LIBBEY INC

FORM 10-Q
(Quarterly Report)

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

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

☑ **QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2006

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number 1-12084

Libbey Inc.

(Exact name of registrant as specified in its charter)

Delaware	34-1559357
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

300 Madison Avenue, Toledo, Ohio 43604

(Address of principal executive offices) (Zip Code)

419-325-2100

(Registrant's telephone number, including area code)

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 ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer ☐ Accelerated Filer ☑ Non-Accelerated Filer ☐

Indicate by check mark whether the registrant is a shell company.

Yes ☐ No ☑

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock, $.01 par value — 14,242,693 shares at July 31, 2006.

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

The accompanying unaudited condensed consolidated financial statements of Libbey Inc. and all majority owned subsidiaries (collectively, Libbey or the Company) have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Item 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (including normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three-month and six-month periods ended June 30, 2006, are not necessarily indicative of the results that may be expected for the year ended December 31, 2006.

The balance sheet at December 31, 2005, has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements.

For further information, refer to the consolidated financial statements and footnotes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2005.

LIBBEY INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(dollars in thousands, except per-share amounts)
(unaudited)

	Three months ended June 30,	
	2006	2005
Revenues:		
Net sales	$157,998	$144,538
Freight billed to customers	926	481
Total revenues	158,924	145,019
Cost of sales	130,752	117,963
Gross profit	28,172	27,056
Selling, general and administrative expenses	19,696	20,367
Special charges	12,587	4,197
(Loss) income from operations	(4,111)	2,492
Equity earnings (loss) — pretax	921	(752)
Other (expense) income	(907)	431
(Loss) earnings before interest and income taxes and minority interest	(4,097)	2,171
Interest expense	10,200	3,464
Loss before income taxes and minority interest	(14,297)	(1,293)
Credit for income taxes	(4,720)	(427)
Loss before minority interest	(9,577)	(866)
Minority interest	8	(4)
Net loss	$ (9,569)	$ (870)
Net loss per share:		
Basic	$ (0.68)	$ (0.06)
Diluted	$ (0.68)	$ (0.06)
Dividends per share	$ 0.025	$ 0.10

See accompanying notes

LIBBEY INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(dollars in thousands, except per-share amounts)
(unaudited)

	Six months ended June 30, 2006	Six months ended June 30, 2005
Revenues:		
Net sales	$292,864	$274,322
Freight billed to customers	1,383	978
Total revenues	294,247	275,300
Cost of sales	243,929	227,205
Gross profit	50,318	48,095
Selling, general and administrative expenses	38,782	38,321
Special charges	12,587	7,194
(Loss) income from operations	(1,051)	2,580
Equity earnings (loss) — pretax	1,986	(198)
Other (expense) income	(511)	732
Earnings before interest and income taxes and minority interest	424	3,114
Interest expense	13,809	6,842
Loss before income taxes and minority interest	(13,385)	(3,728)
Credit for income taxes	(4,419)	(1,230)
Loss before minority interest	(8,966)	(2,498)
Minority interest	(88)	(21)
Net loss	$ (9,054)	$ (2,519)
Net loss per share:		
Basic	$ (0.64)	$ (0.18)
Diluted	$ (0.64)	$ (0.18)
Dividends per share	$ 0.05	$ 0.20

See accompanying notes

LIBBEY INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(dollars in thousands, except share amounts)

	June 30, 2006 (unaudited)	December 31, 2005
ASSETS		
Current assets:		
Cash	$ 26,661	$ 3,242
Accounts receivable — net	112,195	79,042
Inventories — net	161,827	122,572
Deferred taxes	4,239	8,270
Prepaid and other current assets	4,807	10,787
Total current assets	309,729	223,913
Other assets:		
Repair parts inventories	12,067	6,322
Intangible pension asset	17,251	17,251
Software — net	4,563	4,561
Deferred taxes	—	952
Other assets	16,878	4,397
Investments	—	76,657
Purchased intangible assets — net	30,175	10,778
Goodwill — net	170,449	50,825
Total other assets	251,383	171,743
Property, plant and equipment — net	295,153	200,128
Total assets	$ 856,265	$ 595,784
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Notes payable	$ 1,546	$ 11,475
Accounts payable	59,447	47,020
Payable to Vitro	7,184	—
Salaries and wages	17,275	16,043
Accrued liabilities	50,353	36,968
Special charges reserve	3,508	2,002
Accrued income taxes	—	7,131
Long-term debt due within one year	825	825
Total current liabilities	140,138	121,464
Long-term debt	462,774	249,379
Pension liability	73,994	54,760
Nonpension postretirement benefits	44,533	45,081
Payable to Vitro	19,900	—
Other long-term liabilities	6,452	5,461
Total liabilities	747,791	476,145
Minority interest	129	34
Total liabilities including minority interest	747,920	476,179
Shareholders' equity:		
Common stock, par value $.01 per share, 50,000,000 shares authorized, 18,689,710 shares issued (18,689,710 shares issued in 2005)	187	187
Capital in excess of par value (includes warrants of $1,026, and 485,309 shares as of June 30, 2006 and no warrants at December 31, 2005.)	302,339	301,025
Treasury stock, at cost, 4,475,910 shares (4,681,721 shares in 2005)	(130,510)	(132,520)
Retained deficit	(27,723)	(17,966)
Accumulated other comprehensive loss	(35,948)	(31,121)
Total shareholders' equity	108,345	119,605
Total liabilities and shareholders' equity	$ 856,265	$ 595,784

See accompanying notes

LIBBEY INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)
(unaudited)

	Three months ended June 30, 2006	2005
Operating activities:		
Net loss	$ (9,569)	$ (870)
Depreciation and amortization	8,206	8,066
Equity (earnings) loss — net of tax	(546)	444
Minority interest	(8)	4
Change in accounts receivable	(2,722)	197
Change in inventories	1,134	(791)
Change in accounts payable	(7,977)	3,748
Special charges	19,788	2,256
Pension & nonpension postretirement	4,564	1,972
Income taxes	2,802	(1,772)
Other operating activities	(95)	9,388
Net cash provided by operating activities	15,577	22,642
Investing activities:		
Additions to property, plant and equipment	(12,817)	(8,709)
Business acquisition and related costs, less cash acquired	(77,571)	(42)
Net cash used in investing activities	(90,388)	(8,751)
Financing activities:		
Net revolving credit facility activity	(160,505)	(8,756)
Net ABL credit facility activity	43,038	—
Other net repayments	(80,480)	(3,429)
Other borrowings	7,485	—
Note payments	(100,000)	—
Note proceeds	399,840	—
Debt financing fees	(14,356)	—
Dividends	(352)	(1,386)
Other	195	25
Net cash provided by (used in) financing activities	94,865	(13,546)
Effect of exchange rate fluctuations on cash	105	—
Increase in cash	20,159	345
Cash at beginning of period	6,502	2,195
Cash at end of period	$ 26,661	$ 2,540
Supplemental disclosure of cash flows information:		
Cash paid during the quarter for interest	$ 7,364	$ 4,175
Cash paid (net of refunds received) during the quarter for income taxes	$ (417)	$ 142

See accompanying notes

LIBBEY INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)
(unaudited)

	Six months ended June 30, 2006	2005
Operating activities:		
Net loss	$ (9,054)	$ (2,519)
Depreciation and amortization	16,541	16,451
Equity (earnings) loss — net of tax	(1,378)	29
Minority interest	88	21
Change in accounts receivable	4,516	(1,697)
Change in inventories	2,922	(4,511)
Change in accounts payable	(15,312)	(7,886)
Special charges	18,924	3,512
Pension & nonpension postretirement	6,203	3,559
Income taxes	(5,244)	(6,878)
Other operating activities	2,169	11,410
Net cash provided by operating activities	20,375	11,491
Investing activities:		
Additions to property, plant and equipment	(34,256)	(19,114)
Business acquisition and related costs, less cash acquired	(77,571)	(28,990)
Net cash used in investing activities	(111,827)	(48,104)
Financing activities:		
Net revolving credit facility activity	(147,142)	32,880
Net ABL credit facility activity	43,038	—
Other net (repayments) borrowings	(81,060)	2,713
Other borrowings	14,954	—
Note payments	(100,000)	—
Note proceeds	399,840	—
Debt financing fees	(14,356)	—
Stock options exercised	—	99
Dividends	(703)	(2,768)
Other	195	(15)
Net cash provided by financing activities	114,766	32,909
Effect of exchange rate fluctuations on cash	105	—
Increase (decrease) in cash	23,419	(3,704)
Cash at beginning of period	3,242	6,244
Cash at end of period	$ 26,661	$ 2,540
Supplemental disclosure of cash flows information:		
Cash paid during the period for interest	$ 9,345	$ 5,993
Cash paid (net of refunds received) during the period for income taxes	$ 5,852	$ 5,248

See accompanying notes

LIBBEY INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Dollars in thousands, except per share data
(unaudited)

1. Description of the Business

Libbey is the leading supplier of tableware products in the western hemisphere, in addition to supplying to key export markets in the eastern hemisphere. We operate in one business segment: tableware products. Established in 1818, we have the largest manufacturing, distribution and service network among North American glass tableware manufacturers. We design and market an extensive line of high-quality glass tableware, ceramic dinnerware, metal flatware, hollowware and serveware, and plastic items to a broad group of customers in the foodservice, retail, business-to-business and industrial markets. We also import and distribute various products. Prior to June 16, 2006, we owned 49 percent of Vitrocrisa Holding, S. de R.L. de C.V. and related companies (Crisa), one of the largest glass tableware manufacturers in Mexico and Latin America, based in Monterrey, Mexico. On June 16, 2006, we acquired the remaining 51 percent interest of Crisa. See note 4 for additional details on the acquisition.

