						229,331	229,331
Balance at December 31, 1998	2,676,538	90,452	(2,501,211)	(24,617)	36,878	229,331	507,371
Appropriation of net income from prior year					229,331	(229,331)	
Dividends (Ps. 205.86 per share)					(205,861)		(205,861)
Loss from holding non-monetary assets			(78,009)				(78,009)
Minimum pension liability adjustment				(755)			(755)
Net income						364,309	364,309
Balance at December 31, 1999	Ps. 2,676,538 =====	Ps. 90,452 =====	Ps. (2,579,220) =====	Ps. (25,372) =====	Ps. 60,348 =====	Ps. 364,309 =====	Ps. 587,055 =====

The accompanying notes are an integral part of these financial statements.

**VITROCRISA, S. DE R.L. DE C.V. (FORMERLY VITROCRISA, S.A. DE C.V.)**

**STATEMENTS OF CHANGES IN FINANCIAL POSITION**

(Thousands of constant Mexican pesos as of December 31, 1999)

	YEAR ENDED DECEMBER 31,		
	1999	1998	1997
OPERATING ACTIVITIES:			
Net income	Ps. 364,309	Ps. 229,331	Ps. 380,951
Add (deduct) non-cash items:			
Depreciation and amortization	122,645	117,123	94,641
Provision for seniority premium and pension plans	11,934	10,658	6,038
(Gain) loss from sale of fixed assets	507	(13,338)	599
Deferred income tax and profit sharing to workers	(7,707)	(6,894)	9,436
	-----	-----	-----
Increase (decrease) in trade payables	491,688	336,880	491,665
(Increase) decrease in trade and receivables from affiliates	22,049	17,290	(6,793)
	(5,745)	40,923	(17,115)
Increase in inventories	(10,978)	(56,777)	(9,167)
Other operating assets and liabilities	(83,945)	38,356	(40,474)
	-----	-----	-----
Resources generated from operations	413,069	376,672	418,116
	-----	-----	-----
FINANCING ACTIVITIES:			
Short-term debt	12,223	92,481	
Notes receivable from affiliates	(30,511)		
Notes payable to affiliates	125,070	(60,115)	(81,491)
Long-term debt	404,009	787,662	214,772
Monetary effect on liabilities with financing cost	(145,765)	(212,016)	
Payment of short-term debt			(173,167)
Payment of long-term debt	(526,391)	(380,655)	(351,303)
Dividends (paid) accrued	(205,861)	(457,145)	113,072
Capital stock redemption			(114,000)
	-----	-----	-----
Resources used in financing activities	(367,226)	(229,788)	(392,117)
	-----	-----	-----
INVESTMENT ACTIVITIES:			
Investment in shares		(16)	(1,103)
Sales of fixed assets	725	20,398	932
Investment in land, buildings, machinery and equipment	(60,503)	(164,433)	(30,690)
Other	(1,047)	(2,491)	5,925
	-----	-----	-----
Resources used in investment activities	(60,825)	(146,542)	(24,936)
	-----	-----	-----
Net (decrease) increase in cash and cash equivalents	(14,982)	342	1,063
Cash and cash equivalents at beginning of year	16,380	16,038	14,975
	-----	-----	-----
Cash and cash equivalents at end of year	Ps. 1,398	Ps. 16,380	Ps. 16,038
	-----	-----	-----

The accompanying notes are an integral part of these financial statements

**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 1999, 1998 AND 1997**  
(Thousands of constant Mexican pesos as of December 31, 1999)

**1. ACTIVITIES OF THE COMPANY :**

Vitrocrista, S. de R.L. de C.V. (the "Company"), a wholly-owned subsidiary of Vitrocrista Holding, S. de R.L. de C.V. which is 51% owned by Vitro, S.A. de C.V. ("Vitro") and 49% by Libbey Inc. ("Libbey"), is a company whose activity is the manufacture and distribution of glass articles. Prior to August 29, 1997, the Company was a wholly-owned subsidiary of Vitro.

The Company changed its corporate name from Vitrocrista, S.A. de C.V. to Vitrocrista, S. de R.L. de C.V.

**2. PRINCIPAL ACCOUNTING POLICIES:**

a) Accounting method for the treatment of the effects of inflation

The financial statements of the Company have been prepared in accordance with Bulletin B-10, "Recognition of the Effects of Inflation in the Financial Information", as amended, issued by the Mexican Institute of Public Accountants ("IMCP"), which recognizes the effects of inflation. The Third Amendment to Bulletin B-10, requires the restatement of all comparative financial statements to constant pesos as of the date of the most recent balance sheet presented. For that purpose, the Company uses the "Indice Nacional de Precios al Consumidor" (Mexican National Consumer Price Index: "INPC"), published by Banco de Mexico.

Bulletin B-12 sets the rules related to the statement of changes in financial position. This statement presents the sources and uses of funds during the period measured as the differences, in constant pesos, between the beginning and ending balances of balance sheet items adjusted by the excess (shortfall) in restatement of capital. As required by Bulletin B-12, the monetary effect and the effect of changes in exchange rates are not considered non-cash items in the determination of funds generated from operations due to the fact they affect the purchasing power of the entity.

The following is a description of the items that have been restated and of the methods used:

o Inventories and cost of sales

Inventories are valued at the price of the last purchase made during the period, or at standard cost, without exceeding the net realizable value. Cost of sales is determined by using the standard cost at the time of sale.

o Land, buildings, machinery and equipment

Investments in land, buildings, machinery and equipment (collectively "fixed assets"), including expenditures for renewals and improvements which extend useful lives, are capitalized. The Company has followed the principles of the fifth Amendment to Bulletin B-10, issued by the IMCP and which became effective on January 1, 1997 under which, fixed assets are restated under the method of consumer price index adjustment, using the INPC. The starting balance to apply the INPC is the net replacement value as of December 31, 1996. For machinery and equipment purchased in a foreign country, the restatement is based on a general price index from the country of origin and the exchange rate at the end of each period.

Depreciation is calculated using the straight-line method, taking into consideration the useful life of the asset, in order to depreciate the original cost and the revaluation. The depreciation begins in the month in which the asset comes into service. The useful lives of the assets are as follows:

### YEARS

Buildings	23
Machinery and equipment	3 to 12
o Investment in shares	

The investment in shares in which the Company holds less than 10% of the capital stock, are accounted for at their acquisition cost.

#### o Shortfall in restatement of capital

This item, which is an element of partners' equity, reflects the accumulated effect of holding non-monetary assets and the effect of the initial monetary position gain or loss. The accumulated effect of holding non-monetary assets represents the increase in the specific values of non-monetary assets in excess of or below the increase attributable to general inflation as measured by the INPC.

#### o Restatement of contributed capital and retained earnings

Contributed capital and retained earnings are restated using the INPC from the respective dates such capital was contributed or income generated to the date of the most recent balance sheet presented.

#### o Exchange fluctuations

Exchange gains or losses included in the (benefit) cost of financing are calculated by translating monetary assets and liabilities denominated in foreign currencies at the exchange rate in effect at the end of each month.

#### o Gain (loss) from monetary position

The monetary position reflects the result of holding monetary assets and liabilities during periods of inflation. Values stated in current monetary units experience a decrease in purchasing power as time goes by. This means that losses are incurred by holding monetary assets over time, whereas gains are realized by maintaining monetary liabilities. The net effect is presented in the statement of income for the year as part of the total financing (benefit) cost.

#### b) Cash and cash equivalents

Highly liquid short-term investments with original maturities of ninety days or less, consisting primarily of Mexican Government Treasury Bonds and money market instruments, are classified as cash equivalents.

#### c) Maintenance expenses

Maintenance and repair expenses are recorded as costs and expenses in the period when they are incurred.

d) Seniority premiums, pension plans and severance payments

Statutory seniority premiums and pension plans for all personnel are considered as costs in the periods in which services are rendered. Periodic costs are calculated in accordance with the accounting pronouncement Bulletin D-3, issued by the IMCP, and the actuarial computations were made by independent actuaries using estimates of the salaries that will be in effect at the time of payment. Personnel not yet eligible for seniority premiums are also taken into account, with any necessary adjustments made in accordance with the probability of their acquiring the required seniority. The cost of past service is amortized over the average period required for workers to reach their retirement age. The actuarial method used is the projected unit credit.

Severance payments are expensed in the period in which such payments are made.

e) Income tax and profit sharing to workers

Income tax and profit sharing to workers expense are computed in accordance with the partial liability method, as required by Bulletin D-4 issued by the IMCP, under which deferred taxes are provided for identifiable, non-recurring timing differences that are expected to reverse over a definite period of time, at the tax rates in effect at the end of each period (see note 13).

f) Reclassification of selling, general and administrative expenses to cost of goods sold

In order to improve comparative analysis with other companies, to reflect ongoing changes in Company's management of production facilities, and to facilitate the control of such expenses, a change in classification of certain costs and expenses is reflected in the 1999 results. Expenses related to the production of goods have been reclassified, from selling, general and administrative expenses to cost of goods sold. Those expenses include, among others, supervisors' salaries, packing materials, certain freight expenses, and warehousing costs. For comparison purposes, historical figures for the years 1998 and 1997 have been reclassified in the amount of Ps. 124,362 and Ps. 139,783, respectively. Additionally, as a result of the reclassification, Ps. 13,879 was capitalized in ending inventory at December 31, 1999 and operating income for the year then ended was increased by the same amount.

g) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of these financial statements and its disclosures. Actual results could differ from those estimated.

3. INVENTORIES:

The breakdown is summarized as follows:

	DECEMBER 31,	
	1999	1998
Finished products	Ps. 172,801	Ps. 195,563
Raw materials	7,428	7,252
Packaging materials	10,784	6,512
	-----	-----
	191,013	209,327
Spare parts	3,416	4,181
Refractory	19,403	5,696
	-----	-----
	Ps. 213,832	Ps. 219,204
	=====	=====

4. LAND, BUILDINGS, MACHINERY AND EQUIPMENT:

Land, buildings, machinery and equipment are summarized as follows:

	DECEMBER 31,	
	1999	1998
Land	Ps. 136,590	Ps. 137,120
Buildings	520,140	523,000
Accumulated depreciation	(269,544)	(262,061)
	-----	-----
	Ps. 387,186	Ps. 398,059
	=====	=====
Machinery and equipment	2,537,658	2,693,271
Accumulated depreciation	(1,732,914)	(1,746,958)
	-----	-----
	Ps. 804,744	Ps. 946,313
	=====	=====

As mentioned in note 2a), machinery and equipment purchased in a foreign country, in the amount of Ps. 470,642, was restated using the index of inflation of the country of origin and translated into Mexican pesos using the corresponding exchange rate at December 31, 1999.

5. LONG TERM DEBT:

Long-term debt consists of the following notes payable to banks, net of their respective current maturities:

	DECEMBER 31,	
	1999	1998
Unsecured loan guaranteed by Vitro in Mexican pesos, interest based on Investments Units (UDIS) plus 8.75 points, payable monthly, principal payable in several installments through 2006.	Ps. 69,665	Ps. 81,666
Unsecured loan in U.S. dollars, semiannual interest based on LIBOR plus 1.5 points, principal payable in 2000.		33,346
Unsecured loan in U.S. dollars, semiannual interest based on LIBOR plus 2.25 points, principal payable in several installments through 2001.	284,958	333,462
Unsecured loan in U.S. dollars, semiannual interest based on LIBOR plus 1.35 points, principal payable in several installments through 2001.	398,941	466,846
	-----	-----
	Ps. 753,564	Ps. 915,320
	=====	=====

Maturity of long-term debt is as follows:

YEAR	DECEMBER 31, 1999
2001	Ps. 697,603
2002	13,705
2003	13,705
2004	13,705
2005	13,705
2006	1,141
	-----
	Ps. 753,564
	=====



Certain of the Company's long-term debt agreements contain restrictions and covenants that require the maintenance of various financial ratios. The Company has complied with the restrictions and covenants during 1999.

#### 6. SENIORITY PREMIUM AND PENSION PLANS:

The disclosures relating to the Company's seniority premium and pension plans required by Bulletin D-3, issued by IMCP, together with certain actuarial assumptions utilized are presented below as of December 31, 1999 and 1998.

	DECEMBER 31,	
	1999	1998
Accumulated benefit obligation	Ps. 160,821	Ps. 151,136
Projected benefit obligation	165,350	154,558
Unrecognized transition obligation	73,971	81,190
Changes in assumptions and adjustments from experience	28,081	27,217
Unrecognized net loss	19,355	14,142
Projected net liability	43,943	32,009
Additional minimum liability	116,878	119,127
Net periodic cost (Ps. 17,404 in 1997)	26,112	23,872
Assumptions:		
Discount rate	5%	5%
Compensation increase	1%	1%

#### 7. FOREIGN CURRENCY BALANCES AND OPERATIONS:

a) Assets and liabilities denominated in foreign currency consist of the following at December 31, 1999:

	THOUSANDS OF U.S.	
	DOLLARS	MEXICAN PESOS
Monetary assets	\$ 3,661	Ps. 34,770
Fixed assets	49,548	470,642
Monetary liabilities-short term	41,817	397,207
Inventories	353	3,349
Monetary liabilities-long term	72,000	683,899

b) Foreign operations during 1999 were as follows:

	THOUSANDS OF U.S.	
	DOLLARS	MEXICAN PESOS
Exports	\$ 65,036	Ps. 620,021
Imports	18,882	180,455
Interest expense, net	8,328	79,608

c) The exchange rates used for purposes of these financial statements were Ps 9.4986 per one U.S. dollar at December 31, 1999 and Ps 9.8963 per one U.S. dollar at December 31, 1998. On February 25, 2000, date of issuance of these financial statements, the exchange rate was Ps.9.41 per one U.S. dollar.

#### 8. PARTNERS' EQUITY:

a) At the stockholders' meeting held on September 27, 1999 it was agreed to change the corporate name from Vitrocrisa, S.A. de C.V. to Vitrocrisa, S. de R.L. de C.V.. Since that date, contributed capital is analyzed as follows:

SERIE	CLASS I FIXED CAPITAL		CLASS II VARIABLE CAPITAL		TOTAL
	NUMBER OF SHARES	PERCENTAGE OF SHARES	NUMBER OF SHARES	PERCENTAGE OF SHARES	
A			1	0.0051%	0.0051%
B			1	0.0049%	0.0049%
C (limited vote)	1	3.59%	1	96.4000%	99.9900%
	-----	-----	-----	-----	-----
	1	3.59%	3	96.4100%	100.0000%
	=====	=====	=====	=====	=====

b) At the stockholders' meeting held on April 30, 1999 it was agreed to declare dividends in the amount of Ps. 193,970 (thousands of nominal pesos).

c) At the stockholders' meeting held on August 31, 1998 it was agreed to declare dividends in the amount of Ps. 271,658 (thousands of nominal pesos).

d) At the stockholders' meeting held on August 8, 1997 the following was agreed:

1. To increase the variable portion of the capital stock by Ps 443,662 (thousands of nominal pesos) through the capitalization of restatement of capital stock.