We own and operate two glass tableware manufacturing plants in the United States; glass tableware manufacturing plants in the Netherlands and in Portugal; and two glass tableware manufacturing plants in Mexico. In addition, we expect to begin production at our new green-meadow production facility in China in early 2007. We also own and operate a ceramic dinnerware plant in New York and a plastics plant in Wisconsin. In addition, we import products from overseas in order to complement our line of manufactured items. The combination of manufacturing and procurement allows us to compete in the tableware market by offering an extensive product line at competitive prices.

Our website can be found at www.libbey.com. We make available, free of charge, at this website all of our reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, including our annual report on Form 10-K, our quarterly reports on Form 10-Q , our Current Reports on Form 8-K , as well as amendments to those reports. These reports are made available on the website as soon as reasonably practicable after their filing with, or furnishing to, the Securities and Exchange Commission.

2. Significant Accounting Policies

See our Form 10-K for the year ended December 31, 2005, for a description of significant accounting policies not listed below.

Basis of Presentation

The Condensed Consolidated Financial Statements include Libbey Inc. and its majority owned subsidiaries (collectively, Libbey or the Company). Our fiscal year end is December 31st. Prior to June 16, 2006, we recorded our 49 percent interest in Crisa using the equity method. On June 16, 2006, we acquired the remaining 51 percent of Crisa; as a result, effective that date Crisa's results are included in the Condensed Consolidated Financial Statements. We own 95 percent of Crisal-Cristalaria Automatica S.A. (Crisal). Our 95 percent controlling interest requires that Crisal's operations be included in the Condensed Consolidated Financial Statements. The 5 percent equity interest of Crisal that we do not own is shown as minority interest in the Condensed Consolidated Financial Statements. All material intercompany accounts and transactions have been eliminated. The preparation of financial statements and related disclosures in conformity with United States generally accepted accounting principles (U.S. GAAP) requires management to make estimates and assumptions that affect the amounts reported in the Condensed Consolidated Financial Statements and accompanying notes. Actual results could differ materially from management's estimates.

Condensed Consolidated Statements of Operations

Net sales in our Condensed Consolidated Statements of Operations include revenue earned when products are shipped and title and risk of loss have passed to the customer. Revenue is recorded net of returns, discounts and incentives offered to customers. Cost of sales includes cost to manufacture and/or purchase products, warehouse, shipping and delivery costs, royalty expense and other costs.

Foreign Currency Translation

Our European and Chinese foreign subsidiaries' financial statements are translated at current exchange rates for the euro and the Chinese RMB, and any related translation adjustments are recorded directly in shareholders' equity. Our Mexican subsidiary (Crisa) uses the U.S. dollar as the functional currency. As a result, Crisa's financial statements have been remeasured from Mexican pesos into U.S. dollars using (i) current exchange rates for monetary asset and liability accounts, (ii) historical exchange rates for nonmonetary asset and liability accounts, (iii) historical exchange rates for revenues and expenses associated with nonmonetary assets and liabilities and (iv) the weighted average exchange rate of the reporting period for all other revenues and expenses. In addition, foreign currency transaction gains and losses resulting from U.S. dollar-denominated transactions are eliminated. The resulting remeasurement gain (loss) is recorded in results of operations.

New Accounting Standards

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment" (SFAS No. 123-R), which amends and replaces SFAS No. 123, "Accounting for Stock-Based Compensation" (SFAS No. 123), supersedes APB No. 25 and requires share-based compensation transactions to be accounted for using a fair-value-based method and the resulting cost recognized in our financial statements. This new standard is effective for interim and annual periods beginning January 1, 2006. On January 1, 2006, we adopted SFAS No. 123-R. Share-based compensation cost is measured based on the fair value of the equity or liability instruments issued. SFAS No. 123-R applies to all of our outstanding unvested share-based payment awards as of January 1, 2006, and all prospective awards using the modified prospective transition method without restatement of prior periods. The estimated annual impact of applying the provisions of SFAS No. 123-R is an after-tax charge of $0.5 million for 2006. See Note 10.

In May 2005, the FASB issued Statement No. 154, *Accounting Changes and Error Corrections* , a replacement of APB Opinion No. 20, *Accounting Changes* , and Statement No. 3, *Reporting Accounting Changes in Interim Financial Statements* . Statement 154 changes the requirements for the accounting for and reporting of a change in accounting principle. Previously, most voluntary changes in accounting principles were required to be recognized via a cumulative effect adjustment within net income of the period of change. Statement 154 requires retrospective application to prior periods' financial statements, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. Statement 154 is effective for accounting changes made in fiscal years beginning after December 15, 2005. The adoption of Statement 154 had no effect on our consolidated financial position, results of operations or cash flows.

Reclassifications

Certain amounts in prior years' financial statements have been reclassified to conform to the presentation used in the quarter and six months ended June 30, 2006.

3. Balance Sheet Details

The following table provides detail of selected balance sheet items:

	June 30, 2006	December 31, 2005
Accounts receivable:		
Trade receivables	$ 95,995	$ 75,470
Other receivables	16,200	3,572
Total accounts receivable, less allowances of $6,963 and $8,342	$112,195	$ 79,042
Inventories:		
Finished goods	$150,997	$ 112,058
Work in process	4,601	4,456
Raw materials	4,365	5,442
Operating supplies	1,864	616
Total inventories	$161,827	$ 122,572
Prepaid and other current assets:		
Prepaid expenses	$ 4,807	$ 3,142
Derivative assets	—	7,645
Total prepaid and other current assets	$ 4,807	$ 10,787
Other assets:		
Deposits	$ 1,767	$ 1,386
Finance fees — net of amortization	14,236	2,003
Other	875	1,008
Total other assets	$ 16,878	$ 4,397
Accrued liabilities:		
Accrued incentives	$ 22,078	$ 14,306
Derivative liabilities	562	67
Workers compensation	9,669	9,134
Medical liabilities	2,859	3,019
Interest	2,371	1,843
Commissions payable	944	858
Accrued taxes	4,571	432
Other	7,299	7,309
Total accrued liabilities	$ 50,353	$ 36,968
Other long-term liabilities:		
Deferred liability	$ 703	877
Guarantee of Crisa debt	—	421
Other	5,749	4,163
Total other long-term liabilities	$ 6,452	$ 5,461

4. Acquisitions

On June 16, 2006, we purchased the remaining 51 percent of the shares of Vitrocrisa Holding, S. de R.L. de C.V. and related companies (Crisa) located in Monterrey, Mexico, from Vitro, S.A. de C.V., bringing our ownership in Crisa to 100 percent. The purchase price of this acquisition was $84 million, including acquisition costs. In addition, we refinanced approximately $71.9 million of Crisa's existing indebtedness, of which the Company guaranteed for $23 million prior to the purchase of the remaining 51 percent of the shares in Crisa. In connection with the acquisition, Crisa transferred to Vitro the pension liability for Crisa employees who had retired as of the closing date. Vitro also agreed to forgive $0.4 million of net intercompany payables owed to it and to defer receipt of approximately $7 million of net intercompany payables until August 15, 2006, and approximately $19.9 million of net intercompany payables until January 15, 2008. In addition, Vitro waived its right to receive profit sharing payments of approximately $1.3 million from Libbey under the now-terminated distribution agreement. Vitro also transferred to Crisa ownership of racks and conveyors valued at approximately $3.0 million that Crisa leased from an affiliate of Vitro. Vitro agreed to provide transition services to Crisa for a period of three years and agreed to fix the charges for those services for the first two yeas at 2005 rates. In addition, Crisa is entitled to a credit against these charges in an amount equal to $0.63 million per year for the first two years.

Crisa is the largest glass tableware manufacturer in Latin America and has approximately 60 percent of the glass tableware market in Mexico. This acquisition is consistent with our strategy to expand our manufacturing platform into low-cost countries in order to become a more cost-competitive source of high-quality glass tableware.

In establishing the opening balance sheet under step acquisition accounting, we recorded 49 percent of the historical book value of the assets acquired and liabilities assumed of Crisa due to our existing 49 percent ownership of Crisa, and 51 percent of the fair values of the assets acquired and liabilities assumed as of the date of acquisition. These values represent preliminary estimates that will be finalized in the future when the final fair value of assets and liabilities are determined. The following is a summary of 51 percent of the fair values of the assets acquired and liabilities assumed as of the date of acquisition.

Current assets	$ 43,971
Property, plant and equipment	43,844
Intangible assets	19,584
Goodwill	50,170
Total assets acquired	157,569
Less liabilities assumed:	
Current liabilities	67,507
Long-term liabilities	6,062
Total liabilities assumed	73,569
Cash purchase price	84,000
Less: Cash acquired	6,429
Cash purchase price, net of cash acquired	$ 77,571

The following table is a summary of the preliminary goodwill created by the excess of the purchase price over the estimated fair value of assets acquired and liabilities assumed as a result of the preliminary purchase price allocation. This table provides the details for 100 percent of the goodwill created by the purchase of the remaining 51 percent interest in Crisa:

Inferred enterprise purchase price ($80 divided by 51 percent)	$ 156,863
Less: assets received/liabilities forgiven	(4,693)
Add: estimated direct acquisition costs	4,000
Aggregate enterprise purchase price	156,170
Add: fair value liabilities assumed	155,593
Less: fair value assets acquired	(221,949)
Inferred goodwill of 51 percent purchase	89,814
Equity interest acquired	51%
Preliminary goodwill of 51 percent purchase	45,805
Adjustments to step acquisition accounting	4,365
Add: goodwill recorded on existing 49 percent ownership interest	69,419
Enterprise goodwill	$ 119,589

Intangible assets acquired of approximately $19.6 million consist of trademarks and trade names, patented technologies, customer lists, and non-compete covenants. The patented technologies, customer lists, and non-compete covenants are being amortized over an average life of 9.6 years. Amortization of these intangible assets was not material for the period ended June 30, 2006. Trademarks and trade names are valued at approximately $8.2 million and are not subject to amortization.

Crisa's results of operations are included in our Consolidated Financial Statements starting June 16, 2006. Prior to June 16, 2006, 49 percent of Crisa's earnings were accounted for under the equity method.

In June 2006, we announced plans to consolidate, over a three-year period, Crisa's two principal manufacturing facilities into a single facility, in order to reduce fixed costs. In connection with this consolidation, we recognized special charges of approximately $15.1 million in the second quarter of 2006 (additional charges could be recognized as we finalize the step acquisition accounting), which are described in Note 6. In addition, a $2.6 million reserve related to statutory severance for approximately 600 hourly employees of Crisa was established and is included in special charges reserve on the Condensed Consolidated Balance Sheets.

5. Borrowings

Our borrowings, prior to the refinancing consummated on June 16, 2006, consisted of a revolving credit and swing line facility permitting borrowings up to an aggregate total of $195 million, $100 million of privately placed senior notes, a $2.7 million promissory note in connection with the purchase of our Laredo, Texas warehouse, a euro-based working capital line for a maximum of € 10 million, and other borrowings included the RMB Loan Contract described below and other debt related to Crisal.

On June 16, 2006, Libbey Glass Inc. issued, pursuant to private offerings, $306 million aggregate principal amount of floating rate senior secured notes and $102 million aggregate principal amount of 16 percent senior subordinated secured pay-in-kind notes (PIK Notes) both due 2011. Concurrently, Libbey Glass Inc. entered into a new $150 million Asset Based Loan facility (ABL Facility), expiring in 2010.

Proceeds from these transactions were immediately used to repay existing bank and private placement indebtedness. In addition, proceeds were used for the acquisition of the remaining 51 percent equity interest in Crisa, for $80 million, bringing our ownership of Crisa to 100 percent; for repayment of existing Crisa indebtedness of approximately $71.9 million; and for related fees, expenses and redemption premiums of Libbey and Crisa. Unamortized finance fees in the amount of $4.9 million related to the refinanced debt of Libbey and Crisa were also written-off in the second quarter of 2006 and classified as interest expense in the Condensed Consolidated Statements of Operations.

Borrowings consist of the following:

	Interest Rate	Maturity Date	June 30, 2006	December 31, 2005
Borrowings under revolving credit facility	floating	June 24, 2009	$ —	$143,814
Borrowings under ABL facility	floating	December 16, 2010	43,929	—
Senior notes	4.69%	March 31, 2008	—	25,000
Senior notes	6.08%	March 31, 2013	—	55,000
Senior notes	floating	March 31, 2010	—	20,000
Senior secured notes	floating	June 1, 2011	306,000	—
PIK notes	16.00%	December 1, 2011	102,000	—

	Interest Rate	Maturity Date	June 30, 2006	December 31, 2005
Promissory note	6.00%	July 2006 to September 2016	2,058	2,131
Notes payable	floating	July 2006	1,546	11,475
RMB loan contract	floating	July 2012 to December 2012	15,024	—
Obligations under capital leases	floating	July 2006 to May 2007	1,781	2,203
Other debt	floating	September 2009	1,927	2,056
Total borrowings			474,265	261,679
Less — unamortized discounts and warrants			9,120	—
Total borrowings — net			465,145	261,679
Less — current portion of borrowings			2,371	12,300
Total long-term portion of borrowings — net			$462,774	$249,379

ABL Facility

The ABL Facility is with a group of banks and provides for a revolving credit and swing line facility permitting borrowings up to an aggregate total of $150 million, with Libbey Europe B.V.'s borrowings being limited to $75 million. Borrowings under the ABL Facility mature December 16, 2010. Swing line borrowings are limited to $15 million, with swing line borrowings for Libbey Europe B.V. being limited to € 7.5 million. Swing line U.S. dollar borrowings bear interest calculated at the prime rate plus the Applicable Rate for ABR (Alternate Base Rate) Loans, and euro-denominated swing line borrowings bear interest calculated at the Netherlands swing line rate, as defined in the ABL Facility. The Applicable Rates for ABR Loans and Eurocurrency Loans vary depending on our aggregate remaining availability. The Applicable Rates for ABR Loans and Eurocurrency Loans were 0 percent and 1.75 percent, respectively, at June 30, 2006. There were no Libbey Glass borrowings under the facility, while Libbey Europe B.V. had outstanding borrowings of € 35 million at June 30, 2006.

All borrowings under the ABL Facility are secured by a first priority security interest in (i) substantially all assets of (A) Libbey Glass and (B) substantially all of Libbey Glass' present and future direct and indirect domestic subsidiaries, (ii) (A) 100 percent of the stock of Libbey Glass, (B) 100 percent of the stock of substantially all of Libbey Glass' present and future direct and indirect domestic subsidiaries, (C) 100 percent of the non-voting stock of substantially all of Libbey Glass' first-tier present and future foreign subsidiaries and (D) 65 percent of the voting stock of substantially all of Libbey Glass' first-tier present and future foreign subsidiaries, and (iii) substantially all proceeds and products of the property and assets described in clauses (i) and (ii) of this sentence. Additionally, borrowings by Libbey Europe under the ABL Facility are secured by a first priority security interest in (i) substantially all of the assets of Libbey Europe, the parent of Libbey Europe and certain of its subsidiaries, (ii) 100 percent of the stock of Libbey Europe and certain subsidiaries of Libbey Europe, and (iii) substantially all proceeds and products of the property and assets described in clauses (i) and (ii) of this sentence.

We pay a Commitment Fee, as defined by the ABL Facility, on the total credit provided under the Facility. The Commitment Fee varies depending on our aggregate availability. The Commitment Fee was 0.25 percent at June 30, 2006. No compensating balances are required by the Agreement. The Agreement does not require compliance with restrictive financial covenants, unless aggregate availability falls below $25,000,000.

The borrowing base under the ABL Facility is determined by a monthly analysis of the eligible accounts receivable, inventory and fixed assets. The borrowing base is the sum of (a) 85% of eligible accounts receivable, (b) the lesser of (i) 85% of the net orderly liquidation value (NOLV) of eligible inventory, (ii) 65% of eligible inventory, or (iii) $75 million and (c) the lesser of $25 million and the aggregate of (i) 75% of the NOLV of eligible equipment and (ii) 50% of the fair market value of eligible real property.

Offsetting the total borrowing base are real estate and ERISA reserves totaling $10 million. The ABL Facility also provides for the issuance of $30 million of letters of credit, which are applied against the $150 million limit. At June 30, 2006, we had $8.4 million in letters of credit outstanding under the Facility. Remaining availability on the ABL Facility was $44.8 million at 6/30/06.

Senior Notes

Libbey Glass and Libbey Inc. entered into a purchase agreement pursuant to which Libbey Glass agreed to sell $306 million aggregate principal amount of floating rate senior secured notes due 2011 (Senior Notes) to the initial purchasers named in a private placement. The net proceeds, after deducting a discount and the estimated expenses and fees, were approximately $290.7 million. The Senior Notes bear interest at a rate equal to six-month LIBOR plus 7.0 percent and were offered at a discount of 2 percent of face value. Interest with respect to the Senior Notes is payable semiannually. The interest rate was 12.44 percent at June 30, 2006.