2. To offset the accumulated deficit in the amount of Ps 443,662 (thousands of nominal pesos) by reducing the capital stock in the same amount.

3. To declare dividends in the amount of U.S. \$10,520 (thousands) from the restatement of capital stock. For accounting purposes this dividend was treated as a capital stock redemption.

e) At December 31, 1998 and 1997 the capital stock of the Company is comprised of 1,000,000 nominal common shares, without par value, divided into the following series of shares:

	FIXED CAPITAL	VARIABLE CAPITAL	TOTAL
Series "C" shares	35,900		35,900
Series "C" shares		964,000	964,000
Series "A" shares		51	51
Series "B" shares		49	49
	-----	-----	-----
	35,900	964,100	1,000,000
	=====	=====	=====

f) Partners' equity includes accrued profits and results from the restating of assets which, in case of distribution, will be subject, under certain circumstances, to the payment of income tax by the Company. Effective January 1, 1999, after a change made to the Income Tax Law in Mexico, the taxable rate for those distributions is 35%, and when dividends are paid to individuals or foreign residents, an additional 5% withholding tax will be paid.

9. INCOME AND ASSET TAX :

a) The income and asset tax included in the results are:

	YEAR ENDED DECEMBER 31,		
	1999	1998	1997
Tax benefit that results from the utilization of tax loss carry forwards and asset tax	Ps.78,224	Ps.74,238	Ps.124,631
Current income tax	38,216		
Deferred income tax:			
Provision for furnace repair	(8,542)	(13,256)	(262)
Benefit from the deduction of inventories held on December 31, 1986	1,389	3,839	4,010
Asset tax		5,024	7,271
	----- Ps.109,287 =====	----- Ps.69,845 =====	----- Ps.135,650 =====

b) Deferred tax assets presented on the balance sheet result from the following:

	DECEMBER 31,	
	1999	1998
Deferred tax benefit from provision for furnace repair	Ps. 47,127	Ps. 36,900
Deferred tax benefit from the future deduction of inventories held on December 31, 1986	111,483	113,928
	----- Ps.158,610 =====	----- Ps.150,828 =====

c) At December 31, 1999, there were Ps 212,155 of previously deducted inventories and Ps. 43,943 of non-deductible provisions related to seniority premium and pension plans for which no deferred taxes have been provided in accordance with generally accepted accounting principles in Mexico.

d) The reconciliation between the Company's effective income tax rate and the statutory income tax rate is as follows:

	YEAR ENDED DECEMBER 31,		
	1999	1998	1997
Effective income tax rate	27.00%	29.65%	33.49%
Add (deduct):			
Purchase deductions	1.72	7.72	(6.85)
Difference between tax and financial accounting for depreciation	.11	.31	(2.68)
Difference between tax and financial accounting for monetary gain	3.42	3.89	6.35
Provisions	.37	(8.20)	
Other	2.38	.63	3.69
Statutory income tax rate	----- 35.00% =====	----- 34.00% =====	----- 34.00% =====

e) Effective January 1, 1999, the Mexican income tax law was changed in several respects. In addition to the changes described in note 8 f), the overall tax rate increased from 34% to 35%; however, in 1999 income taxes are currently payable based on a 32% rate and the remaining 3% will be paid when such amounts are paid out as dividends. The 32% rate decreased to 30% effective January 1, 2000 and the remaining 5% will be paid when such amounts are paid out as dividends. Tax payers have the option to pay 35% currently rather than deferring a remainder until dividends are paid.

#### 10. EXTRAORDINARY ITEM:

The extraordinary items in 1999, 1998 and 1997 are the tax benefits that resulted from the utilization of tax loss carry forwards and recovery of asset tax paid in previous years.

#### 11. BALANCES AND TRANSACTIONS WITH AFFILIATED COMPANIES:

The principal balances and transactions with affiliated companies not shown separately in the financial statements are as follows:

	AS OF AND FOR THE YEAR ENDED DECEMBER 31,		
	1999	1998	1997
Cash equivalents		Ps. 386	
Trade receivables	Ps. 4,157	6,709	
Other receivables	32,325		
Unsecured long-term loan payable		81,665	
Net sales	316,423	271,527	Ps. 296,900
Other income	4,167	2,903	14,729
Purchases of inventory	31,122	14,618	14,497
Operating expenses	35,045	43,974	41,152
Interest expense	11,258	103,836	59,411

The balances of cash equivalents and unsecured long-term loan payable in 1998 and 1997, disclosed above result from deposits and loan transactions with subsidiaries of Grupo Financiero Serfin, S.A. (GFS), a Mexican financial group, in which Vitro held an equity interest. Interest expense relates to loan transactions with Vitro's subsidiaries and GFS in 1998 and 1997. Net sales disclosed above were primarily to Crisa Corporation, a U.S. corporation owned 100% by Vitro, and to Crisa Industrial L.L.C., a U.S. Corporation owned 51% by Vitro and 49% by Libbey, for purposes of facilitating export sales. Notes receivables (payable) from (to) affiliates are interest bearing loans with market interest rates. Trade receivables, other receivables, other income, purchases of inventory, operating expenses, and accounts payable to affiliates, all consist of transactions with subsidiaries of Vitro and are of a normal and recurring nature.

#### 12. YEAR 2000

The Company's year 2000 project to identify and correct the systems applications affected by the year 2000 issue was completed according to schedule. The Company achieved the objective of maintaining continuous operations in all its manufacturing plants and information systems according to the plan. During the transition period to the year 2000, all the operations performed normally and in the following months the Company will continue to monitor the performance of all year 2000 sensitive elements in all its operations.

#### 13. NEW ACCOUNTING STANDARD

On January 1, 2000 a new accounting standard became effective, new Bulletin D-4, issued by the IMCP, which defines the accounting treatment for income taxes and workers' profit sharing ("WPS"). In accordance with this new bulletin the financial statements should recognize deferred income taxes for all temporary differences between accounting and tax bases for all assets and liabilities and deferred WPS for temporary differences between tax and accounting results, which are expected to reverse in the future. Additionally, net operating losses and asset tax paid are recognized as assets.

The initial cumulative effect at January 1, 2000, from the application of the new Bulletin D-4 will increase liabilities by Ps. 215,853, decrease total assets by Ps. 123,363 and decrease partners' equity by Ps. 339,216. The cumulative effect as of January 1, 2000 will be charged directly to partners' equity and will have no effect on cash flow.

#### 14. COMMITMENTS

The Company leases warehouses under noncancelable operating lease agreements. Under those agreements the Company might sub-lease such premises. As of December 31, 1999, future minimum lease payments are as follows:

YEAR	AMOUNT
2000	Ps. 33,488
2001	21,993
2002	21,993
2003	21,462
2004	14,315

Additionally to these payments, the Company has negotiated to make an advanced payment of Ps. 156,432 on June 1, 2000 to freeze future increases by inflation or other factors.

Rental expense for the years 1999, 1998 and 1997 were Ps. 40,546, Ps.

26,815 and Ps. 24,787, respectively.

#### 15. DIFFERENCES BETWEEN MEXICAN AND UNITED STATES ACCOUNTING PRINCIPLES:

The Company's financial statements are prepared in accordance with Mexican GAAP, which vary in certain significant respects from accounting principles generally accepted in the United States (U.S. GAAP).

The principal differences between Mexican GAAP and U.S. GAAP and their effects on net income and partners' equity are presented below with an explanation of the adjustments:

##### Reconciliation of net income

	YEAR ENDED DECEMBER 31,		
	1999	1998	1997
Net income under Mexican GAAP	Ps. 364,309	Ps. 229,331	Ps. 380,951
U.S. GAAP adjustments for:			
Effects of inflationary accounting	(54,277)	(129,244)	(157,100)
Deferred income taxes	(86,121)	(51,258)	(60,248)
Deferred workers' profit sharing	(26,740)	4,732	(12,542)
	-----	-----	-----
Net income under U.S. GAAP	Ps. 197,171	Ps. 53,561	Ps. 151,061
	=====	=====	=====

## Reconciliation of partners' equity

	YEAR ENDED DECEMBER 31,		
	1999	1998	1997
Total partners' equity reported under Mexican GAAP	Ps. 587,055	Ps. 507,371	Ps. 682,445
U.S. GAAP adjustments for:			
Effects of inflationary accounting	(973,902)	(1,007,507)	(992,531)
Deferred income taxes	10,274	96,395	147,653
Deferred workers' profit sharing	7,729	34,469	29,737
	-----	-----	-----
Partners' equity (deficiency in assets) under U.S. GAAP	Ps. (368,844)	Ps. (369,272)	Ps. (132,696)
	=====	=====	=====

### a) Effects of inflationary accounting

A significant difference between Mexican and U.S. GAAP relates to the formal adoption in Mexico of inflationary accounting, which mitigates the effects of inflation on financial information. Under Mexican GAAP, all basic financial statements (including those of prior years) and related notes are presented in pesos of purchasing power at the end of the latest period presented. Inventories are valued at replacement cost and fixed assets are restated under the method of consumer price index adjustment, using the INPC. Partners' equity components are restated by applying INPC growth factors from the date on which the component was contributed or generated.

### b) Deferred income tax:

Under Mexican GAAP, deferred taxes are provided only for identifiable, nonrecurring timing differences which are expected to reverse over a definite period of time (see note 13). For U.S. GAAP purposes, the Company has applied Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes".

Under SFAS No. 109, deferred tax assets and liabilities are recognized for future tax consequences of temporary differences between the financial statement carrying amounts of assets and liabilities and their tax bases. Deferred tax assets are also recognized for the estimated future effects of tax loss carry forwards. Deferred tax assets are reduced by any tax benefits that are not expected to be realized.

The significant components of the deferred tax assets for purposes of U.S. GAAP reconciliation are as follows:

	DECEMBER 31,		
	1999	1998	1997
Reserves	Ps. 33,733	Ps. 39,278	Ps. 22,278
Tax loss carry forwards		3,140	63,619
Inventories	11,868	10,585	19,025
Seniority premium and pension plans	15,380	9,975	5,450
Tax on assets		58,476	45,533
Fixed assets	33,528	33,491	37,106
Other	(11,971)		
	-----	-----	-----
Total deferred tax assets	Ps. 82,538	Ps. 154,945	Ps. 193,011
	=====	=====	=====

c) Deferred workers' profit sharing

The Company calculates a deferred workers' profit sharing asset for U.S. GAAP purposes based on temporary differences between the financial reporting bases and workers' profit sharing bases of assets and liabilities. Under U.S. GAAP, workers' profit sharing expense would be classified as a component of operating expenses.

The significant components of the deferred workers profit sharing for purposes of U.S. GAAP reconciliation are as follows:

	1999	DECEMBER 31, 1998	1997
Inventories	Ps. 3,391	Ps. 3,025	Ps. 5,595
Exchange fluctuation	9,623	32,973	31,402
Reserves	9,638	11,222	6,552
Fixed assets	(8,716)	(8,260)	(7,581)
Seniority premium and pension plans	4,394	2,850	1,603
Other	(3,420)		
	-----	-----	-----
Net deferred profit sharing assets	Ps.14,910	Ps.41,810	Ps.37,571
	=====	=====	=====

d) Other Differences and Supplemental U.S. GAAP Disclosures

1. Extraordinary Items.- Mexican GAAP requires that utilization of tax loss carry forwards and the recovery of the asset tax paid in previous years be classified as extraordinary items in the statement of income, whereas U.S. GAAP requires the benefit from utilization of tax loss carry forwards to be classified as a component of income tax expense attributable to continuing operations. The benefits from utilization of tax loss carry forwards in constant peso terms were Ps. 11,973 for the year ended December 31, 1999, Ps. 74,238 for the year ended December 31, 1998 and Ps. 124,631 for the year ended December 31, 1997. For U.S. GAAP purposes, such amounts, in thousands of nominal pesos, were Ps. 11,190, Ps. 66,096 and Ps. 93,553, respectively. The benefit from the recovery of the asset tax in 1999 was Ps. 66,251 in constant peso terms and Ps. 62,633 in thousands of nominal pesos.

2. Post-retirement Benefits.- Under U.S. GAAP, SFAS No. 106, "Employer's Accounting for Post-retirement Benefits Other Than Pensions" requires accrual of post-retirement benefits other than pensions (such as health care benefits) during the years an employee provides services. The Company is not required to provide for post-retirement benefits.

3. Pension Disclosures.- The Company maintains pension plans and seniority premium plans and has adopted Bulletin D-3 issued by the IMCP. The accounting treatment for pensions set forth in this Bulletin is substantially the same as those set forth in SFAS No. 87 "Employer's Accounting For Pensions". The Company records the pension cost determined by actuarial computations, as described in notes 2d) and 6. The differences between principles applied by the Company under Mexican GAAP and requirements of SFAS No. 87 are not material.

For purposes of determining pension and seniority premium cost under U.S. GAAP the Company applies SFAS No. 87. The disclosures under SFAS No. 132, "Employers' Disclosures about Pensions and Other Post-retirement Benefits", are presented below.

	1999	1998	1997
Change in benefit obligation:			
Benefit obligation at beginning of year	Ps.134,560	Ps. 80,128	Ps.34,583
Service cost	3,865	4,277	2,075
Interest cost	7,153	6,281	3,937
Net amortization and deferral	13,736	10,696	7,052
Intangible asset	7,362	20,045	51,404
Minimum pension liability adjustment	3,454	21,918	(11,954)
Benefits paid	(9,309)	(8,785)	(6,969)
	-----	-----	-----
Benefit obligation at end of year	Ps.160,821	Ps.134,560	Ps.80,128
Amounts recognized in the balance sheet consists of:			
Projected net liability	Ps.43,943	Ps. 28,498	Ps.16,028
Intangible asset	91,506	84,144	64,100
Minimum pension liability adjustment	25,372	21,918	0
	=====	=====	=====
	Ps.160,821	Ps.134,560	Ps.80,128
	=====	=====	=====

Pension and seniority premium costs are summarized below:

	YEAR ENDED DECEMBER 31,		
	1999	1998	1997
Service costs	Ps. 3,865	Ps. 4,277	Ps. 2,075
Interest cost	7,153	6,281	3,937
Net amortization and deferral	13,736	10,696	7,052
	-----	-----	-----
Net periodic pension cost	Ps.24,754	Ps.21,254	Ps.13,064
	=====	=====	=====

4. Weighted Average Interest Rates - The weighted average interest rates on short-term debt and short-term accounts payable to affiliates outstanding as of December 31, 1999 and 1998 were approximately 8% and 8.5%, respectively.