The Senior Notes are guaranteed by Libbey and all of Libbey Glass' existing and future domestic subsidiaries that guarantee any of Libbey Glass' debt or debt of any subsidiary guarantor. The Senior Notes and related guarantees will have the benefit of a second-priority lien, subject to permitted liens, on collateral consisting of substantially all the tangible and intangible assets of Libbey Glass and its domestic subsidiary guarantors that secure all of the indebtedness under Libbey Glass' new ABL Facility. The Collateral will not include the assets of non-guarantor subsidiaries that will secure the ABL Facility.

PIK Notes

Concurrently with the execution of the purchase agreement with respect to the Senior Notes, Libbey Glass and Libbey Inc. entered into a purchase agreement (Unit Purchase Agreement) pursuant to which Libbey Glass agreed to sell units consisting of $102 million aggregate principal amount 16 percent senior subordinated secured pay-in-kind notes due 2011 (PIK Notes) and Libbey Inc. issued detachable warrants to purchase 485,309 shares of Libbey Inc. common stock (Warrants), to a purchaser named in a private placement. The net proceeds, after deducting a discount and estimated expenses and fees, were approximately $97.2 million. The proceeds were allocated between warrants and the underlying debt based on their respective fair values at the time of issuance. The amount allocated to the warrants has been recorded in equity, with the offset recorded as a discount on the underlying debt. The amount at June 30, 2006 of approximately $1.0 million is included in long-term debt on the Condensed Consolidated Balance Sheets. The PIK Notes bear interest at a rate of 16 percent, and were offered at a discount of 2 percent of face value. Interest is payable semiannually, but during the first three years, interest is payable by issuance of additional PIK Notes. Each Warrant is exercisable at $11.25.

The obligations of Libbey Glass under the PIK Notes are guaranteed by Libbey Inc. and all of Libbey Glass' existing and future domestic subsidiaries that guarantee any of Libbey Glass' debt or debt of any subsidiary guarantor. The PIK Notes and related guarantees are senior subordinated obligations of Libbey Glass and the guarantors of the PIK Notes, and are entitled to the benefit of a third-priority lien, subject to permitted liens, on the collateral that secures the Senior Notes.

Promissory Note

In September 2001, we issued a $2.7 million promissory note in connection with the purchase of our Laredo, Texas warehouse facility. At June 30, 2006, and December 31, 2005, we had $2,058 and $2,131, respectively, outstanding on the promissory note.

Notes Payable

We have an overdraft line of credit for a maximum of € 1.75 million. The $1.5 million outstanding at June 30, 2006, was the U.S. dollar equivalent under the euro-based overdraft line and the interest rate was 3.90 percent.

RMB Loan Contract

On January 23, 2006, Libbey Glassware (China) Co., Ltd. (Libbey China), an indirect wholly-owned subsidiary of Libbey Inc., entered into an RMB Loan Contract (Loan Contract) with China Construction Bank Corporation Langfang Economic Development Area Sub-Branch (CCB). Pursuant to the Loan Contract, CCB agreed to lend to Libbey China RMB 250 million, or the equivalent of approximately $31 million, for the construction of the production facility and purchase of related equipment, materials and services. The loan has a term of eight years and bears interest at a variable rate as announced by the People's Bank of China. As of the date of the initial advance under the Loan Contract, the annual interest rate was 5.51 percent, and as of June 30, 2006, the annual interest rate was 5.75 percent. As of June 30, 2006, the outstanding balance was RMB 120 million (approximately $15 million). Interest is payable quarterly. Payments of principal in the amount of RMB 30 million (approximately $3.8 million) and RMB 40 million (approximately $5.0 million) must be made on July 20, 2012, and December 20, 2012, respectively, and three payments of principal in the amount of RMB 60 million (approximately $7.5 million) each must be made on July 20, 2013, December 20, 2013, and January 20, 2014, respectively. The obligations of Libbey China are secured by a guarantee executed by Libbey Inc. for the benefit of CCB.

Obligations Under Capital Leases

We lease certain machinery and equipment under agreements that are classified as capital leases. These leases were assumed in the Crisal acquisition. The cost of the equipment under capital leases is included in the Condensed Consolidated Balance Sheet as property, plant and equipment and the related depreciation expense is included in the Condensed Consolidated Statements of Operations.

The future minimum lease payments required under the capital leases as of June 30, 2006, are as follows:

Payments Due by Period

	Total	1 Year	2-3 Years	4-5 Years
Capital leases	$ 1,781	$ 616	$ 1,165	—

Other Debt

The other debt of $1,927 primarily consists of governmental subsidized loans for equipment purchases at Crisal.

6. Special Charges

Capacity Realignment

In August 2004, we announced that we were realigning our production capacity in order to improve our cost structure. In mid-February 2005, we ceased operations at our manufacturing facility in City of Industry, California, and realigned production among our other domestic glass manufacturing facilities. See Form 10-K for the year ended December 31, 2005, for further discussion.

As a result, we recorded the following special charges:

	Three months ended June 30, 2006	Three months ended June 30, 2005	Six months ended June 30, 2006	Six months ended June 30, 2005
Fixed asset related	$ —	$ 372	$ —	$ 520
Severance & benefits	—	—	—	2,019
Miscellaneous	—	475	—	1,305
Included in special charges	$ —	$ 847	$ —	$ 3,844

The following reflects the balance sheet activity related to the capacity realignment for the six months ended June 30, 2006:

	Balance at December 31, 2005	Cash payments	Balance at March 31, 2006	Cash payments	Balance at June 30, 2006
Land sale gain	$ 1,055	$ (530)	$ 525	$ (144)	$ 381
Employee termination costs & other	70	(28)	42	—	42
Total	$ 1,125	$ (558)	$ 567	$ (144)	$ 423

Balance sheet classification is as follows: $0.42 million is included in the line item special charges reserve on the Condensed Consolidated Balance Sheets.

Salary Workforce Reduction Program

In the second quarter of 2005, we announced a ten percent reduction of our North American salaried workforce, or approximately 70 employees, in order to reduce our overall costs. See Form 10-K for the year ended December 31, 2005, for further discussion.

As a result, we recorded the following special charges:

	Three months ended June 30, 2006	Three months ended June 30, 2005	Six months ended June 30, 2006	Six months ended June 30, 2005
Pension & retiree welfare (included in Cost of Sales)	$ —	$ 867	$ —	$ 867
Pension & retiree welfare (included in Selling, general and administrative expenses)	—	1,347	—	1,347
Employee termination costs (included in Special Charges)	—	3,350	—	3,350
Pretax salary reduction program	$ —	$ 5,564	$ —	$ 5,564

The following reflects the balance sheet activity related to the salaried workforce reduction program for the six months ended June 30, 2006:

	Balance at December 31, 2005	Cash payments	Balance at March 31, 2005	Cash payments	Balance at June 30, 2006
Employee termination costs	$ 877	$ (306)	$ 571	$ (103)	$ 468
Total	$ 877	$ (306)	$ 571	$ (103)	$ 468

The employee termination costs of $0.47 million are included in the special charges reserve on the Condensed Consolidated Balance Sheets.

Crisa Restructuring

In June 2006, Libbey announced plans to consolidate, over a three-year period, Crisa's two principal manufacturing facilities into one facility and to discontinue certain product lines in order to reduce fixed costs. As part of the consolidation plan, a $2.6 million severance reserve was established related to statutory severance obligations for approximately 600 hourly employees.

As a result, we recorded the following special charges:

	Three months ended June 30, 2006	Three months ended June 30, 2005	Six months ended June 30, 2006	Six months ended June 30, 2005
Fixed asset related (included in Special Charges)	$ 12,587	$ —	$ 12,587	$ —
Inventory write-down (included in Cost of Sales)	2,543	—	2,543	—
Crisa restructuring	$ 15,130	$ —	$ 15,130	$ —

The following reflects the balance sheet activity related to the Crisa restructuring for the six months ended June 30, 2006:

	Balance at December 31, 2005	Cash payments	Balance at March 31, 2006	Non-cash utilization	Cash payments	Balance at June 30, 2006
Employee termination costs & other	$ —	$ —	$ —	$ 2,617	$ —	$ 2,617
Total	$ —	$ —	$ —	$ 2,617	$ —	$ 2,617

Write-off of Finance Fees

In June 2006, Libbey wrote off unamortized finance fees related to debt of Libbey and Crisa that was refinanced.

As a result, we recorded the following special charges:

	Three months ended June 30, 2006	Three months ended June 30, 2005	Six months ended June 30, 2006	Six months ended June 30, 2005
Write-off of finance fees	$ 4,906	$ —	$ 4,906	$ —
Included in interest expense	$ 4,906	$ —	$ 4,906	$ —

Summary of Special Charges

The following table summarizes the charges related to the capacity realignment, salary workforce reduction program, Crisa restructuring and write-off of finance fees and their classifications on the Condensed Consolidated Statements of Operations:

	Three months ended June 30, 2006	Three months ended June 30, 2005	Six months ended June 30, 2006	Six months ended June 30, 2005
Cost of sales	$ 2,543	$ 867	$ 2,543	$ 867
Selling, general and administrative expenses	—	1,347	—	1,347
Special charges	12,587	4,197	12,587	7,194
Interest expense	4,906	—	4,906	—
Total special charges	$ 20,036	$ 6,411	$ 20,036	$ 9,408

The following reflects the balance sheet activity with respect to the charges related to the capacity realignment, salary workforce reduction program, Crisa restructuring and write-off of finance fees for the six months ended June 30, 2006:

	Balance at December 31, 2005	Cash payments	Balance at March 31, 2006	Non-cash utilization	Cash payments	Balance at June 30, 2006
Land sale gain	$ 1,055	$ (530)	$ 525	—	$ (144)	$ 381
Employee termination costs & other	947	(334)	613	2,617	(103)	3,127
Total special charges reserve	$ 2,002	$ (864)	$ 1,138	$ 2,617	$ (247)	$ 3,508

7. Pension

We have pension plans covering the majority of our employees. Benefits generally are based on compensation and length of service for salaried employees and job grade and length of service for hourly employees. Excluding Crisa, our policy is to fund pension plans such that sufficient assets will be available to meet future benefit requirements for all members of the funded plans. Our newly acquired company Crisa, in Mexico, has an unfunded pension plan under which benefits will be funded as current amounts become due. In addition, we have a supplemental employee retirement plan (SERP) covering certain employees. The U.S. pension plans, including the SERP, which is an unfunded liability, cover salaried and non-union hourly (hired before January 1, 2006) and hourly U.S.-based employees of Libbey. The non-U.S. pension plans cover the employees of our wholly-owned subsidiaries, Royal Leerdam and Leerdam Crystal in the Netherlands and Crisa in Mexico.

Effect on Operations

The components of our net pension expense (credit), including the SERP, are as follows:

	U.S. Plans		Non-U.S. Plans		Total	
Three months ended June 30 ,	2006	2005	2006	2005	2006	2005
Service cost	$ 1,633	$ 1,676	$ 209	$ 236	$ 1,842	$ 1,912
Interest cost	3,515	3,514	415	408	3,930	3,922
Expected return on plan assets	(3,881)	(4,209)	(565)	(545)	(4,446)	(4,754)
Amortization of unrecognized:						
Prior service cost	521	570	(31)	(99)	490	471
Gain	809	755	10	—	819	755
Curtailment	—	1,614	—	—	—	1,614
Settlement	1,000	—	—	—	1,000	—
Pension expense	$ 3,597	$ 3,920	$ 38	$ 0	$ 3,635	$ 3,920

	U.S. Plans		Non-U.S. Plans		Total	
Six months ended June 30 ,	2006	2005	2006	2005	2006	2005
Service cost	$ 3,266	$ 3,349	$ 377	$ 472	$ 3,643	$ 3,821
Interest cost	7,030	7,135	785	813	7,815	7,948
Expected return on plan assets	(7,762)	(8,542)	(1,130)	(1,090)	(8,892)	(9,632)
Amortization of unrecognized:						
Prior service cost	1,042	1,135	(117)	(198)	925	937
Gain	1,618	1,273	20	—	1,638	1,273
Curtailment	—	1,614	—	—	—	1,614
Settlement	1,000	—	—	—	1,000	—
Pension expense (credit)	$ 6,194	$ 5,964	$ (65)	$ (3)	$ 6,129	$ 5,961

In the second quarter of 2006, we incurred a pension settlement charge of $1.0 million as a result of projected excess lump sum distributions to be taken by employees retiring during 2006.

In the second quarter of 2005, we incurred a pension curtailment charge of $1.6 million as a result of a planned reduction in our North American salaried workforce of approximately 70 employees. Due to the reduction of the salaried workforce, the U.S. pension plans were revalued as of June 30, 2005. At that time, the discount rate was reduced from 5.75 percent to 5.00 percent. This revaluation resulted in additional net periodic benefit cost of $0.2 million in the second quarter of 2005, which is included in the above table. The normal measurement date of the U.S. and non-U.S. plans is December 31. The salary reduction plan is explained in further detail in Note 6.

With the purchase of the remaining 51 percent of Crisa (See Note 4) we assumed the pension liability only of the active employees of Crisa as of that date. Vitro assumed all the pension liabilities with respect to retirees as of that date. Crisa maintains an unfunded pension plan for its employees. The estimated amount of the unfunded liability for active employees as of the closing date was $12.9 million. The amount of expense included for the fifteen days of Libbey ownership of Crisa is $0.1 million.

We expect to contribute approximately $0.7 million to our U.S. pension plans and approximately $1.5 million to our plan in the Netherlands in 2006. The contribution to Crisa's plan in 2006 is expected to be approximately $0.05 million. Through the second quarter of 2006, there have been contributions of approximately $0.05 million to the U.S. plans and contributions totaling approximately $1.0 million for the plan in the Netherlands. No contributions have been made for June 16, 2006 through June 30, 2006 for the plan in Mexico.

8. Nonpension Postretirement Benefits

We provide certain retiree health care and life insurance benefits covering a majority of our salaried and non-union hourly (hired before January 1, 2004) and union hourly employees in the U.S. and Canada. 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. The U.S. nonpension postretirement plans cover the hourly and salaried U.S.-based employees of Libbey. The non-U.S. nonpension postretirement plans cover the retirees and active employees of Libbey who are located in Canada. Under a cross-indemnity agreement, Owens-Illinois, Inc. assumed liability for the nonpension postretirement benefits of Libbey retirees who had retired as of June 24, 1993.

Effect on Operations

The provision for our nonpension postretirement benefit expense consists of the following:

	U.S. Plans		Non-U.S. Plans		Total	
Three months ended June 30,	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**
Service cost	$ 208	$ 224	$ —	$ —	$ 208	$ 224
Interest cost	494	538	34	37	528	575
Amortization of unrecognized:						
Prior service cost	(220)	(220)	—	—	(220)	(220)
(Loss) gain	(8)	60	—	(13)	(8)	47
Curtailment	—	304	—	—	—	304
Nonpension postretirement benefit expense	$ 474	$ 906	$ 34	$ 24	$ 508	$ 930

	U.S. Plans		Non-U.S. Plans		Total	
Six months ended June 30,	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**
Service cost	$ 416	$ 441	$ —	$ —	$ 416	$ 441
Interest cost	988	1,082	68	74	1,056	1,156
Amortization of unrecognized:						
Prior service cost	(440)	(440)	—	—	(440)	(440)
(Loss) gain	(16)	84	—	(15)	(16)	69
Curtailment	—	304	—	—	—	304
Nonpension postretirement benefit expense	$ 948	$ 1,471	$ 68	$ 59	$ 1,016	$ 1,530

In the second quarter of 2005, we incurred a nonpension postretirement curtailment charge of $0.3 million as a result of a planned reduction in our North American salaried workforce of approximately 70 employees. Due to the reduction of the salaried workforce, the U.S. postretirement plans were revalued as of June 30, 2005. At this time, the discount rate was reduced from 5.75 percent to 5.00 percent. This revaluation resulted in additional net periodic benefit cost included in the above table, of $0.1 million in the second quarter of 2005. The normal measurement date of the U.S. and non-U.S. plans is December 31. The salary reduction plan is explained in further detail in Note 6.

9. Net Income per Share of Common Stock

The following table sets forth the computation of basic and diluted earnings per share:

	Three months ended June 30, 2006	Three months ended June 30, 2005	Six months ended June 30, 2006	Six months ended June 30, 2005
Numerator for earnings per share — net loss that is available to common shareholders	$ (9,569)	$ (870)	$ (9,054)	$ (2,519)
Denominator for basic earnings per share — weighted-average shares outstanding	14,123,647	13,868,957	14,080,796	13,843,813
Effect of dilutive securities — employee stock options, employee stock purchase plan (ESPP) and warrants [1]	—	—	—	—
Denominator for diluted earnings per share — adjusted weighted-average shares and assumed conversions	14,123,647	13,868,957	14,080,796	13,843,813
Basic loss per share	$ (0.68)	$ (0.06)	$ (0.64)	$ (0.18)
Diluted loss per share	$ (0.68)	$ (0.06)	$ (0.64)	$ (0.18)

(1) The effect of the employee stock purchase plan (ESPP) of 388 shares for the quarter ended June 30, 2006, was anti-dilutive. The effect of the ESPP of 193 shares for the six month period ended June 30, 2006 was anti-dilutive. The effect of the employee stock purchase plan (ESPP) of 181 shares for the quarter ended June 30, 2005, was anti-dilutive. The effect of the employee stock options and the ESPP of 1,715 shares for the six month period ended June 30, 2005 was anti-dilutive. These anti-dilutive shares were not included in the earnings per share calculations due to the net losses reported. All other employee stock options and warrants were excluded from the diluted weighted average shares calculations as they were not in-the-money as of June 30, 2006.