5. Supplement Cash flow Information Required by U.S. GAAP

	YEAR ENDED DECEMBER 31,		
	1999	1998	1997
Cash payments for interest and income tax follows:			
Interest	Ps. 80,169	Ps.80,832	Ps.89,744
Income tax	71,429	4,078	4,817



Under Mexican GAAP the financial statements of the Company are prepared in accordance with Bulletin B-10, which requires the recognition of the effects of inflation in a comprehensive manner. The statement of changes in financial position is prepared in accordance with Bulletin B-12 and is in constant pesos, which means pesos of the same purchasing power as of the date of the last balance sheet presented. Therefore all the resources generated or used are measured in constant pesos. Additionally, the monetary effect and the effect of changes in exchange rates are considered as cash items for purposes of this statement because these items do affect the purchasing power of the entity. U.S. GAAP requires a statement of cash flows prepared in accordance with SFAS No. 95, "Statement of Cash Flows". In order to reconcile to U.S. GAAP, the exchange loss and the monetary gain of all monetary assets and liabilities must be excluded from resources generated from operations and resources generated from financing activities.

The Company has presented a cash flow statement in a manner that comprehensively segregates the effects of inflation and currency devaluation from the cash flows from operating, investing and financing activities as follows:

### CONDENSED STATEMENTS OF CASH FLOWS U.S. GAAP BASIS

	YEAR ENDED DECEMBER 31,		
	1999	1998	1997
OPERATING ACTIVITIES:			
Net income	Ps.197,171	Ps.53,561	Ps.151,061
Add (deduct) non-cash items:			
Depreciation and amortization	47,338	32,042	12,995
Provision for seniority premium and pension plans	13,170	12,495	6,095
(Gain) loss from sale of fixed assets	(505)	(16,479)	306
Deferred income tax and profit sharing to workers	99,289	33,827	73,947
	356,463	115,446	244,404
Increase in trade payables	38,582	34,036	9,200
Increase in trade and receivables from affiliates	(34,746)	(6,217)	(42,235)
Increase in inventories	(18,526)	(46,188)	(18,954)
Other current assets and liabilities, net	(71,412)	44,752	(18,513)
	270,361	141,829	173,902
Cash provided by operating activities	270,361	141,829	173,902
FINANCING ACTIVITIES:			
Borrowing of short-term debt	11,662	64,326	
Borrowing (payments) of notes payable to affiliates	115,514	(56,809)	(57,880)
Notes receivable from affiliates	(30,511)		
Long-term debt	379,951	639,171	152,866
Payment of long-term debt	(507,925)	(310,381)	(251,011)
Dividends	(193,970)	(356,534)	
	(225,279)	(20,227)	(156,025)
Cash used in financing activities	(225,279)	(20,227)	(156,025)
INVESTING ACTIVITIES:			
Sale of fixed assets	679	16,816	769
Investment in land, buildings, machinery and equipment	(57,848)	(133,685)	(19,758)
Other	(1,099)	(2,187)	3,437
	(58,268)	(119,056)	(15,552)
Cash used in investing activities	(58,268)	(119,056)	(15,552)
Net (decrease) increase in cash and cash equivalents	(13,186)	2,546	2,325
Cash and cash equivalents at beginning of year	14,584	12,038	9,713
	Ps.1,398	Ps.14,584	Ps.12,038
Cash and cash equivalents at end of year	Ps.1,398	Ps.14,584	Ps.12,038

6. Fair value of financial instruments.- SFAS No. 107, "Disclosures about Fair Value of Financial Instruments", requires disclosure of the estimated fair values of certain financial instruments. The estimated fair value amounts have been determined using available market information or other appropriate valuation methodologies that require considerable judgment in interpreting market data and developing estimates. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts. The carrying amounts of the Company's financial instruments approximate their estimated fair values.

The fair value information presented herein is based on information available to management as of December 31, 1999 and 1998. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since that date and, therefore, the current estimates of fair value may differ significantly from the amounts presented herein.

7. Comprehensive income - Under U.S. GAAP, SFAS No. 130, "Reporting Comprehensive Income", establishes standards for reporting and display of comprehensive income and its components. The Company's only item of other comprehensive income is the minimum pension liability adjustment.

Additional required disclosures under SFAS No. 130 are as follows:

Disclosure of accumulated other comprehensive income balances:

**MINIMUM PENSION  
LIABILITY  
ADJUSTMENT**

Balance at December 31, 1996	Ps.	11,954
Change for the year		(11,954)
		-----
Balance at December 31, 1997		0
Change for the year		21,918
		-----
Balance at December 31, 1998		21,918
Change for the year		3,454
		-----
Balance at December 31, 1999	Ps.	25,372
		=====

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- 2.0 -- Asset Purchase Agreement dated as of September 22, 1995 by and among The Pfaltzgraff Co., The Pfaltzgraff Outlet Co., Syracuse China Company of Canada Ltd., LG Acquisition Corp. and Libbey Canada Inc., Acquisition of Syracuse China Company (filed as Exhibit 2.0 to the Registrant's Current Report on Form 8-K dated September 22, 1995 and incorporated herein by reference).
- 2.1 -- Master Investment Agreement, dated to be effective as of August 15, 1997, entered into by and between Libbey Inc., Libbey Glass Inc., LGA2 Corp., LGA3 Corp., LGA4 Corp., Vitro S.A., Vitrocrisa Holding, S.A. de C.V., Vitro Corporativo, S.A., Vitrocrisa S.A. de C.V. Crisa Corporation, and WorldCrisa Corporation (filed as Exhibit 2.1 to the Registrant's Current Report on Form 8-K dated August 29, 1997 and incorporated herein by reference).
- 3.1 -- Restated Certificate of Incorporation of Libbey Inc. (filed as Exhibit 3.1 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1993 and incorporated herein by reference).
- 3.2 -- Amended and Restated By-Laws of Libbey Inc. (filed as Exhibit 3.2 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1993 and incorporated herein by reference).
- 4.1 -- Restated Certificate of Incorporation of Libbey Inc. (incorporated by reference herein as Exhibit 3.1).
- 4.2 -- Amended and Restated By-Laws of Libbey Inc. (incorporated by reference herein as Exhibit 3.2).
- 4.3 -- Rights Agreement, dated January 5, 1995, between Libbey Inc. and The Bank of New York, which includes the form of Certificate of Designations of the Series A Junior Participating Preferred Stock of Libbey Inc. as Exhibit A, the form of Right Certificate as Exhibit B and the Summary of Rights to Purchase Preferred Shares as Exhibit C, (filed as Exhibit 1 to Registrant's Registration Statement on Form 8-A dated January 20, 1995 and incorporated herein by reference).

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|-------|----|---|
| 4.4   | -- | First Amendment to Rights Agreement, dated February 3, 1999, between Libbey Inc. and the Bank of New York (filed as Exhibit 4.4 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1998 and incorporated herein by reference).  |
| 10.1  | -- | Management Services Agreement dated as of June 24, 1993 between Owens-Illinois General Inc. and Libbey Glass Inc. (filed as Exhibit 10.2 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1993 and incorporated herein by reference).   |
| 10.2  | -- | Tax Allocation and Indemnification Agreement dated as of May 18, 1993 by and among Owens-Illinois, Inc., Owens-Illinois Group, Inc. and Libbey Inc. (filed as Exhibit 10.3 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1993 and incorporated herein by reference).           |
| *10.3 | -- | Pension and Savings Plan Agreement dated as of June 17, 1993 between Owens-Illinois, Inc. and Libbey Inc. (filed as Exhibit 10.4 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1993 and incorporated herein by reference).   |
| 10.4  | -- | Cross-Indemnity Agreement dated as of June 24, 1993 between Owens-Illinois, Inc. and Libbey Inc. (filed as Exhibit 10.5 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1993 and incorporated herein by reference).  |
| *10.5 | -- | Employment Agreements dated as of June 24, 1993 between Libbey Inc. and its then Executive Officers (filed as Exhibit 10.6 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1993 and incorporated herein by reference).   |
| *10.6 | -- | Employment Agreement dated as of August 1, 1993 between Libbey Inc. and Kenneth G. Wilkes (filed as an Exhibit 10.6(a) to Registrant's Annual Report on Form 10-K for the year ended December 31, 1993 and incorporated herein by reference).   |
| *10.7 | -- | Form of Non-Qualified Stock Option Agreement between Libbey Inc. and certain key employees participating in the Libbey Inc. Stock Option Plan for Key Employees (filed as Exhibit 10.8 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1993 and incorporated herein by reference). |

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|--------|----|--|
| *10.8  | -- | Description of Libbey Inc. Senior Executive Life Insurance Plan (filed as Exhibit 10.9 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1993 and incorporated herein by reference).  |
| *10.9  | -- | Libbey Inc. Deferred Compensation Plan for Outside Directors (filed as Exhibit 10.11 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1993 and incorporated herein by reference).  |
| *10.10 | -- | The Amended and Restated Libbey Inc. Stock Option Plan for Key Employees (filed as Exhibit 10.14 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1995 and incorporated herein by reference).  |
| *10.11 | -- | Form of Non-Qualified Stock Option Agreement between Libbey Inc. and Charles S. Goodman under Amended and Restated Libbey Inc. Stock Option Plan for Key Employees (filed as Exhibit 10.16 to the Registrant's current Report on Form 8-K dated October 10, 1995 and incorporated herein by reference).  |
| 10.12  | -- | Libbey Inc. Guarantee dated as of October 10, 1995 in favor of The Pfaltzgraff Co., The Pfaltzgraff Outlet Co. and Syracuse China Company of Canada Ltd. guaranteeing certain obligations of LG Acquisition Corp. and Libbey Canada Inc. under the Asset Purchase Agreement for the Acquisition of Syracuse China (Exhibit 2.0) in the event certain contingencies occur (filed as Exhibit 10.17 to the Registrant's Current Report on Form 8-K dated October 10, 1995 and incorporated herein by reference).                  |
| 10.13  | -- | Susquehanna Pfaltzgraff Co. Guarantee dated as of October 10, 1995 in favor of LG Acquisition Corp. and Libbey Canada Inc. guaranteeing certain obligations of The Pfaltzgraff Co., The Pfaltzgraff Outlet Co. and Syracuse China Company of Canada, Ltd. under the Asset Purchase Agreement for the Acquisition of Syracuse China (Exhibit 2.0) in the event certain contingencies occur (filed as Exhibit 10.18 to the Registrant's Current Report on Form 8-K dated October 10, 1995 and incorporated herein by reference). |

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- 10.14 -- Letter Agreement dated as of October 10, 1995 by and between The Pfaltzgraff Co., The Pfaltzgraff Outlet Co., Syracuse China Company of Canada Ltd., LG Acquisition Corp. and Libbey Canada Inc. amending the Letter Agreement dated September 22, 1995 filed as part of the Asset Purchase Agreement for the Acquisition of Syracuse China (Exhibit 2.0) (filed as Exhibit 10.19 to the Registrant's Current Report on Form 8-K dated October 10, 1995 and incorporated herein by reference).
- \*10.15 -- Employment Agreement dated as of April 1, 1996 between Libbey Inc. and John A. Zarb (filed as Exhibit 10.21 to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1996 and incorporated herein by reference).
- \*10.16 -- The Amended and Restated Libbey Inc. Senior Management Incentive Plan (filed as Exhibit 10.22 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1996 and incorporated herein by reference).
- \*10.17 -- First Amended and Restated Libbey Inc. Executive Savings Plan (filed as Exhibit 10.23 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1996 and incorporated herein by reference).
- \*10.18 -- Employment Agreement dated as of January 1, 1997 between Libbey Inc. and Timothy T. Paige (filed as Exhibit 10.24 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1996 and incorporated herein by reference).

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- 10.19 -- The Second Amended and Restated Credit Agreement dated as of April 23, 1997 to the First Amended and Restated Credit Agreement dated as of July 17, 1995 among Libbey Glass Inc. and Libbey Canada Inc. as Borrowers, the lenders listed therein, The Bank of Nova Scotia, as Canadian Agent, The First National Bank of Chicago, as Syndication Agents, NationsBank, N.A., as Documentation Agent, The Bank of New York, The Bank of Nova Scotia, Caisse National De Credit Agricole, Fleet Bank, N.A. and Keybank National Association, as Co-Agents and Bankers Trust Company, as Administrative Agent (filed as Exhibit 10.25 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1997 and incorporated herein by reference).
- 10.20 -- Amended and Restated Distribution Agreement dated to be effective as of August 29, 1997, by and among Vitro S.A., Vitrocrisa, S.A. de C.V., Libbey Inc. and Libbey Glass Inc. whereby Libbey Glass Inc. will distribute certain products (filed as Exhibit 10.26 to Registrant's Current Report on Form 8-K/A dated August 29, 1997 Amendment No. 1 and incorporated herein by reference).
- 10.21 -- Vitrocrisa S.A. de C.V. Shareholders Agreement dated to be effective as of August 29, 1997 by and among Libbey Inc., LGA3 Corp., Vitro S.A., Vitrocrisa Holding S.A. de C.V. and Vitrocrisa S.A. de C.V. (filed as Exhibit 10.28 to Registrant's Current Report on Form 8-K /A dated August 29, 1997 Amendment No. 1 and incorporated herein by reference).
- 10.22 -- Vitrocrisa Holding S.A. de C.V. Shareholders Agreement dated to be effective as of August 29, 1997 by and among Libbey Inc., LGA3 Corp., Vitro S.A. and Vitrocrisa Holding S.A. de C.V. (filed as Exhibit 10.29 to Registrant's Current Report on Form 8-K /A dated August 29, 1997 Amendment No. 1 and incorporated herein by reference).
- 10.23 -- Amended and Restated Covenant Not to Compete dated to be effective as of August 29, 1997 by and between Libbey Inc. and Vitro S.A. (filed as Exhibit 10.30 to Registrant's Current Report on Form 8-K /A dated August 29, 1997 Amendment No. 1 and incorporated herein by reference).