Diluted shares outstanding include the dilutive impact of employee stock options, the employee stock purchase plan (ESPP) and warrants, which are calculated based on the average share price for each fiscal period using the treasury stock method. Under the treasury stock method, the tax-effected proceeds that would be hypothetically received from the exercise of all in-the-money options are assumed to be used to repurchase shares.

10. Employee Stock Benefit Plans

We have three stock-based employee compensation plans. We also have an Employee Stock Purchase Plan (“ESPP”) under which eligible employees may purchase a limited number of shares of Libbey Inc. common stock at a discount. We also have issued restricted shares in the past. Restricted shares are issued at no cost to the recipient of the award. The market value of the restricted shares is charged to income ratably over the period during which these awards vest.

Prior to January 1, 2006, the Company accounted for stock-based awards under the intrinsic value method of Accounting Principles Board (APB) No. 25, “Accounting for Stock Issued to Employees” (APB No. 25). This method under APB No. 25 resulted in no expense being recorded for stock option grants for which the exercise price was equal to the fair value of the underlying stock on the date of grant, which had been the situation for all years prior to 2006. On January 1, 2006, the Company adopted Financial Accounting Standards Board (FASB) SFAS No. 123-R. SFAS No. 123-R requires that compensation cost relating to share-based payment transactions be recognized in the financial statements. Share-based compensation cost is measured based on the fair value of the equity or liability instruments issued. SFAS No. 123-R applies to all of our outstanding unvested share-based payment awards as of January 1, 2006, and all prospective awards using the modified prospective transition method without restatement of prior periods.

Employee Stock Purchase Plan ("ESPP")

We have an ESPP under which 650,000 shares of common stock have been reserved for issuance. Eligible employees may purchase a limited number of shares of common stock at a discount of up to 15 percent of the market value at certain plan-defined dates. The ESPP terminates on May 31, 2012. At December 31, 2005, 470,062 shares were available for issuance under the ESPP. At June 30, 2006, 474,900 shares were available for issuance under the ESPP. Starting in 2003, repurchased common stock is being used to fund the ESPP. A participant may elect to have payroll deductions made during the offering period in an amount not less than 2 percent and not more than 20 percent of the participant's compensation during the option period. The option period starts on the offering date (June 1st) and ends on the exercise date (May 31st). In no event may the option price per share be less than the par value per share ($.01) of common stock. All options and rights to participate in the ESPP are nontransferable and subject to forfeiture in accordance with the ESPP guidelines. In the event of certain corporate transactions, each option outstanding under the ESPP will be assumed or the successor corporation or a parent or subsidiary of such successor corporation will substitute an equivalent option.

During the three months ending June 30, 2006, 95,162 shares were issued under the ESPP, as ESPP grants generally occur annually on May 31st. The following are weighted-average assumptions used for ESPP grants in the three months ended June 30, 2006:

	For the quarter ended June 30, 2006
Risk-free interest rate	4.99%
Expected term	12 months
Expected volatility	58.26%
Expected dividend yield	2.29%

Equity Participation Plan Program Description

We have three equity participation plans: (1) the Libbey Inc. Amended and Restated Stock Option Plan for Key Employees, (2) the Amended and Restated 1999 Equity Participation Plan of Libbey Inc. and (3) the Libbey Inc. 2006 Omnibus Incentive Plan. Although options previously granted under the Libbey Inc. Amended and Restated Stock Option Plan for Key Employees and the Amended and Restated 1999 Equity Participation Plan of Libbey Inc. remain outstanding, no further grants of equity-based compensation may be made under those plans. However, up to a total of 1,500,000 shares of Libbey Inc. common stock are available for issuance as equity-based compensation under the Libbey Inc. 2006 Omnibus Incentive Plan. Under the Libbey Inc. 2006 Omnibus Incentive Plan, grants of equity-based compensation may take the form of stock options, stock appreciation rights, performance share or units, restricted stock or restricted stock units or other stock-based awards. Employees and directors are eligible for awards under this plan. There were no stock options or other equity-based awards granted in the second quarter of 2006. All option grants have an exercise price equal to the fair market value of the underlying stock on the grant date. The vesting period of options outstanding as of June 30, 2006, is generally four (4) years. Stock options are amortized over the vesting period using the FASB Interpretation No. 28., "Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans, an interpretation of APB Opinions No. 15 and 25" (FIN 28) expense attribution methodology.

Pro forma Information

With the adoption of SFAS No. 123-R on January 1, 2006, compensation expense for stock options is recorded based on the estimated fair value of the stock options using an option-pricing model. Compensation expense continues to be recorded for restricted stock grants over their vesting periods based on fair value, which is equal to the market price of our common stock on the date of grant.

The following table illustrates the effect on net income and earnings per share if we had applied the fair value recognition provision of SFAS No. 123, "Accounting for Stock-Based Compensation" (SFAS No. 123), to stock-based employee compensation. The table below shows the effect on our net loss and loss per share for the three months and six months ended June 30, 2005:

	Three months ended June 30, 2005	Six months ended June 30, 2005
Net loss:		
Reported net loss	$ (870)	$ (2,519)
Less: Stock-based employee compensation expense determined under fair value-based method for all awards, net of related tax effects	229	430
Add: Stock-based employee compensation expense included in reported net loss, net of related tax effects	16	32
Pro forma net loss	$ (1,083)	$ (2,917)
Basic loss per share:		
Reported basic loss per share	$ (0.06)	$ (0.18)
Pro forma basic loss per share	$ (0.08)	$ (0.21)
Diluted loss per share:		
Reported diluted loss per share	$ (0.06)	$ (0.18)
Pro forma diluted loss per share	$ (0.08)	$ (0.21)

General Stock Option Information

Stock option compensation expense of $0.3 million is included in selling, general and administrative expenses in the Condensed Consolidated Statements of Operations for the six months ended June 30, 2006. The total income tax benefit recognized in the Condensed Consolidated Statements of Operations for share-based payment transactions is $0.09 million for the six months ended June 30, 2006.

The Black-Scholes option pricing model was developed for use in estimating the value of traded options that have no vesting restrictions and are fully transferable. There were no stock option grants made during the three months ended June 30, 2006. Under the Black-Scholes option pricing model, the weighted-average grant-date fair value of options granted during the six months ended June 30, 2006 is $3.31. The fair value of each option is estimated on the date of grant with the following weighted-average assumptions used for grants in the three months ended and six months ended June 30, 2006 and 2005, respectively:

	Three months ended June 30,		Six months ended June 30,	
	2006	2005	2006	2005
Stock option grants:				
Risk-free interest rate	N/A	4.29%	4.57%	4.29%
Expected term (years)	N/A	6.1	6.1	6.1
Expected volatility	N/A	34.6%	38.56%	34.6%
Expected dividend yield	N/A	2.3%	3.19%	2.3%

- The risk-free interest rate is based on the U.S. Treasury yield curve at the time of grant and has a term equal to the expected life. The rate for the period within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the grant date.
- The expected term represents the period of time the options are expected to be outstanding and is based on historical trends. Additionally, we use historical data to estimate option exercises and employee forfeitures. We review the actual and estimated forfeitures on an annual basis and record an adjustment, if necessary. Employees' expected exercises and post-vesting employment termination behavior was also incorporated into the fair value of an option. We project the expected life of our stock options based upon historical and other economic data trended into future years. The Company uses the Simplified Method defined by the SEC Staff Accounting Bulletin No. 107, "Share-Based Payment" (SAB 107) to estimate the expected term of the option, representing the period of time that options granted are expected to be outstanding.
- The expected volatility was developed considering our historical experience. The range of expected volatilities used is 33.34 percent-38.56 percent, and the average expected volatility is 34.55 percent. We use projected data for expected volatility of our stock options based on the average of daily, weekly and monthly historical volatilities of our stock price over the expected life of the option and other economic data trended into future years.
- The dividend yield is calculated as the ratio based on our most recent historical dividend payments per share of common stock at the grant date to the stock price on the date of grant.

There were no significant modifications that occurred during the second quarter of 2006. The policy for issuing shares upon exercise is for the shares to be issued from Treasury in order to fulfill exercises. We currently have a sufficient number of treasury shares on hand to fund equity-based awards under the Libbey Inc. 2006 Omnibus Incentive Plan and to fund purchases under the ESPP in future offering periods.