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| 10.24  | -- | Crisa Libbey S.A. de C.V. Shareholders Agreement dated to be effective as of August 29, 1997 by and among Libbey Inc., LGA3 Corp., Vitro S.A. and Crisa Libbey S.A. de C.V. (filed as Exhibit 10.31 to Registrant's Current Report on Form 8-K /A dated August 29, 1997 Amendment No. 1 and incorporated herein by reference).                                    |
| 10.25  | -- | Limited Liability Company Agreement of Crisa Industrial, L.L.C. dated to be effective as of August 29, 1997 by and among Crisa Corporation, LGA4 Corp., Vitro S.A. and Libbey Inc. (filed as Exhibit 10.32 to Registrant's Current Report on Form 8-K /A dated August 29, 1997 Amendment No. 1 and incorporated herein by reference).                             |
| 10.26  | -- | Management Services Agreement dated to be effective August 29, 1997 by and between Libbey Inc. and Vitrocrista S. A. de C.V. for services to be provided by one or more subsidiary corporations of Libbey Inc. (filed as Exhibit 10.33 to Registrant's Current Report on Form 8-K /A dated August 29, 1997 Amendment No. 1 and incorporated herein by reference). |
| *10.27 | -- | Employment Agreement dated as of September 1, 1997 between Libbey Inc. and Daniel P. Ibele (filed as Exhibit 10.34 to Registrant's Current Report on Form 8-K /A dated August 29, 1997 Amendment No. 1 and incorporated herein by reference).   |
| *10.28 | -- | Change of Control Agreement dated as of May 27, 1998 between Libbey Inc. and L. Frederick Ashton (filed as Exhibit 10.35 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998 and incorporated herein by reference).   |
| *10.29 | -- | Change of Control Agreement dated as of May 27, 1998 between Libbey Inc. and Dave F. Brown (filed as Exhibit 10.37 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998 and incorporated herein by reference).   |
| *10.30 | -- | Change of Control Agreement dated as of May 27, 1998 between Libbey Inc. and Rob A. Bules (filed as Exhibit 10.38 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998 and incorporated herein by reference).  |



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- \*10.31 -- Change of Control Agreement dated as of May 27, 1998 between Libbey Inc. and Robert A. Dunton (filed as Exhibit 10.39 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998 and incorporated herein by reference).
- \*10.32 -- Change of Control Agreement dated as of May 27, 1998 between Libbey Inc. and Terry E. Hartman (filed as Exhibit 10.40 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998 and incorporated herein by reference).
- \*10.33 -- Change of Control Agreement dated as of May 27, 1998 between Libbey Inc. and William M. Herb (filed as Exhibit 10.41 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998 and incorporated herein by reference).
- \*10.34 -- Change of Control Agreement dated as of May 27, 1998 between Libbey Inc. and Daniel P. Ibele (filed as Exhibit 10.42 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998 and incorporated herein by reference).
- \*10.35 -- Change of Control Agreement dated as of May 27, 1998 between Libbey Inc. and Pete D. Kasper (filed as Exhibit 10.43 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998 and incorporated herein by reference).
- \*10.36 -- Change of Control Agreement dated as of May 27, 1998 between Libbey Inc. and John F. Meier (filed as Exhibit 10.44 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998 and incorporated herein by reference).
- \*10.37 -- Change of Control Agreement dated as of May 27, 1998 between Libbey Inc. and Timothy T. Paige (filed as Exhibit 10.45 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998 and incorporated herein by reference).
- \*10.38 -- Change of Control Agreement dated as of May 27, 1998 between Libbey Inc. and John P. Pranckun (filed as Exhibit 10.46 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998 and incorporated herein by reference).

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- \*10.39 -- Change of Control Agreement dated as of May 27, 1998 between Libbey Inc. and Willie B. Purvis (filed as Exhibit 10.47 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998 and incorporated herein by reference).
- \*10.40 -- Change of Control Agreement dated as of May 27, 1998 between Libbey Inc. and Richard I. Reynolds (filed as Exhibit 10.48 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998 and incorporated herein by reference).
- \*10.41 -- Change of Control Agreement dated as of May 27, 1998 between Libbey Inc. and Scott M. Sellick (filed as Exhibit 10.49 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998 and incorporated herein by reference).
- \*10.42 -- Change of Control Agreement dated as of May 27, 1998 between Libbey Inc. and Arthur H. Smith (filed as Exhibit 10.50 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998 and incorporated herein by reference).
- \*10.43 -- Change of Control Agreement dated as of May 27, 1998 between Libbey Inc. and Kenneth G. Wilkes (filed as Exhibit 10.51 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998 and incorporated herein by reference).
- \*10.44 -- Change of Control Agreement dated as of May 27, 1998 between Libbey Inc. and John A. Zarb (filed as Exhibit 10.52 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998 and incorporated herein by reference).
- \*10.45 -- Change of Control Agreement dated as of May 27, 1998 between Libbey Inc. and Wayne J. Zitkus (filed as Exhibit 10.53 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998 and incorporated herein by reference).
- \*10.46 -- Amendment dated May 21, 1999 to the Change of Control Agreement dated as of May 27, 1998 between Libbey Inc. and L. F. Ashton (filed as Exhibit 10.48 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999 and incorporated herein by reference).

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- \*10.47 -- Amendment dated May 21, 1999 to the Change of Control Agreement dated as of May 27, 1998 between Libbey Inc. and J. F. Meier (filed as Exhibit 10.49 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999 and incorporated herein by reference).
- \*10.48 -- Amendment dated May 21, 1999 to the Change of Control Agreement dated as of May 27, 1998 between Libbey Inc. and Arthur H. Smith (filed as Exhibit 10.50 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999 and incorporated herein by reference).
- \*10.49 -- Amendment dated May 21, 1999 to the Change of Control Agreement dated as of May 27, 1998 between Libbey Inc. and Richard I. Reynolds (filed as Exhibit 10.51 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999 and incorporated herein by reference).
- \*10.50 -- Amendment dated May 21, 1999 to the Change of Control Agreement dated as of May 27, 1998 between Libbey Inc. and Kenneth G. Wilkes (filed as Exhibit 10.52 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999 and incorporated herein by reference).
- \*10.51 -- Amendment dated May 21, 1999 to the Change of Control Agreement dated as of May 27, 1998 between Libbey Inc. and Timothy T. Paige (filed as Exhibit 10.53 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999 and incorporated herein by reference).
- \*10.52 -- Amendment dated May 21, 1999 to the Change of Control Agreement dated as of May 27, 1998 between Libbey Inc. and John A. Zarb (filed as Exhibit 10.54 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999 and incorporated herein by reference).
- \*10.53 -- Amendment dated May 21, 1999 to the Change of Control Agreement dated as of May 27, 1998 between Libbey Inc. and Daniel P. Ibele (filed as Exhibit 10.55 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999 and incorporated herein by reference).

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- \*10.54            --        Amendment dated May 21, 1999 to the Change of Control Agreement dated as of May 27, 1998 between Libbey Inc. and Dave Brown (filed as Exhibit 10.56 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999 and incorporated herein by reference).
  
- \*10.55            --        Amendment dated May 21, 1999 to the Change of Control Agreement dated as of May 27, 1998 between Libbey Inc. and Willie Purvis (filed as Exhibit 10.57 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999 and incorporated herein by reference).
  
- \*10.56            --        Amendment dated May 21, 1999 to the Change of Control Agreement dated as of May 27, 1998 between Libbey Inc. and Robert Dunton (filed as Exhibit 10.58 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999 and incorporated herein by reference).
  
- \*10.57            --        Amendment dated May 21, 1999 to the Change of Control Agreement dated as of May 27, 1998 between Libbey Inc. and William Herb (filed as Exhibit 10.59 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999 and incorporated herein by reference).
  
- \*10.58            --        Amendment dated May 21, 1999 to the Change of Control Agreement dated as of May 27, 1998 between Libbey Inc. and Wayne Zitkus (filed as Exhibit 10.60 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999 and incorporated herein by reference).
  
- \*10.59            --        Amendment dated May 21, 1999 to the Change of Control Agreement dated as of May 27, 1998 between Libbey Inc. and John P. Pranckun (filed as Exhibit 10.61 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999 and incorporated herein by reference).
  
- \*10.60            --        Amendment dated May 21, 1999 to the Change of Control Agreement dated as of May 27, 1998 between Libbey Inc. and Pete Kasper (filed as Exhibit 10.63 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999 and incorporated herein by reference).

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- \*10.61 -- Amendment dated May 21, 1999 to the Change of Control Agreement dated as of May 27, 1998 between Libbey Inc. and Scott Sellick (filed as Exhibit 10.64 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999 and incorporated herein by reference).
- \*10.62 -- Amendment dated May 21, 1999 to the Change of Control Agreement dated as of May 27, 1998 between Libbey Inc. and Rob Bules (filed as Exhibit 10.65 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999 and incorporated herein by reference).
- \*10.63 -- Amendment dated May 21, 1999 to the Change of Control Agreement dated as of May 27, 1998 between Libbey Inc. and Terry Hartman (filed as Exhibit 10.66 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999 and incorporated herein by reference).
- \*10.64 -- Employment Agreement dated as of August 1, 1999 between Libbey Inc. and Kenneth A. Boerger (filed as Exhibit 10.67 to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1999 and incorporated herein by reference).
- \*10.65 -- Change of Control Agreement dated as of August 1, 1999 between Libbey Inc. and Kenneth A. Boerger (filed as Exhibit 10.68 to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1999 and incorporated herein by reference).
- \*10.66 -- Form of Non-Qualified Stock Option Agreement between Libbey Inc. and certain key employees participating in The 1999 Equity Participation Plan of Libbey Inc. (filed as Exhibit 10.69 to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1999 and incorporated herein by reference).
- \*10.67 -- The 1999 Equity Participation Plan of Libbey Inc. (filed herewith).
- 13 -- 1999 Annual Report to Shareholders for the year ended December 31, 1999. Except for the information that is expressly incorporated herein by reference, this exhibit is furnished for the information of the Securities and Exchange Commission and is not deemed to be filed as part of this report.

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22	--	Subsidiaries of the Registrant (filed herewith).
23	--	Consent of Independent Auditors (filed herewith).
25	--	Power of Attorney (filed herewith).
27	--	Financial Data Schedule -- year 1999 (filed herewith)
99	--	Safe harbor provisions of the Private Securities Litigation Reform Act of 1995 (filed herewith).

\* Management Contract or Compensation Plan or Arrangement.

**THE 1999 EQUITY PARTICIPATION PLAN**

**OF**

**LIBBEY INC.**

Libbey Inc., a Delaware corporation, has adopted The 1999 Equity Participation Plan of Libbey Inc. (the "Plan"), effective May 6, 1999, for the benefit of its eligible employees.

The purposes of the Plan are as follows:

- (1) To provide an additional incentive for key Employees (as such terms are defined below) to further the growth, development and financial success of the Company by personally benefiting through the ownership of Company stock and/or rights which recognize such growth, development and financial success.
- (2) To enable the Company to obtain and retain the services of key Employees considered essential to the long range success of the Company by offering them an opportunity to own stock in the Company and/or rights which will reflect the growth, development and financial success of the Company.

**ARTICLE I.**

**DEFINITIONS**

- 1.1. General. Wherever the following terms are used in the Plan they shall have the meanings specified below, unless the context clearly indicates otherwise.
- 1.2. Administrator. "Administrator" shall mean the Committee unless the Board has assumed the authority for administration of the Plan generally as provided in Section 10.1.
- 1.3. Award. "Award" shall mean an Option, a Restricted Stock award, a Performance Award, a Dividend Equivalents award, a Deferred Stock award, a Stock Payment award or a Stock Appreciation Right which may be awarded or granted under the Plan (collectively, "Awards").
- 1.4. Award Agreement. "Award Agreement" shall mean a written agreement executed by an authorized officer of the Company and the Holder which shall contain such terms and conditions with respect to an Award as the Administrator shall determine, consistent with the Plan.
- 1.5. Award Limit. "Award Limit" shall mean Seventy Five Thousand (75,000) shares of Common Stock, as adjusted pursuant to Section 11.3 of the Plan.
- 1.6. Board. "Board" shall mean the Board of Directors of the Company.
- 1.7. Change in Control.
  - (a) any Person (as defined below) is or becomes the Beneficial Owner (as defined below), directly or indirectly, of securities of the Company representing twenty percent (20%) or more of the combined voting power of the Company's then outstanding securities. For purposes of this Agreement, (A) the term "Person" is used as such term is used in Sections 13(d) and 14(d) of the Exchange Act; provided, however, that the term shall not include the Company, any trustee or other fiduciary holding securities under an employee benefit plan of the Company, and any corporation owned, directly or indirectly, by the shareholders of the Company, in substantially the same proportions as their ownership of stock of the Company, and (B) the term "Beneficial Owner" shall have the meaning given to such term in Rule 13d-3 under the Exchange Act; and provided, further, that this subsection (a) shall not apply to any Person who is the Beneficial Owner, directly or indirectly, of securities of the Company representing twenty percent (20%) or more of the combined voting power of the Company's then outstanding securities as of the effective date of this Plan so long

as such Person does not beneficially own, or increase such beneficial ownership to, twenty-five percent (25%) or more of the combined voting power of the Company's then outstanding securities;

(b) during any period of two (2) consecutive years (not including any period prior to the execution of this Agreement), individuals who at the beginning of such period constitute the Board, and any new director (other than a director designated by a person who has entered into an agreement with the Company to effect a transaction described in Sections 2(a), (c) or (d)) whose election by the Board or nomination for election by the Company's shareholders was approved by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors at the beginning of the period or whose election or nomination for election was previously so approved (hereinafter referred to as "Continuing Directors"), cease for any reason to constitute at least a majority thereof;

(c) the shareholders of the Company approve a merger or consolidation of the Company with any other corporation (or other entity), other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than 66 2/3% of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation;

(d) the shareholders of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets; or

(e) any Person is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company representing ten percent (10%) or more of the combined voting power of the Company's then outstanding securities (a "10% Owner") and (A) the identity of the Chief Executive Officer of the Company is changed during the period beginning sixty (60) days before the attainment of the ten percent (10%) beneficial ownership and ending two (2) years thereafter, or (B) individuals constituting at least one-third (1/3) of the members of the Board at the beginning of such period shall cease for any reason to serve on the Board during the period beginning sixty (60) days before the attainment of the ten percent (10%) beneficial ownership and ending two (2) years thereafter; provided, however, that this subsection (e) shall not apply to any Person who is a 10% Owner as of the effective date of this Plan so long as such Person does not increase such beneficial ownership by five percent (5%) or more over the percentage so owned by such Person as of the effective date of the Plan.

1.8 Code. "Code" shall mean the Internal Revenue Code of 1986, as amended.

1.9 Committee. "Committee" shall mean the Compensation Committee of the Board, or another committee or subcommittee of the Board, appointed as provided in Section 10.1.

1.10. Common Stock. "Common Stock" shall mean the common stock of the Company, par value \$.01 per share, and any equity security of the Company issued or authorized to be issued in the future, but excluding any preferred stock and any warrants, options or other rights to purchase Common Stock.

1.11. Company. "Company" shall mean Libbey Inc., a Delaware corporation.

1.12. Deferred Stock. "Deferred Stock" shall mean Common Stock awarded under Article VIII of the Plan.

1.13. Dividend Equivalent. "Dividend Equivalent" shall mean a right to receive the equivalent value (in cash or Common Stock) of dividends paid on Common Stock, awarded under Article VIII of the Plan.

1.14. DRO. "DRO" shall mean a domestic relations order as defined by the Code or Title I of the Employee Retirement Income Security Act of 1974, as amended, or the rules thereunder.



1.15. Employee. "Employee" shall mean any officer or other employee (as defined in accordance with Section 3401(c) of the Code) of the Company, or of any corporation which is a Subsidiary.

1.16. Exchange Act. "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

1.17. Fair Market Value. "Fair Market Value" of a share of Common Stock as of a given date shall be (a) the closing price of a share of Common Stock on the principal exchange on which shares of Common Stock are then trading, if any (or as reported on any composite index which includes such principal exchange), on the trading day previous to such date, or if shares were not traded on the trading day previous to such date, then on the next preceding date on which a trade occurred, or (b) if Common Stock is not traded on an exchange but is quoted on NASDAQ or a successor quotation system, the mean between the closing representative bid and asked prices for the Common Stock on the trading day previous to such date as reported by NASDAQ or such successor quotation system; or (c) if Common Stock is not publicly traded on an exchange and not quoted on NASDAQ or a successor quotation system, the Fair Market Value of a share of Common Stock as established by the Administrator acting in good faith.

1.18. Holder. "Holder" shall mean a person who has been granted or awarded an Award.

1.19. Incentive Stock Option. "Incentive Stock Option" shall mean an option which conforms to the applicable provisions of Section 422 of the Code and which is designated as an Incentive Stock Option by the Administrator.

1.20. Non-Qualified Stock Option. "Non-Qualified Stock Option" shall mean an Option which is not designated as an Incentive Stock Option by the Administrator.

1.21. Option. "Option" shall mean a stock option granted under Article IV of the Plan. An Option granted under the Plan shall, as determined by the Administrator, be either a Non-Qualified Stock Option or an Incentive Stock Option.

1.22. Performance Award. "Performance Award" shall mean a cash bonus, stock bonus or other performance or incentive award that is paid in cash, Common Stock or a combination of both, awarded under Article VIII of the Plan.

1.23. Performance Criteria. "Performance Criteria" shall mean the following business criteria with respect to the Company, any Subsidiary or any division or operating unit: (a) net income, (b) pre-tax income, (c) operating income, (d) cash flow, (e) earnings per share, (f) return on equity, (g) return on invested capital or assets, (h) cost reductions or savings, (i) funds from operations, (j) appreciation in the fair market value of Common Stock, (k) earnings before any one or more of the following items: interest, taxes, depreciation or amortization, (l) performance against operating budget goals, and (m) economic value added.

1.24. Plan. "Plan" shall mean The 1999 Equity Participation Plan of Libbey Inc.

1.25. Restricted Stock. "Restricted Stock" shall mean Common Stock awarded under Article VII of the Plan.

1.26. Rule 16b-3. "Rule 16b-3" shall mean that certain Rule 16b-3 under the Exchange Act, as such Rule may be amended from time to time.

1.27. Section 162(m) Participant. "Section 162(m) Participant" shall mean any key Employee designated by the Administrator as a key Employee whose compensation for the fiscal year in which the key Employee is so designated or a future fiscal year may be subject to the limit on deductible compensation imposed by Section 162(m) of the Code.

1.28. Securities Act. "Securities Act" shall mean the Securities Act of 1933, as amended.

1.29. Stock Appreciation Right. "Stock Appreciation Right" shall mean a stock appreciation right granted under Article IX of the Plan.

1.30. Stock Payment. "Stock Payment" shall mean (a) a payment in the form of shares of Common Stock, or (b) an option or other right to purchase shares of Common Stock, as part of a deferred compensation arrangement, made in lieu of all or any portion of the compensation, including without limitation, salary, bonuses and commissions, that would otherwise become payable to a key Employee in cash, awarded under Article VIII of the Plan.

1.31. Subsidiary. "Subsidiary" shall mean any corporation in an unbroken chain of corporations beginning with the Company if each of the corporations other than the last corporation in the unbroken chain then owns stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

1.32. Substitute Award. "Substitute Award" shall mean an Option granted under this Plan upon the assumption of, or in substitution for, outstanding equity awards previously granted by a company or other entity in connection with a corporate transaction, such as a merger, combination, consolidation or acquisition of property or stock; provided, however, that in no event shall the term "Substitute Award" be construed to refer to an award made in connection with the cancellation and repricing of an Option.

1.33. Termination of Employment. "Termination of Employment" shall mean the time when the employee-employer relationship between a Holder and the Company or any Subsidiary is terminated for any reason, with or without cause, including, but not by way of limitation, a termination by resignation, discharge, death, disability or retirement; but excluding (a) terminations where there is a simultaneous reemployment or continuing employment of a Holder by the Company or any Subsidiary, (b) at the discretion of the Administrator, terminations which result in a temporary severance of the employee-employer relationship, and (c) at the discretion of the Administrator, terminations which are followed by the simultaneous establishment of a consulting relationship by the Company or a Subsidiary with the former employee. The Administrator, in its absolute discretion, shall determine the effect of all matters and questions relating to Termination of Employment, including, but not by way of limitation, the question of whether a Termination of Employment resulted from a discharge for good cause, and all questions of whether a particular leave of absence constitutes a Termination of Employment; provided, however, that, with respect to Incentive Stock Options, unless otherwise determined by the Administrator in its discretion, a leave of absence, change in status from an employee to an independent contractor or other change in the employee-employer relationship shall constitute a Termination of Employment if, and to the extent that, such leave of absence, change in status or other change interrupts employment for the purposes of Section 422(a)(2) of the Code and the then applicable regulations and revenue rulings under said Section.

## **ARTICLE II.**

### **SHARES SUBJECT TO PLAN**

2.1. Shares Subject to Plan.

(a) The shares of stock subject to Awards shall be Common Stock, initially shares of the Company's Common Stock, par value \$.01 per share. The aggregate number of such shares which may be issued upon exercise of such Options or rights or upon any such awards under the Plan shall not exceed One Million (1,000,000), of which no more than One Hundred Thousand (100,000) shares may be issued as Restricted Stock, Performance Awards or Deferred Stock or any combination thereof. The shares of Common Stock issuable upon exercise of such Options or rights or upon any such awards may be either previously authorized but unissued shares or treasury shares.

(b) The maximum number of shares which may be subject to Awards, granted under the Plan to any individual in any fiscal year shall not exceed the Award Limit. To the extent required by Section 162(m) of the Code, shares subject to Options which are canceled continue to be counted against the Award Limit.

2.2 Add-back of Options and Other Rights. If any Option, or other right to acquire shares of Common Stock under any other Award under the Plan, expires or is canceled without having been fully exercised, or is exercised in whole or in part for cash as permitted by the Plan, the number of shares subject to such Option or other right but as to which such Option or other right was not exercised prior to its expiration, cancellation or exercise may again be optioned, granted or awarded hereunder, subject to the limitations of Section

2.1. Furthermore, any shares subject to Awards which are adjusted pursuant to Section 11.3 and become exercisable with respect to shares of stock of another corporation shall be considered canceled and may again be optioned, granted or awarded hereunder, subject to the limitations of Section 2.1. Shares of Common Stock which are delivered by the Holder or withheld by the Company upon the exercise of any Award under the Plan, in payment of the exercise price thereof or tax withholding thereon, may again be optioned, granted or awarded hereunder, subject to the limitations of Section 2.1. If any shares of Restricted Stock are surrendered by the Holder or repurchased by the Company pursuant to Section 7.4 or 7.5 hereof, such shares may again be optioned, granted or awarded hereunder, subject to the limitations of Section 2.1. Notwithstanding the provisions of this Section 2.2, no shares of Common Stock may again be optioned, granted or awarded if such action would cause an Incentive Stock Option to fail to qualify as an incentive stock option under Section 422 of the Code.

### **ARTICLE III.**

#### **GRANTING OF AWARDS**

3.1. Award Agreement. Each Award shall be evidenced by an Award Agreement. Award Agreements evidencing Awards intended to qualify as performance-based compensation as described in Section 162(m)(4)(C) of the Code shall contain such terms and conditions as may be necessary to meet the applicable provisions of Section 162(m) of the Code. Award Agreements evidencing Incentive Stock Options shall contain such terms and conditions as may be necessary to meet the applicable provisions of Section 422 of the Code.

3.2. Provisions Applicable to Section 162(m) Participants.

(a) The Committee, in its discretion, may determine whether an Award is to qualify as performance-based compensation as described in Section 162(m)(4)(C) of the Code.

(b) Notwithstanding anything in the Plan to the contrary, the Committee may grant any Award to a Section 162(m) Participant, including Restricted Stock, the restrictions with respect to which lapse upon the attainment of performance goals which are related to one or more of the Performance Criteria and any performance or incentive award described in Article VIII that vests or becomes exercisable or payable upon the attainment of performance goals which are related to one or more of the Performance Criteria.

(c) To the extent necessary to comply with the performance-based compensation requirements of Section 162(m)(4)(C) of the Code, with respect to any Award granted under Articles VII and VIII which may be granted to one or more Section 162(m) Participants, no later than ninety (90) days following the commencement of any fiscal year in question or any other designated fiscal period or period of service (or such other time as may be required or permitted by Section 162(m) of the Code), the Committee shall, in writing, (i) designate one or more Section 162(m) Participants, (ii) select the Performance Criteria applicable to the fiscal year or other designated fiscal period or period of service, (iii) establish the various performance targets, in terms of an objective formula or standard, and amounts of such Awards, as applicable, which may be earned for such fiscal year or other designated fiscal period or period of service and

(iv) specify the relationship between Performance Criteria and the performance targets and the amounts of such Awards, as applicable, to be earned by each Section 162(m) Participant for such fiscal year or other designated fiscal period or period of service. Following the completion of each fiscal year or other designated fiscal period or period of service, the Committee shall certify in writing whether the applicable performance targets have been achieved for such fiscal year or other designated fiscal period or period of service. In determining the amount earned by a Section

162(m) Participant, the Committee shall have the right to reduce (but not to increase) the amount payable at a given level of performance to take into account additional factors that the Committee may deem relevant to the assessment of individual or corporate performance for the fiscal year or other designated fiscal period or period of service.

(d) Furthermore, notwithstanding any other provision of the Plan any Award which is granted to a Section 162(m) Participant and is intended to qualify as performance-based compensation as described in Section 162(m)(4)(C) of the Code shall be subject to any additional limitations set forth in Section 162(m) of the Code (including any amendment to Section 162(m) of the Code) or any regulations or rulings issued thereunder that are requirements for qualification as performance-based compensation as described in Section 162(m)(4)(C) of the Code, and the Plan shall be deemed amended to the extent necessary to conform to such requirements.

### 3.3. Limitations Applicable to Section 16 Persons.

Notwithstanding any other provision of the Plan, the Plan, and any Award granted or awarded to any individual who is then subject to Section 16 of the Exchange Act, shall be subject to any additional limitations set forth in any applicable exemptive rule under Section 16 of the Exchange Act (including any amendment to Rule 16b-3 of the Exchange Act) that are requirements for the application of such exemptive rule. To the extent permitted by applicable law, the Plan and Awards granted or awarded hereunder shall be deemed amended to the extent necessary to conform to such applicable exemptive rule.

3.4. Consideration. In consideration of the granting of an Award under the Plan, the Holder shall agree, in the Award Agreement, to remain in the employ of (or, as applicable, to consult for) the Company or any Subsidiary for a period of at least one year (or such shorter period as may be fixed in the Award Agreement or by action of the Administrator following grant of the Award) after the Award is granted.

3.5. At-Will Employment. Nothing in the Plan or in any Award Agreement hereunder shall confer upon any Holder any right to continue in the employ of the Company or any Subsidiary, or shall interfere with or restrict in any way the rights of the Company and any Subsidiary, which are hereby expressly reserved, to discharge any Holder at any time for any reason whatsoever, with or without cause, except to the extent expressly provided otherwise in a written employment agreement between the Holder and the Company and any Subsidiary.

## **ARTICLE IV.**

### **GRANTING OF OPTIONS**

4.1. Eligibility. Any Employee selected by the Committee pursuant to Section 4.4(a)(i) shall be eligible to be granted an Option.

4.2. Disqualification for Stock Ownership. No person may be granted an Incentive Stock Option under the Plan if such person, at the time the Incentive Stock Option is granted, owns stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or any then existing Subsidiary or parent corporation (within the meaning of Section 422 of the Code) unless such Incentive Stock Option conforms to the applicable provisions of Section 422 of the Code.

4.3. Qualification of Incentive Stock Options. No Incentive Stock Option shall be granted to any person who is not an Employee.

4.4. Granting of Options.

(a) The Committee shall from time to time, in its absolute discretion, and subject to applicable limitations of the Plan:

(i) Determine which Employees are key Employees and select from among them (including Employees who have previously received Awards under the Plan) those who in its opinion should be granted Options;

(ii) Subject to the Award Limit, determine the number of shares to be subject to such Options granted to the selected key Employees;

(iii) Subject to Section 4.3, determine whether such Options are to be Incentive Stock Options or Non-Qualified Stock Options and whether such Options are to qualify as performance-based compensation as described in Section 162(m)(4)(C) of the Code; and

(iv) Determine the terms and conditions of such Options, consistent with the Plan; provided, however, that the terms and conditions of Options intended to qualify as performance-based compensation as described in Section 162(m)(4)(C) of the Code shall include, but not be limited to, such terms and conditions as may be necessary to meet the applicable provisions of Section 162(m) of the Code.

(b) Upon the selection of a key Employee to be granted an Option, the Committee shall instruct the Secretary of the Company to issue the Option and may impose such conditions on the grant of the Option as it deems appropriate.

(c) Any Incentive Stock Option granted under the Plan may be modified by the Committee, with the consent of the Holder, to disqualify such Option from treatment as an "incentive stock option" under Section 422 of the Code.

4.5. Options in Lieu of Cash Compensation. Options may be granted under the Plan to Employees in lieu of cash bonuses which would otherwise be payable to such Employees, pursuant to such policies which may be adopted by the Administrator from time to time.

## **ARTICLE V.**

### **TERMS OF OPTIONS**

5.1. Option Price. The price per share of the shares subject to each Option shall not be less than one hundred percent (100%) of the Fair Market Value of a share of Common Stock on the date the Option is granted and in the case of Incentive Stock Options granted to an individual then owning (within the meaning of Section 424(d) of the Code) more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or any Subsidiary or parent corporation thereof (within the meaning of Section 422 of the Code), such price shall not be less than one hundred ten percent (110%) of the Fair Market Value of a share of Common Stock on the date the Option is granted (or the date the Option is modified, extended or renewed for purposes of Section 424(h) of the Code).

5.2. Option Term. The maximum term of each Non-Qualified Stock Option shall be ten (10) years and one (1) day from the date the Non-Qualified Stock Option is granted. The maximum term of each Incentive Stock Option shall be ten (10) years from the date the Incentive Stock Option is granted, or five (5) years from the date the Incentive Stock Option is granted if the Incentive Stock Option is granted to an individual then owning (within the meaning of Section 424(d) of the Code) more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or any Subsidiary or parent corporation thereof (within the meaning of Section 422 of the Code).

Code). Except as limited by requirements of Section 422 of the Code and regulations and rulings thereunder applicable to Incentive Stock Options, the Committee may extend the term of any outstanding Option in connection with any Termination of Employment of the Holder, or amend any other term or condition of such Option relating to such a termination.