Information with respect to the stock options at June 30, 2006 is as follows:

	Shares	Weighted average exercise price (per share)	Weighted average remaining contractual life	Aggregate Intrinsic Value
Balance at December 31, 2005	1,555,556	$ 28.04	5.76	$ —
Options granted	10,000	10.20		
Options exercised	—	—		
Options cancelled	(47,900)	31.53		
Balance at March 31, 2006	1,517,656	$ 27.81	5.85	—
Exercisable at March 31, 2006	1,236,356	$ 30.00		$ —

	Shares	Weighted average exercise price (per share)	Weighted average remaining contractual life	Aggregate Intrinsic Value
Balance at March 31, 2006	1,517,656	$ 27.81	5.85	$ —
Options granted	—	—	—	
Options exercised	—	—	—	
Options cancelled	(7,050)	22.06	—	
Balance at June 30, 2006	1,510,606	$ 27.38	5.05	—
Exercisable at June 30, 2006	1,355,946	$ 29.17	4.83	$ —

Intrinsic value for share-based instruments is defined as the difference between the current market value and the exercise price. SFAS No. 123-R requires the benefits of tax deductions in excess of the compensation cost recognized for those stock options (excess tax benefits) to be classified as financing cash flows. Excess tax benefits are included as a financing cash inflow in the June 30, 2006 Condensed Consolidated Statement of Cash Flow.

	For three months ended June 30, 2006	For six months ended June 30, 2006
Intrinsic value of options exercised	$ —	$ —
Cash received for options exercised	—	—
Excess tax benefits realized from tax deductions from options exercised	—	—

The aggregate intrinsic value in the preceding table represents the total pretax intrinsic value, based on our closing stock price of $7.35 as of June 30, 2006, which would have been received by the option holders had all option holders exercised their options as of that date. There are no in-the-money options exercisable as of June 30, 2006.

As of June 30, 2006, $0.5 million of total unrecognized compensation expense related to nonvested stock options are expected to be recognized within the next four years on a weighted-average basis. The total fair value of shares vested during the six months ended June 30, 2006 is $0.

The following table summarizes our nonvested stock option activity for the six months ended June 30, 2006:

	Shares	Weighted average fair value
Nonvested at December 31, 2005:	145,260	$ 3.81
Granted	10,000	3.31
Vested	—	—
Cancelled	(300)	3.81
Nonvested at March 31, 2006	154,960	$ 3.78

	Shares	Weighted average fair value
Nonvested at March 31, 2006:	154,960	$ 3.78
Granted	—	—
Vested	(300)	3.82
Cancelled	—	—
Nonvested at June 30, 2006	154,660	$ 3.78

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11. Derivatives

As of June 30, 2006, we had commodity contracts for 3.64 million British Thermal Units (BTUs) of natural gas, with an overall fair value of ($0.56) million. The fair value of these derivatives is included in accrued liabilities on the Condensed Consolidated Balance Sheet. We do not believe we are exposed to more than a nominal amount of credit risk in our natural gas hedges, as the counterparties are established financial institutions.

Substantially all of our derivatives qualify and are designated as cash flow hedges at June 30, 2006. Hedge accounting is applied only when the derivative is deemed to be highly effective at offsetting changes in anticipated cash flows of the hedged item or transaction. The ineffective portion of the change in the fair value of a derivative designated as a cash flow hedge is recognized in Other Expense on the Condensed Consolidated Statements of Operations. Ineffectiveness recognized in earnings during the second quarter of 2006 was a charge of $0.9 million. Ineffectiveness recognized in earnings during the second quarter of 2005 was not material.

12. Comprehensive Income

Components of comprehensive income are as follows:

	Three months ended June 30,		Six months ended June 30,	
	2006	2005	2006	2005
Net loss	$ (9,569)	$ (870)	$ (9,054)	$ (2,519)
Minimum pension liability and intangible pension asset	(118)	—	(118)	—
Change in fair value of derivative instruments (see detail below)	(968)	(359)	(4,724)	2,671
Effect of exchange rate fluctuation	(95)	(150)	15	(292)
Comprehensive loss	$(10,750)	$ (1,379)	$(13,881)	$ (140)

Accumulated other comprehensive loss (net of tax) includes:

	June 30, 2006	December 31, 2005
Minimum pension liability and intangible pension assets	$ (34,888)	$ (34,770)
Derivatives	(981)	3,743
Exchange rate fluctuation	(79)	(94)
Total	$ (35,948)	$ (31,121)

The change in other comprehensive income for derivative instruments for the Company is as follows:

	Three months ended June 30,		Six months ended June 30,	
	2006	2005	2006	2005
Change in fair value of derivative instruments	$ (1,484)	$ (576)	$ (7,441)	$ 4,280
Less:				
Income tax effect	516	217	2,717	(1,609)
Other comprehensive income related to derivatives	$ (968)	$ (359)	$ (4,724)	$ 2,671

13. Guarantees

The paragraphs below describe our guarantees, in accordance with Interpretation No. 45, “Guarantors Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others.”

The debt of Libbey Glass and Libbey Europe B.V, pursuant to the ABL Facility, the Senior Notes and the PIK Notes, are guaranteed by Libbey Inc. and by certain subsidiaries of Libbey Glass. All are related parties that are included in the Condensed Consolidated Financial Statements. See note 5 for further disclosure on debt of Libbey. Pursuant to the indenture agreements that govern the Senior Notes and the PIK Notes, Libbey Glass is required to provide certain financial information to holders and to the indenture trustee within fifteen days after the date that Libbey Glass would be required to file quarterly and annual reports if Libbey Glass were subject to the periodic reporting requirements of the Exchange Act. Libbey Inc. may fulfill this obligation by filing with the Securities and Exchange Commission consolidating financial statements for (i) Libbey Inc., (ii) Libbey Glass, (iii) the subsidiaries of Libbey Inc. that guarantee the Senior Notes and the PIK Notes and (iv) the subsidiaries of Libbey Inc. that do not guarantee the Senior Notes and the PIK Notes. Libbey Inc. intends to provide such consolidating financial statements within fifteen days after the filing of this quarterly report on Form 10-Q in compliance with the requirements of the indentures.

In addition, Libbey Inc. guarantees the payment by Crisa of its obligation to purchase electricity pursuant to a Power Purchase Agreement to which Crisa is a party. The guarantee is limited to the lesser of 49 percent of any such obligation of Crisa and $5.0 million. The guarantee was entered into in October 2000 and continues for 15 years from the initial date of electricity generation, which commenced on April 12, 2003. In connection with the June 16, 2006 acquisition of the remaining 51 percent ownership interest in Crisa, (a) we have agreed to execute and deliver a guarantee pursuant to which we guarantee to the electricity provider the payment and performance of 100 percent of Crisa's obligations under the Power Purchase Agreement, in exchange for which the electricity provider would release Vitro from its guarantee of Crisa's obligation under the Power Purchase Agreement; and (b) pending the electricity provider's release of Vitro from its guarantee of Crisa's obligations, we will indemnify Vitro for any liability it may incur if Crisa defaults under the Power Purchase Agreement and the electricity provider seeks recourse against Vitro under its guarantee of Crisa's obligations.

In October 1995, we guaranteed the obligations of Syracuse China Company and Libbey Canada Inc. under the Asset Purchase Agreement for the acquisition of Syracuse China. The guarantee is limited to $5.0 million and expires on the fifteenth anniversary of the Closing Date (October 10, 1995). The guarantee is in favor of The Pfaltzgraff Co., The Pfaltzgraff Outlet Co. and Syracuse China Company of Canada Ltd.

In connection with our acquisition of Crisal-Cristalaria Automática, S.A. (Crisal), we agreed to guarantee the payment, if and when such payment becomes due and payable, by Libbey Europe B.V. of the Earn-Out Payment, as defined in the Stock Promissory Sale and Purchase Agreement dated January 10, 2005, between Libbey Europe B.V., as purchaser, and VAA-Vista Alegre Atlantis SGPS, SA, as seller. The obligation of Libbey Europe B.V., and ultimately Libbey Inc., to pay the Earn-Out Payment (which is equal to 5.5 million euros) is contingent upon Crisal achieving certain targets relating to earnings before interest, taxes, depreciation and amortization and net sales. In no event will the Earn-Out Payment be due prior to the third anniversary of the closing date, which was January 10, 2005.

On March 30, 2005, we entered into a Guarantee pursuant to which we guaranteed to BP Energy Company the obligation of Libbey Glass to pay for natural gas supplied by BP Energy Company to Libbey Glass. Libbey Glass currently purchases natural gas from BP Energy Company under an agreement that expires on December 31, 2006. Our guarantee with respect to purchases by Libbey Glass under that agreement is limited to $3.0 million, including costs of collection, if any.

On July 29, 2005, we entered into a guarantee for the benefit of FR Caddo Parish, LLC pursuant to which we guarantee the payment and performance by Libbey Glass of its obligation under an Industrial Building Sublease Agreement with respect to the development of a new distribution center in Shreveport, Louisiana. The underlying lease is for a term of 20 years.

On January 23, 2006, we entered into a guarantee for the benefit of China Construction Bank Corporation Langfang Economic Development Area Sub-Branch (CCB) pursuant to which we guarantee the payment by Libbey China of its obligation under an RMB Loan Contract entered into in connection with the construction of our production facility in China.