### 5.3. Option Vesting

(a) The period during which the right to exercise, in whole or in part, an Option granted to an Employee vests in the Holder shall be set by the Committee and the Committee may determine that an Option may not be exercised in whole or in part for a specified period after it is granted; provided, however, that, unless the Committee otherwise provides in the terms of the Award Agreement or otherwise, no Option shall be exercisable by any Holder who is then subject to Section 16 of the Exchange Act within the period ending six months and one day after the date the Option is granted. At any time after grant of an Option, the Committee may, in its sole and absolute discretion and subject to whatever terms and conditions it selects, accelerate the period during which an Option granted to an Employee vests.

(b) No portion of an Option which is unexercisable at Termination of Employment shall thereafter become exercisable, except as may be otherwise provided by the Committee either in the Award Agreement or by action of the Committee following the grant of the Option.

(c) To the extent that the aggregate Fair Market Value of stock with respect to which "incentive stock options" (within the meaning of Section 422 of the Code, but without regard to Section 422(d) of the Code) are exercisable for the first time by a Holder during any calendar year (under the Plan and all other incentive stock option plans of the Company and any parent or subsidiary corporation, within the meaning of Section 422 of the Code) of the Company, exceeds \$100,000, such Options shall be treated as Non-Qualified Options to the extent required by Section 422 of the Code. The rule set forth in the preceding sentence shall be applied by taking Options into account in the order in which they were granted. For purposes of this Section 5.3(c), the Fair Market Value of stock shall be determined as of the time the Option with respect to such stock is granted.

### 5.5. Substitute Awards.

Notwithstanding the foregoing provisions of this Article V to the contrary, in the case of an Option that is a Substitute Award, the price per share of the shares subject to such Option may be less than the Fair Market Value per share on the date of grant, provided, that the excess of:

(a) the aggregate Fair Market Value (as of the date such Substitute Award is granted) of the shares subject to the Substitute Award; over

(b) the aggregate exercise price thereof; does not exceed the excess of;

(c) the aggregate fair market value (as of the time immediately preceding the transaction giving rise to the Substitute Award, such fair market value to be determined by the Committee) of the shares of the predecessor entity that were subject to the grant assumed or substituted for by the Company; over

(d) the aggregate exercise price of such shares.

## ARTICLE VI.

### EXERCISE OF OPTIONS

6.1. Partial Exercise. An exercisable Option may be exercised in whole or in part. However, an Option shall not be exercisable with respect to fractional shares and the Administrator may require that, by the terms of the Option, a partial exercise be with respect to a minimum number of shares.

6.2. Manner of Exercise. All or a portion of an exercisable Option shall be deemed exercised upon delivery of all of the following to the Secretary of the Company or his office:

(a) A written notice complying with the applicable rules established by the Administrator stating that the Option, or a portion thereof, is exercised. The notice shall be signed by the Holder or other person then entitled to exercise the Option or such portion of the Option;

(b) Such representations and documents as the Administrator, in its absolute discretion, deems necessary or advisable to effect compliance with all applicable provisions of the Securities Act and any other federal or state securities laws or regulations. The Administrator may, in its absolute discretion, also take whatever additional actions it deems appropriate to effect such compliance including, without limitation, placing legends on share certificates and issuing stop-transfer notices to agents and registrars;

(c) In the event that the Option shall be exercised pursuant to Section 11.1 by any person or persons other than the Holder, appropriate proof of the right of such person or persons to exercise the Option; and

(d) Full cash payment to the Secretary of the Company for the shares with respect to which the Option, or portion thereof, is exercised. However, the Administrator, may in its discretion (i) allow a delay in payment up to thirty (30) days from the date the Option, or portion thereof, is exercised; (ii) allow payment, in whole or in part, through the delivery of shares of Common Stock which have been owned by the Holder for at least six months, duly endorsed for transfer to the Company with a Fair Market Value on the date of delivery equal to the aggregate exercise price of the Option or exercised portion thereof; (iii) allow payment, in whole or in part, through the surrender of shares of Common Stock then issuable upon exercise of the Option having a Fair Market Value on the date of Option exercise equal to the aggregate exercise price of the Option or exercised portion thereof; (iv) allow payment, in whole or in part, through the delivery of property of any kind which constitutes good and valuable consideration; (v) allow payment, in whole or in part, through the delivery of a full recourse promissory note bearing interest (at no less than such rate as shall then preclude the imputation of interest under the Code) and payable upon such terms as may be prescribed by the Administrator; (vi) allow payment, in whole or in part, through the delivery of a notice that the Holder has placed a market sell order with a broker with respect to shares of Common Stock then issuable upon exercise of the Option, and that the broker has been directed to pay a sufficient portion of the net proceeds of the sale to the Company in satisfaction of the Option exercise price, provided that payment of such proceeds is then made to the Company upon settlement of such sale; or (vii) allow payment through any combination of the consideration provided in the foregoing subparagraphs (ii), (iii), (iv), (v) and (vi). In the case of a promissory note, the Administrator may also prescribe the form of such note and the security to be given for such note. The Option may not be exercised, however, by delivery of a promissory note or by a loan from the Company when or where such loan or other extension of credit is prohibited by law.

6.3. Conditions to Issuance of Stock Certificates. The Company shall not be required to issue or deliver any certificate or certificates for shares of stock purchased upon the exercise of any Option or portion thereof prior to fulfillment of all of the following conditions:

(a) The admission of such shares to listing on all stock exchanges on which such class of stock is then listed;

(b) The completion of any registration or other qualification of such shares under any state or federal law, or under the rulings or regulations of the Securities and Exchange Commission or any other governmental regulatory body which the Administrator shall, in its absolute discretion, deem necessary or advisable;

(c) The obtaining of any approval or other clearance from any state or federal governmental agency which the Administrator shall, in its absolute discretion, determine to be necessary or advisable;

(d) The lapse of such reasonable period of time following the exercise of the Option as the Administrator may establish from time to time for reasons of administrative convenience; and

(e) The receipt by the Company of full payment for such shares, including payment of any applicable withholding tax, which in the discretion of the Administrator may be in the form of consideration used by the Holder to pay for such shares under Section 6.2(d).

6.4. Rights as Stockholders. Holders shall not be, nor have any of the rights or privileges of, stockholders of the Company in respect of any shares purchasable upon the exercise of any part of an Option unless and until certificates representing such shares have been issued by the Company to such Holders.

6.5. Ownership and Transfer Restrictions. The Administrator, in its absolute discretion, may impose such restrictions on the ownership and transferability of the shares purchasable upon the exercise of an Option as it deems appropriate. Any such restriction shall be set forth in the respective Award Agreement and may be referred to on the certificates evidencing such shares. The Holder shall give the Company prompt notice of any disposition of shares of Common Stock acquired by exercise of an Incentive Stock Option within

(a) two years from the date of granting (including the date the Option is modified, extended or renewed for purposes of Section 424(h) of the Code) such Option to such Holder or (b) one year after the transfer of such shares to such Holder.

6.6. Limitations on Exercise of Options. Holders may be required to comply with any timing or other restrictions with respect to the settlement or exercise of an Option, including a window-period limitation, as may be imposed in the discretion of the Administrator.

## **ARTICLE VII.**

### **AWARD OF RESTRICTED STOCK**

7.1. Eligibility. Subject to the Award Limit and the limitation on the number of shares available for grant as Restricted Stock set forth in Section 2.1, Restricted Stock may be awarded to any Employee who the Committee determines is a key Employee and who should receive such an Award.

7.2. Award of Restricted Stock.

(a) The Committee may from time to time, in its absolute discretion:

(i) Determine which Employees are key Employees and select from among them (including Employees who have previously received other awards under the Plan) as in its opinion should be awarded Restricted Stock; and

(ii) Determine the purchase price, if any, and other terms and conditions applicable to such Restricted Stock, consistent with the Plan.

(b) The Committee shall establish the purchase price, if any, and form of payment for Restricted Stock; provided, however, that such purchase price shall be no less than the par value of the Common Stock to be purchased, unless otherwise permitted by applicable state law. In all cases, legal consideration shall be required for each issuance of Restricted Stock.

(c) Upon the selection of a key Employee to be awarded Restricted Stock, the Committee shall instruct the Secretary of the Company to issue such Restricted Stock and may impose such conditions on the issuance of such Restricted Stock as it deems appropriate.

7.3. Rights as Stockholders. Subject to Section 7.4, upon delivery of the shares of Restricted Stock to the escrow holder pursuant to Section 7.6, the Holder shall have, unless otherwise provided



by the Committee, all the rights of a stockholder with respect to said shares, subject to the restrictions in his or her Award Agreement, including the right to receive all dividends and other distributions paid or made with respect to the shares; provided, however, that in the discretion of the Committee, any extraordinary distributions with respect to the Common Stock shall be subject to the restrictions set forth in Section 7.4.

7.4. Restriction. All shares of Restricted Stock issued under the Plan (including any shares received by holders thereof with respect to shares of Restricted Stock as a result of stock dividends, stock splits or any other form of recapitalization) shall, in the terms of each individual Award Agreement, be subject to such restrictions as the Committee shall provide, which restrictions may include, without limitation, restrictions concerning voting rights and transferability and restrictions based on duration of employment with the Company, Company performance and individual performance; provided, however, that, unless the Committee otherwise provides in the terms of the Award Agreement or otherwise, no share of Restricted Stock granted to a person subject to Section 16 of the Exchange Act shall be sold, assigned or otherwise transferred until at least six months and one day have elapsed from the date on which the Restricted Stock was issued, and provided, further, that, except with respect to shares of Restricted Stock granted to Section 162(m) Participants, by action taken after the Restricted Stock is issued, the Committee may, on such terms and conditions as it may determine to be appropriate, remove any or all of the restrictions imposed by the terms of the Award Agreement. Restricted Stock may not be sold or encumbered until all restrictions are terminated or expire. If no consideration was paid by the Holder upon issuance, a Holder's rights in unvested Restricted Stock shall lapse, and such Restricted Stock shall be surrendered to the Company without consideration, upon Termination of Employment with the Company; provided, however, except with respect to shares of Restricted Stock granted to Section 162(m) Participants, the Committee in its sole and absolute discretion may provide that no such lapse or surrender shall occur in the event of a Termination of Employment without cause or following any Change in Control of the Company or because of the Holder's retirement, or otherwise.

7.5. Repurchase of Restricted Stock. The Committee shall provide in the terms of each individual Award Agreement that the Company shall have the right to repurchase from the Holder the Restricted Stock then subject to restrictions under the Award Agreement immediately upon a Termination of Employment between the Holder and the Company, at a cash price per share equal to the price paid by the Holder for such Restricted Stock; provided, however, that, except with respect to shares of Restricted Stock granted to Section 162(m) Participants, the Committee in its sole and absolute discretion may provide that no such right of repurchase shall exist in the event of a Termination of Employment without cause or following any Change in Control of the Company or because of the Holder's retirement, death or disability or otherwise.

7.6. Escrow. The Secretary of the Company or such other escrow holder as the Committee may appoint shall retain physical custody of each certificate representing Restricted Stock until all of the restrictions imposed under the Award Agreement with respect to the shares evidenced by such certificate expire or shall have been removed.

7.7. Legend. In order to enforce the restrictions imposed upon shares of Restricted Stock hereunder, the Committee shall cause a legend or legends to be placed on certificates representing all shares of Restricted Stock that are still subject to restrictions under Award Agreements, which legend or legends shall make appropriate reference to the conditions imposed thereby.

7.8. Section 83(b) Election. If a Holder makes an election under Section 83(b) of the Code, or any successor section thereto, to be taxed with respect to the Restricted Stock as of the date of transfer of the Restricted Stock rather than as of the date or dates upon which the Holder would otherwise be taxable under Section 83(a) of the Code, the Holder shall deliver a copy of such election to the Company immediately after filing such election with the Internal Revenue Service.

## ARTICLE VIII.

### PERFORMANCE AWARDS, DIVIDEND EQUIVALENTS, DEFERRED STOCK, STOCK PAYMENTS

8.1. Eligibility. Subject to the Award Limit, one or more Performance Awards, Dividend Equivalents, awards of Deferred Stock, and/or Stock Payments may be granted to any Employee whom the Committee determines is a key Employee and who should receive such an Award.

8.2. Performance Awards. Any key Employee selected by the Committee may be granted one or more Performance Awards. The value of such Performance Awards may be linked to any one or more of the Performance Criteria or other specific performance criteria determined appropriate by the Committee, in each case on a specified date or dates or over any period or periods determined by the Committee. In making such determinations, the Committee shall consider (among such other factors as it deems relevant in light of the specific type of award) the contributions, responsibilities and other compensation of the particular key Employee.

8.3. Dividend Equivalents.

(a) Any key Employee selected by the Committee may be granted Dividend Equivalents based on the dividends declared on Common Stock, to be credited as of dividend payment dates, during the period between the date a Stock Appreciation Right, Deferred Stock or Performance Award is granted, and the date such Stock Appreciation Right, Deferred Stock or Performance Award is exercised, vests or expires, as determined by the Committee. Such Dividend Equivalents shall be converted to cash or additional shares of Common Stock by such formula and at such time and subject to such limitations as may be determined by the Committee.

(b) Any Holder of an Option may be granted Dividend Equivalents based on the dividends declared on Common Stock, to be credited as of dividend payment dates, during the period between the date an Option is granted, and the date such Option is exercised, vests or expires, as determined by the Committee. Such Dividend Equivalents shall be converted to cash or additional shares of Common Stock by such formula and at such time and subject to such limitations as may be determined by the Committee.

(d) Dividend Equivalents granted with respect to Options intended to be qualified performance-based compensation for purposes of Section 162(m) of the Code shall be payable, with respect to pre-exercise periods, regardless of whether such Option is subsequently exercised. Stock Payments.

8.4. Stock Payments Any key Employee selected by the Committee may receive Stock Payments in the manner determined from time to time by the Committee. The number of shares shall be determined by the Committee and may be based upon the Performance Criteria or other specific performance criteria determined appropriate by the Committee, determined on the date such Stock Payment is made or on any date thereafter.

8.5. Deferred Stock. Any key Employee selected by the Committee may be granted an award of Deferred Stock in the manner determined from time to time by the Committee. The number of shares of Deferred Stock shall be determined by the Committee and may be linked to the Performance Criteria or other specific performance criteria determined to be appropriate by the Committee, in each case on a specified date or dates or over any period or periods determined by the Committee. Common Stock underlying a Deferred Stock award will not be issued until the Deferred Stock award has vested, pursuant to a vesting schedule or performance criteria set by the Committee. Unless otherwise provided by the Committee, a Holder of Deferred Stock shall have no rights as a Company stockholder with respect to such Deferred Stock until such time as the Award has vested and the Common Stock underlying the Award has been issued.

8.6. Term. The term of a Performance Award, Dividend Equivalent, award of Deferred Stock and/or Stock Payment shall be set by the Committee in its discretion.

8.7. Exercise or Purchase Price. The Committee may establish the exercise or purchase price of a Performance Award, shares of Deferred Stock, or shares received as a Stock Payment; provided, however, that such price shall not be less than the par value for a share of Common Stock, unless otherwise permitted by applicable state law.

8.8. Exercise Upon Termination of Employment. A Performance Award, Dividend Equivalent, award of Deferred Stock and/or Stock Payment is exercisable or payable only while the Holder is an Employee; provided, however, that except with respect to Performance Awards granted to Section 162(m) Participants, that the Administrator in its sole and absolute discretion may provide that the Performance Award, Dividend Equivalent, award of Deferred Stock and/or Stock Payment may be exercised or paid subsequent to a Termination of Employment without cause, or following a Change in Control of the Company, or because of the Holder's retirement, death or disability, or otherwise.

8.9. Form of Payment. Payment of the amount determined under Section 8.2 or 8.3 above shall be in cash, in Common Stock or a combination of both, as determined by the Committee. To the extent any payment under this Article VIII is effected in Common Stock, it shall be made subject to satisfaction of all provisions of Section 6.3.

## **ARTICLE IX.**

### **STOCK APPRECIATION RIGHTS**

9.1. Grant of Stock Appreciation Rights. A Stock Appreciation Right may be granted to any key Employee selected by the Committee. A Stock Appreciation Right may be granted (a) in connection and simultaneously with the grant of an Option, (b) with respect to a previously granted Option, or (c) independent of an Option. A Stock Appreciation Right shall be subject to such terms and conditions not inconsistent with the Plan as the Committee shall impose and shall be evidenced by an Award Agreement.

9.2. Coupled Stock Appreciation Rights.

(a) A Coupled Stock Appreciation Right ("CSAR") shall be related to a particular Option and shall be exercisable only when and to the extent the related Option is exercisable.

(b) A CSAR may be granted for no more than the number of shares subject to the simultaneously or previously granted Option to which it is coupled.

(c) A CSAR shall entitle the Holder (or other person entitled to exercise the Option pursuant to the Plan) to surrender to the Company unexercised a portion of the Option to which the CSAR relates (to the extent then exercisable pursuant to its terms) and to receive from the Company in exchange therefor an amount determined by multiplying the difference obtained by subtracting the Option exercise price from the Fair Market Value of a share of Common Stock on the date of exercise of the CSAR by the number of shares of Common Stock with respect to which the CSAR shall have been exercised, subject to any limitations the Committee may impose.

9.3. Independent Stock Appreciation Rights.

(a) An Independent Stock Appreciation Right ("ISAR") shall be unrelated to any Option and shall have a term set by the Committee. An ISAR shall be exercisable in such installments as the Committee may determine. An ISAR shall cover such number of shares of Common Stock as the Committee may determine; provided, however, that unless the Committee otherwise provides in the terms of the ISAR or otherwise, no ISAR granted to a person subject to Section 16 of the Exchange Act shall be exercisable until at least six months have elapsed from (but excluding) the date on which the Option was granted. The exercise price per share of Common Stock subject to each ISAR shall be set by the Committee. An ISAR is exercisable only while the Holder is an Employee; provided that the Committee may determine that the ISAR may be exercised

subsequent to Termination of Employment without cause, or following a Change in Control of the Company, or because of the Holder's retirement, death or disability, or otherwise.

(b) An ISAR shall entitle the Holder (or other person entitled to exercise the ISAR pursuant to the Plan) to exercise all or a specified portion of the ISAR (to the extent then exercisable pursuant to its terms) and to receive from the Company an amount determined by multiplying the difference obtained by subtracting the exercise price per share of the ISAR from the Fair Market Value of a share of Common Stock on the date of exercise of the ISAR by the number of shares of Common Stock with respect to which the ISAR shall have been exercised, subject to any limitations the Committee may impose.

#### 9.4. Payment and Limitations on Exercise.

(a) Payment of the amounts determined under Section 9.2(c) and 9.3(b) above shall be in cash, in Common Stock (based on its Fair Market Value as of the date the Stock Appreciation Right is exercised) or a combination of both, as determined by the Committee. To the extent such payment is effected in Common Stock it shall be made subject to satisfaction of all provisions of Section 6.3 above pertaining to Options.

(b) Holders of Stock Appreciation Rights may be required to comply with any timing or other restrictions with respect to the settlement or exercise of a Stock Appreciation Right, including a window-period limitation, as may be imposed at the discretion of the Committee.

## ARTICLE X.

### ADMINISTRATION

10.1. Compensation Committee. The Compensation Committee (or another committee or a subcommittee of the Board assuming the functions of the Committee under the Plan) shall consist solely of two or more Independent Directors appointed by and holding office at the pleasure of the Board, each of whom is both a "non-employee director" as defined by Rule 16b-3 and an "outside director" for purposes of Section 162(m) of the Code. Appointment of Committee members shall be effective upon acceptance of appointment. Committee members may resign at any time by delivering written notice to the Board. Vacancies in the Committee may be filled by the Board.

10.2. Duties and Powers of Committee. It shall be the duty of the Committee to conduct the general administration of the Plan in accordance with its provisions. The Committee shall have the power to interpret the Plan and the Award Agreements, and to adopt such rules for the administration, interpretation, and application of the Plan as are consistent therewith, to interpret, amend or revoke any such rules and to amend any Award Agreement provided that the rights or obligations of the Holder of the Award that is the subject of any such Award Agreement are not affected adversely. Any such grant or award under the Plan need not be the same with respect to each Holder. Any such interpretations and rules with respect to Incentive Stock Options shall be consistent with the provisions of Section 422 of the Code. In its absolute discretion, the Board may at any time and from time to time exercise any and all rights and duties of the Committee under the Plan except with respect to matters which under Rule 16b-3 or Section 162(m) of the Code, or any regulations or rules issued thereunder, are required to be determined in the sole discretion of the Committee.

10.3. Majority Rule; Unanimous Written Consent. The Committee shall act by a majority of its members in attendance at a meeting at which a quorum is present or by a memorandum or other written instrument signed by all members of the Committee.

10.4. Compensation; Professional Assistance; Good Faith Actions. Members of the Committee shall receive such compensation for their services as members as may be determined by the Board. All expenses and liabilities which members of the Committee incur in connection with the administration of the Plan shall be borne by the Company. The Committee may, with the approval of the Board, employ attorneys, consultants, accountants, appraisers, brokers, or other persons. The Committee, the

Company and the Company's officers and Directors shall be entitled to rely upon the advice, opinions or valuations of any such persons. All actions taken and all interpretations and determinations made by the Committee or the Board in good faith shall be final and binding upon all Holders, the Company and all other interested persons. No members of the Committee or Board shall be personally liable for any action, determination or interpretation made in good faith with respect to the Plan or Awards, and all members of the Committee and the Board shall be fully protected by the Company in respect of any such action, determination or interpretation.

10.5. Delegation of Authority to Grant Awards. The Committee may, but need not, delegate from time to time some or all of its authority to grant Awards under the Plan to a committee consisting of one or more members of the Committee or of one or more officers of the Company; provided, however, that the Committee may not delegate its authority to grant Awards to individuals (i) who are subject on the date of the grant to the reporting rules under Section 16(a) of the Exchange Act, (ii) who are Section 162(m) Participants or (iii) who are officers of the Company who are delegated authority by the Committee hereunder. Any delegation hereunder shall be subject to the restrictions and limits that the Committee specifies at the time of such delegation of authority and may be rescinded at any time by the Committee. At all times, any committee appointed under this Section 10.5 shall serve in such capacity at the pleasure of the Committee.

## **ARTICLE XI.**

### **MISCELLANEOUS PROVISIONS**

11.1. Not Transferable. No Award under the Plan may be sold, pledged, assigned or transferred in any manner other than by will or the laws of descent and distribution or, subject to the consent of the Administrator, pursuant to a DRO, unless and until such Award has been exercised, or the shares underlying such Award have been issued, and all restrictions applicable to such shares have lapsed. No Award or interest or right therein shall be liable for the debts, contracts or engagements of the Holder or his or her successors in interest or shall be subject to disposition by transfer, alienation, anticipation, pledge, encumbrance, assignment or any other means whether such disposition be voluntary or involuntary or by operation of law by judgment, levy, attachment, garnishment or any other legal or equitable proceedings (including bankruptcy), and any attempted disposition thereof shall be null and void and of no effect, except to the extent that such disposition is permitted by the preceding sentence.

During the lifetime of the Holder, only he or she may exercise an Option or other Award (or any portion thereof) granted to him or her under the Plan, unless it has been disposed of with the consent of the Administrator pursuant to a DRO. After the death of the Holder, any exercisable portion of an Option or other Award may, prior to the time when such portion becomes unexercisable under the Plan or the applicable Award Agreement, be exercised by his or her personal representative or by any person empowered to do so under the deceased Holder's will or under the then applicable laws of descent and distribution. Notwithstanding the foregoing provisions of this Section 11.1, the Administrator, in its sole discretion, may determine to grant to any Holder an Award which, by its terms as set forth in the applicable Award Agreement, may be transferred by the Holder, in writing and with prior written notice to the Administrator, by gift, without the receipt of any consideration, to a member of the Holder's immediate family, as defined in Rule 16a-1 under the Exchange Act, or to a trust for the exclusive benefit of, or any other entity owned solely by, such members, provided that an Award that has been so transferred shall continue to be subject to all of the terms and conditions of the Award as applicable to the original Holder, and the transferee shall execute any and all such documents requested by the Administrator in connection with the transfer, including without limitation to evidence the transfer and to satisfy any requirements for an exemption for the transfer under applicable federal and state securities laws.

11.2. Amendment, Suspension or Termination of the Plan. Except as otherwise provided in this Section 11.2, the Plan may be wholly or partially amended or otherwise modified, suspended or

terminated at any time or from time to time by the Administrator. However, without approval of the Company's stockholders given within twelve months before or after the action by the Administrator, no action of the Administrator may, except as provided in Section 11.3, increase the limits imposed in Section 2.1 on the maximum number of shares which may be issued under the Plan. No amendment, suspension or termination of the Plan shall, without the consent of the Holder, alter or impair any rights or obligations under any Award theretofore granted or awarded, unless the Award itself otherwise expressly so provides. No Awards may be granted or awarded during any period of suspension or after termination of the Plan, and in no event may any Incentive Stock Option be granted under the Plan after the first to occur of the following events:

- (a) The expiration of ten years from the date the Plan is adopted by the Board; or
- (b) The expiration of ten years from the date the Plan is approved by the Company's stockholders under Section 11.4.

### 11.3. Changes in Common Stock or Assets of the Company, Acquisition or Liquidation of the Company and Other Corporate Events.

(a) Subject to Section 11.3(d), in the event that the Administrator determines that any dividend or other distribution (whether in the form of cash, Common Stock, other securities, or other property), recapitalization, reclassification, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, liquidation, dissolution, or sale, transfer, exchange or other disposition of all or substantially all of the assets of the Company, or exchange of Common Stock or other securities of the Company, issuance of warrants or other rights to purchase Common Stock or other securities of the Company, or other similar corporate transaction or event, in the Administrator's sole discretion, affects the Common Stock such that an adjustment is determined by the Administrator to be appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan or with respect to an Award, then the Administrator shall, in such manner as it may deem equitable, adjust any or all of

(i) the number and kind of shares of Common Stock (or other securities or property) with respect to which Awards may be granted or awarded (including, but not limited to, adjustments of the limitations in Section 2.1 on the maximum number and kind of shares which may be issued and adjustments of the Award Limit),

(ii) the number and kind of shares of Common Stock (or other securities or property) subject to outstanding Awards, and

(iii) the grant or exercise price with respect to any Award.

(b) Subject to Sections 11.3(b)(vii) and 11.3(d), in the event of any transaction or event described in Section 11.3(a) or any unusual or nonrecurring transactions or events affecting the Company, any affiliate of the Company, or the financial statements of the Company or any affiliate, or of changes in applicable laws, regulations, or accounting principles, the Administrator, in its sole and absolute discretion, and on such terms and conditions as it deems appropriate, either by the terms of the Award or by action taken prior to the occurrence of such transaction or event and either automatically or upon the Holder's request, is hereby authorized to take any one or more of the following actions whenever the Administrator determines that such action is appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan or with respect to any Award under the Plan, to facilitate such transactions or events or to give effect to such changes in laws, regulations or principles:

(i) To provide for either the purchase of any such Award for an amount of cash equal to the amount that could have been attained upon the exercise of such Award or realization of the Holder's rights had such Award been currently exercisable or payable or fully vested or

the replacement of such Award with other rights or property selected by the Administrator in its sole discretion;

(ii) To provide that the Award cannot vest, be exercised or become payable after such event;

(iii) To provide that such Award shall be exercisable as to all shares covered thereby, notwithstanding anything to the contrary in Section 5.3 or 5.4 or the provisions of such Award;

(iv) To provide that such Award be assumed by the successor or survivor corporation, or a parent or subsidiary thereof, or shall be substituted for by similar options, rights or awards covering the stock of the successor or survivor corporation, or a parent or subsidiary thereof, with appropriate adjustments as to the number and kind of shares and prices; and

(v) To make adjustments in the number and type of shares of Common Stock (or other securities or property) subject to outstanding Awards, and in the number and kind of outstanding Restricted Stock or Deferred Stock and/or in the terms and conditions of (including the grant or exercise price), and the criteria included in, outstanding options, rights and awards and options, rights and awards which may be granted in the future.

(vi) To provide that, for a specified period of time prior to such event, the restrictions imposed under an Award Agreement upon some or all shares of Restricted Stock or Deferred Stock may be terminated, and, in the case of Restricted Stock, some or all shares of such Restricted Stock may cease to be subject to repurchase under Section 7.5 or forfeiture under Section 7.4 after such event.

(vii) Notwithstanding any other provision of the Plan, in the event of a Change in Control, each outstanding Award shall, immediately prior to the effective date of the Change in Control, automatically become fully exercisable for all of the shares of Common Stock at the time subject to such rights and may be exercised for any or all of those shares as fully vested shares of Common Stock.

(viii) In the event of any transaction described in Section 11.3(a), each outstanding Award shall, immediately prior to the effective date of such transaction, automatically become fully exercisable for all of the shares of Common Stock at the time subject to such rights or fully vested, as applicable, and may be exercised for any or all of those shares as fully-vested shares of Common Stock. However, an outstanding right shall not so accelerate if and to the extent:

(i) such right is, in connection with such transaction, either to be assumed by the successor or survivor corporation (or parent thereof) or to be replaced with a comparable right with respect to shares of the capital stock of the successor or survivor corporation (or parent thereof) or (ii) the acceleration of exercisability of such right is subject to other limitations imposed by the Administrator at the time of grant. The determination of comparability of rights under clause

(i) above shall be made by the Administrator, and its determination shall be final, binding and conclusive.

(c) Subject to Sections 11.3(d), 3.2 and 3.3, the Administrator may, in its discretion, include such further provisions and limitations in any Award, agreement or certificate, as it may deem equitable and in the best interests of the Company.

(d) With respect to Awards which are granted to Section 162(m) Participants and are intended to qualify as performance-based compensation under Section 162(m)(4)(C), no adjustment or action described in this

Section 11.3 or in any other provision of the Plan shall be authorized to the extent that such adjustment or action would cause such Award to fail to so qualify under Section 162(m)(4)(C), or any successor provisions thereto. No adjustment or action described in this Section 11.3 or in any other provision of the Plan shall be authorized to the extent that such adjustment or action would cause the Plan to violate Section 422(b) (1) of

the Code. Furthermore, no such adjustment or action shall be authorized to the extent such adjustment or action would result in short-swing profits liability under Section 16 or violate the exemptive conditions of Rule 16b-3 unless the Administrator determines that the Award is not to comply with such exemptive conditions. The number of shares of Common Stock subject to any Award shall always be rounded to the next whole number.

(e) Notwithstanding the foregoing, in the event that the Company becomes a party to a transaction that is intended to qualify for "pooling of interests" accounting treatment and, but for one or more of the provisions of this Plan or any Award Agreement, would so qualify, then this Plan and any Award Agreement shall be interpreted so as to preserve such accounting treatment, and to the extent that any provision of the Plan or any Award Agreement would disqualify the transaction from pooling of interests accounting treatment (including, if applicable, an entire Award Agreement), then such provision shall be null and void. All determinations to be made in connection with the preceding sentence shall be made by the independent accounting firm whose opinion with respect to "pooling of interests" treatment is required as a condition to the Company's consummation of such transaction.

(f) The existence of the Plan, the Award Agreement and the Awards granted hereunder shall not affect or restrict in any way the right or power of the Company or the shareholders of the Company to make or authorize any adjustment, recapitalization, reorganization or other change in the Company's capital structure or its business, any merger or consolidation of the Company, any issue of stock or of options, warrants or rights to purchase stock or of bonds, debentures, preferred or prior preference stocks whose rights are superior to or affect the Common Stock or the rights thereof or which are convertible into or exchangeable for Common Stock, or the dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding, whether of a similar character or otherwise.

11.4. Approval of Plan by Stockholders. The Plan will be submitted for the approval of the Company's stockholders within twelve months after the date of the Board's initial adoption of the Plan. Awards may be granted or awarded prior to such stockholder approval, provided that such Awards shall not be exercisable nor shall such Awards vest prior to the time when the Plan is approved by the stockholders, and provided further that if such approval has not been obtained at the end of said twelve-month period, all Awards previously granted or awarded under the Plan shall thereupon be canceled and become null and void. In addition, if the Board determines that Awards other than Options or Stock Appreciation Rights which may be granted to Section 162(m) Participants should continue to be eligible to qualify as performance-based compensation under

Section 162(m)(4)(C) of the Code, the Performance Criteria must be disclosed to and approved by the Company's stockholders no later than the first stockholder meeting that occurs in the fifth year following the year in which the Company's stockholders previously approved the Performance Criteria.

11.5. Tax Withholding. The Company shall be entitled to require payment in cash or deduction from other compensation payable to each Holder of any sums required by federal, state or local tax law to be withheld with respect to the issuance, vesting, exercise or payment of any Award. The Administrator may in its discretion and in satisfaction of the foregoing requirement allow such Holder to elect to have the Company withhold shares of Common Stock otherwise issuable under such Award (or allow the return of shares of Common Stock) having a Fair Market Value equal to the sums required to be withheld.

11.6. Loans. The Committee may, in its discretion, extend one or more loans to key Employees in connection with the exercise or receipt of an Award granted or awarded under the Plan, or the issuance of Restricted Stock or Deferred Stock awarded under the Plan. The terms and conditions of any such loan shall be set by the Committee.

11.7. Forfeiture Provisions. Pursuant to its general authority to determine the terms and conditions applicable to Awards under the Plan, the Administrator shall have the right to provide, in the



terms of Awards made under the Plan, or to require a Holder to agree by separate written instrument, that (a) (i) any proceeds, gains or other economic benefit actually or constructively received by the Holder upon any receipt or exercise of the Award, or upon the receipt or resale of any Common Stock underlying the Award, must be paid to the Company, and (ii) the Award shall terminate and any unexercised portion of the Award (whether or not vested) shall be forfeited, if

(b)(i) a Termination of Employment occurs prior to a specified date, or within a specified time period following receipt or exercise of the Award, or (ii) the Holder at any time, or during a specified time period, engages in any activity in competition with the Company, or which is inimical, contrary or harmful to the interests of the Company, as further defined by the Administrator or (iii) the Holder incurs a Termination of Employment for cause.

11.8. Effect of Plan Upon Options and Compensation Plans. The adoption of the Plan shall not affect any other compensation or incentive plans in effect for the Company or any Subsidiary. Nothing in the Plan shall be construed to limit the right of the Company (a) to establish any other forms of incentives or compensation for Employees of the Company or any Subsidiary or (b) to grant or assume options or other rights or awards otherwise than under the Plan in connection with any proper corporate purpose including, but not by way of limitation, the grant or assumption of options in connection with the acquisition by purchase, lease, merger, consolidation or otherwise, of the business, stock or assets of any corporation, partnership, limited liability company, firm or association.

11.9. Compliance with Laws. The Plan, the granting and vesting of Awards under the Plan and the issuance and delivery of shares of Common Stock and the payment of money under the Plan or under Awards granted or awarded hereunder are subject to compliance with all applicable federal and state laws, rules and regulations (including but not limited to state and federal securities law and federal margin requirements) and to such approvals by any listing, regulatory or governmental authority as may, in the opinion of counsel for the Company, be necessary or advisable in connection therewith. Any securities delivered under the Plan shall be subject to such restrictions, and the person acquiring such securities shall, if requested by the Company, provide such assurances and representations to the Company as the Company may deem necessary or desirable to assure compliance with all applicable legal requirements. To the extent permitted by applicable law, the Plan and Awards granted or awarded hereunder shall be deemed amended to the extent necessary to conform to such laws, rules and regulations.

11.10. Titles. Titles are provided herein for convenience only and are not to serve as a basis for interpretation or construction of the Plan.

11.11. Governing Law. The Plan and any agreements hereunder shall be administered, interpreted and enforced under the internal laws of the State of Delaware without regard to conflicts of laws thereof.

\* \* \*

I hereby certify that the foregoing Plan was duly adopted by the Board of Directors of Libbey, Inc. on March 27, 1999.

**Executed on this 31st day of March, 1999.**

**Arthur H. Smith**

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Secretary

**EXHIBIT 22**

**SUBSIDIARIES OF REGISTRANT**

**Syracuse China Company - Incorporated in Delaware**

**World Tableware Inc. - Incorporated in Delaware**

**LGA4 Corp. - Incorporated in Delaware**

**LGA3 Corp. - Incorporated in Delaware**

**The Drummond Glass Company - Incorporated in Delaware**

**Libbey Canada Inc. - Incorporated in Ontario, Canada**

**Libbey Foreign Sales Corporation - Incorporated in Barbados**

**Libbey Glass Inc. - Incorporated in Delaware**

**LGFE Inc. - Incorporated in Delaware**

**LGFE2 Inc. - Incorporated in Delaware**

**Libbey.com LLC - Formed in Delaware**

**LGMH, S. de R.L. de C.V. - Formed in Mexico**

## **EXHIBIT 23**

### **CONSENT OF INDEPENDENT AUDITORS**

We consent to the incorporation by reference in the Registration Statement (Form S-3 No. 333-28735) of Libbey Inc. and the related Prospectus, in the Registration Statement (Form S-8 No. 33-64726) of Libbey Inc. pertaining to the Libbey Inc. Stock Purchase and Retirement Savings Plan and the Libbey Inc. Stock Purchase and Supplemental Retirement Plan, in the Registration Statement (Form S-8 No. 33-80448) pertaining to the Libbey Inc. Stock Option Plan for Key Employees, in the Registration Statement (Form S-8 No. 33-98234) pertaining to the Libbey Inc. Amended and Restated Stock Option Plan For Key Employees and in the Registration Statement (Form S-8 No. 333-19459) pertaining to the Libbey Inc. Long-Term Savings Plan & Trust of our report dated January 28, 2000, with respect to the consolidated financial statements and schedule of Libbey Inc., included in the Annual Report (Form 10-K) for the year ended December 31, 1999.

### **ERNST & YOUNG LLP**

Toledo, Ohio  
March 23, 2000

EXHIBIT 25

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each of the undersigned, being a director or officer, or both, of LIBBEY INC., a Delaware corporation (the "Company"), hereby does constitute and appoint JOHN F. MEIER, RICHARD I. REYNOLDS, ARTHUR H. SMITH and KENNETH G. WILKES, with full power to each of them to act alone, as the true and lawful attorneys and agents of the undersigned, with full power of substitution and resubstitution to each of said attorneys, to execute, file or deliver any and all instruments and to do any and all acts and things which said attorneys and agents, or any of them, deem advisable to enable the Company to comply with the Securities Exchange Act of 1934, as amended, and any requirements of the Securities and Exchange Commission in respect thereto, relating to annual reports on Form 10-K, including specifically, but without limitation of the general authority hereby granted, the power and authority to sign his or her name in the name and on behalf of the Company or as a director or officer, or both, of the Company, as indicated below opposite his or her signature to annual reports on Form 10-K for the year ending December 31, 1999 or any amendment or papers supplemental thereto; and each of the undersigned hereby does fully ratify and confirm all that said attorneys and agents, or any of them, or the substitute of any of them, shall do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, each of the undersigned has subscribed these presents as of this 1st day of February, 2000.

<i>/s/ John F. Meier</i> ----- John F. Meier	<i>Director, Chairman of the Board and Chief Executive Officer</i>
<i>/s/ Richard I. Reynolds</i> ----- Richard I. Reynolds	<i>Director, Executive Vice President and Chief Operating Officer</i>
<i>/s/ Kenneth G. Wilkes</i> ----- Kenneth G. Wilkes	<i>Vice President, Chief Financial Officer</i>
<i>/s/ William A. Foley</i> ----- William A. Foley	<i>Director</i>
<i>/s/ Peter C. McC. Howell</i> ----- Peter C. McC. Howell	<i>Director</i>
<i>/s/ Carol B. Moerdyk</i> ----- Carol B. Moerdyk	<i>Director</i>
<i>/s/ Gary L. Moreau</i> ----- Gary L. Moreau	<i>Director</i>
<i>/s/ Terence P. Stewart</i> ----- Terence P. Stewart	<i>Director</i>

**ARTICLE 5**

MULTIPLIER: 1,000

PERIOD TYPE	12 MOS
FISCAL YEAR END	DEC 31 1999
PERIOD START	JAN 01 1999
PERIOD END	DEC 31 1999
CASH	3,918
SECURITIES	0
RECEIVABLES	62,329
ALLOWANCES	0
INVENTORY	89,889
CURRENT ASSETS	164,164
PP&E	217,584
DEPRECIATION	112,490
TOTAL ASSETS	434,395
CURRENT LIABILITIES	95,025
BONDS	0
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	152
OTHER SE	91,691
TOTAL LIABILITY AND EQUITY	434,395
SALES	460,592
TOTAL REVENUES	464,989
CGS	321,633
TOTAL COSTS	386,755
OTHER EXPENSES	(2,928)
LOSS PROVISION	0
INTEREST EXPENSE	12,501
INCOME PRETAX	68,661
INCOME TAX	25,233
INCOME CONTINUING	43,428
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	43,428
EPS BASIC	2.69
EPS DILUTED	2.64

## EXHIBIT 99

### SAFE HARBOR PROVISION OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

Libbey desires to take advantage of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995.

Libbey wishes to caution readers that the following important factors, among others, could affect Libbey's actual results and could cause Libbey's actual consolidated results to differ materially from those expressed in any forward-looking statements made by, or on behalf of, Libbey.

The Company is exposed to market risks due to changes in currency values, although the majority of the Company's revenues and expenses are denominated in the U.S. dollar. The currency market risks include devaluations and other major currency fluctuations relative to the U.S. dollar that could reduce the cost competitiveness of the Company's products compared to foreign competition and the effect of exchange rate changes to the value of the Mexican peso relative to the U.S. dollar and the impact of those changes on the earnings and cash flow of the Company's joint venture in Mexico, Vitrocrisa, expressed under U.S. GAAP.

The Company is exposed to market risk associated with changes in interest rates in the U.S. However, the Company has entered into Interest Rate Protection Agreements ("Rate Agreements") with respect to \$75.0 million of debt as a means to manage its exposure to fluctuating interest rates. The Rate Agreements effectively convert this portion of the Company's borrowings from variable rate debt to a fixed-rate basis, thus reducing the impact of interest rate changes on future income. The average interest rate for the Company's borrowings related to the Rate Agreements at December 31, 1999, was 6.68% for an average remaining period of 2.3 years. Total remaining debt not covered by the Rate Agreements has fluctuating interest rates with a weighted average rate of 6.42% at December 31, 1999. The Company had \$103.7 million of debt subject to fluctuating interest rates at December 31, 1999. A change of one percentage point in such rates would result in a change in interest expense of approximately \$1.0 million on an annual basis.

The interest rate differential to be received or paid under the Rate Agreements is being recognized over the life of the Rate Agreements as an adjustment to interest expense. If the counterparts to these Rate Agreements fail to perform, the Company would no longer be protected from interest rate fluctuations by these Rate Agreements. However, the Company does not anticipate nonperformance by the counterparts. At December 31, 1999, the

carrying value of the long-term debt approximates its fair value based on the Company's current incremental borrowing rates. The fair market value for the Company's Interest Rate Protection Agreements at December 31, 1999 was \$0.9 million. The fair value of long-term debt is estimated based on borrowing rates currently available to the Company for loans with similar terms and maturities. The fair value of the Company's Rate Agreements is based on quotes from brokers for comparable contracts. The Company does not expect to cancel these agreements and expects them to expire as originally contracted.

Other important factors potentially affecting performance include devaluations and other major currency fluctuations relative to the U.S. dollar that could reduce the cost-competitiveness of the Company's products compared to foreign competition; the effect of high inflation in Mexico and exchange rate changes to the value of the Mexican peso and the earnings and cash flow of the Company's joint venture in Mexico, Vitrocrista, expressed under U.S. GAAP; the inability to achieve savings and profit improvements at targeted levels in the Company's glassware sales from its capacity realignment efforts and re-engineering programs, or within the intended time periods; inability to achieve targeted manufacturing efficiencies at Syracuse China and cost synergies between World Tableware and the Company's other operations; significant increases in interest rates that increase the Company's borrowing costs and per unit increases in the costs for natural gas, corrugated packaging, and other purchased materials; protracted work stoppages related to collective bargaining agreements; increased competition from foreign suppliers endeavoring to sell glass tableware in the United States; major slowdowns in the retail, travel or entertainment industries in the United States or Canada; and whether the Company completes any significant acquisition, and whether such acquisitions can operate profitably.

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**End of Filing**

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