In connection with the June 16, 2006 acquisition of the remaining 51 percent ownership interest in Crisa and the concurrent assignment by Vitro to Crisa of a lease with respect to real estate located in Monterrey, Mexico, we executed a guarantee, in favor of Fondo Stiva, S.A. de C.V. ("Fondo Stiva," as Lessor), pursuant to which we guarantee the payment and performance by Crisa Libbey Comercial, S. de R.L. de C.V., formerly Vitrocrisa Comercial, S. de R.L. de C.V. ("Crisa Comercial", as Lessee), pursuant to the lease agreement dated February 17, 2004 between Fondo Stiva and Crisa Comercial (the "Warehouse Lease"), and of Crisa Libbey, S. de R.L. de C.V., formerly Vitrocrisa, S. de R.L. de C.V. ("Crisa Libbey"), pursuant to a deed under which Crisa Libbey granted to Fondo Stiva surface use rights with respect to the real estate and a mortgage lien to secure Crisa Comercial's obligations under the Warehouse Lease.

In addition, on June 16, 2006, we entered into a guarantee pursuant to which we agreed to guarantee to Vitro the payment and performance by Crisa Comercial of its obligations under the Warehouse Lease in the event that Fondo Stiva demands payment from Vitro pursuant to Vitro's guarantee, executed in favor of Fondo Stiva, of Crisa Comercial's obligations under the Warehouse Lease.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and the related notes thereto appearing elsewhere in this report and in our Annual Report filed with the Securities and Exchange Commission. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results may differ from those anticipated in these forward-looking statements as a result of many factors. These factors are discussed in "Other Information" in the section "Qualitative and Quantitative Disclosures About Market Risk."

On June 16, 2006, the Company's wholly-owned subsidiary Libbey Glass closed a private offering of $306 million aggregate principal amount of floating rate senior secured notes due 2011 and a private offering of units consisting of $102 million aggregate principal amount 16 percent senior subordinated secured pay-in-kind notes due 2011. Concurrently, Libbey Inc. issued detachable warrants to purchase 485,309 shares of Libbey Inc. common stock at an exercise price of $11.25 per share. Concurrently, Libbey Glass entered into a new $150 million senior secured credit facility. The Company used the proceeds from these financings to purchase the remaining 51 percent equity interest in Crisa located in Monterrey, Mexico, bringing our ownership in Crisa to 100 percent, and to repay substantially all of existing indebtedness of Libbey and Crisa, and to pay related fees, expenses and redemption premiums.

The purchase price of the remaining 51 percent of Crisa was $84 million, including acquisition costs. In addition, we refinanced approximately $71.9 million of Crisa's existing indebtedness. Crisa's results of operations are included in our Consolidated Financial Statements starting June 16, 2006. Prior to June 16, 2006, 49 percent of Crisa's earnings were accounted for under the equity method.

Results of Operations — Second Quarter 2006 compared with Second Quarter 2005

Dollars in thousands, except percentages and per-share amounts

			Variance	
Three months ended June 30,	**2006 (3)**	**2005(2)**	**in dollars**	**in percent**
Net sales	$157,998	$144,538	$13,460	9.3%
Gross profit	$ 28,172	$ 27,056	$ 1,116	4.1%
Gross profit margin	17.8%	18.7%		
(Loss) income from operations (IFO)	$ (4,111)	$ 2,492	$ (6,603)	(265.0)%
IFO margin	(2.6)%	1.7%		
(Loss) earnings before interest and income taxes (EBIT)(1)	$ (4,089)	$ 2,167	$ (6,256)	(288.7)%
EBIT margin	(2.6)%	1.5%		
Earnings before interest, taxes, depreciation and amortization (EBITDA)(1)	$ 4,117	$ 10,233	$ (6,116)	(59.8)%
EBITDA margin	2.6%	7.1%		
Net loss	$ (9,569)	$ (870)	$ (8,699)	999.9%
Net income margin	(6.1)%	(0.6)%		
Diluted net loss per share	$ (0.68)	$ (0.06)	$ (0.62)	1033.3%

(1) We believe that Earnings before interest and taxes (EBIT) and Earnings before interest, taxes, depreciation and amortization (EBITDA), non-GAAP financial measures, are useful metrics for evaluating our financial performance because they provide a more complete understanding of the underlying results of our core business. See Table 1 for a reconciliation of loss before income taxes to EBIT and EBITDA.

(2) Includes pre-tax special charges of $6.4 million related to capacity realignment due to the closure of our City of Industry facility and the reduction of our North American salaried workforce. (See Note 6.)

(3) Includes pre-tax special charges of $20.0 million related to Crisa restructuring and write-off of finance fees. (See Note 6.)

Net Sales

For the quarter ended June 30, 2006, net sales increased 9.3 percent to $158.0 million from $144.5 million in the year-ago quarter. Excluding Crisa sales, net sales were up 4 percent in total. The increase in net sales was primarily attributable to the consolidation of sales of Crisa, for the last two weeks of June and a more than 10 percent increase in net sales to retail and export glassware customers and shipments of Traex products. Shipments of Royal Leerdam ® and Crisal Glass ® products increased 8 percent, and sales to foodservice glassware customers increased by 5 percent. Net sales of Syracuse ® China products were down approximately 8 percent as a result of the 38 day work stoppage early in the quarter and shipments of World ® Tableware products were down slightly.

Gross Profit

For the quarter ended June 30, 2006, gross profit increased by $1.1 million, or 4.1 percent, to $28.2 million compared to $27.1 million in the year-ago quarter. For the quarter ended June 30, 2006, gross profit as a percentage of net sales decreased to 17.8 percent, compared to 18.7 percent in the year-ago quarter. Gross profit, excluding special charges (see Table 3), was $30.7 million during the quarter, as compared to $27.9 million for the year-ago quarter (see Table 2). This is an increase of 10 percent and as a percentage of net sales was 19.4 percent, as compared to 19.3 percent for the prior year quarter. The increase in gross profit, excluding special charges, is primarily attributable to the consolidation of Crisa for the last two weeks of June and to the higher net sales as discussed above. Also contributing to the increase in gross profit was increased machine activity at our domestic glass plants. Partially offsetting the increase in gross profit, excluding special charges, were slightly higher manufacturing expenses at the Company's Syracuse China facility, along with a reduction in shipments of Syracuse China products by approximately 8 percent as a result of the 38 day work stoppage early in the quarter, a $0.6 million increase in natural gas costs and a $1.5 million increase in pension and nonpension postretirement welfare expenses.

Income From Operations

We recorded a loss from operations of $4.1 million for the quarter ended June 30, 2006, compared to income from operations of $2.5 million for the quarter ended June 30, 2005. Income from operations, excluding special charges (see Table 3), was $11.0 million during the quarter, as compared to $8.9 million for the year-ago quarter (see Table 3), which represents a 23.8 percent increase from the prior year quarter. As a percent of sales, income from operations, excluding special charges, was 7 percent for the quarter ended June 30, 2006, compared to 6.2 percent for the prior year quarter. Factors contributing to the increase in income from operations, excluding special charges, were higher gross profit (discussed above) and reduced selling, general and administrative expenses due to the salaried workforce reduction implemented at the end of the second quarter of 2005.

Earnings Before Interest and Income Taxes (EBIT)

EBIT decreased by $6.3 million in the second quarter of 2006, compared to the year ago quarter. EBIT as a percentage of net sales decreased to 2.6 percent in the second quarter 2006, compared to 1.5 percent in the year ago quarter. EBIT, excluding special charges (see Table 2) increased by $2.5 million and was $11.0 million for the quarter, as compared to $8.6 million for the year-ago quarter (see Table 2). As a percentage of sales, this increased 1.1 percent from 7.0 percent compared to 5.9 percent in the year-ago quarter. The key contributors to the improvement of EBIT, excluding special charges, compared to the prior year are the same as those discussed above under Income From Operations, in addition to an increase in pretax equity earnings from Crisa of $1.7 million as compared to the second quarter 2005. The increased equity earnings were the result of increased and more profitable sales, higher translation gain, and lower natural gas and electricity costs.

Earnings Before Interest, Taxes, Depreciation & Amortization (EBITDA)

EBITDA decreased by $6.1 million, or 60 percent, for the quarter-ended June 30, 2006, compared to the year-ago quarter. As a percentage of net sales, EBITDA was 2.6 percent in the quarter-ended June 30, 2006, compared to 7.1 percent in the prior period. EBITDA, excluding special charges (see Table 1), increased by $2.6 million, or 15.6 percent, to $19.2 million for the quarter ended June 30, 2006, compared to the year-ago quarter. As a percentage of sales, EBITDA, excluding special charges, was 12.2 percent versus 11.5 percent for the prior year quarter. The increase in EBITDA was attributable to the factors described above with respect to EBIT.

Net Income

We reported a net loss of $9.6 million in the second quarter of 2006, compared to a net loss of $.9 million in the second quarter of 2005. Net loss as a percentage of net sales was 6.1 percent in the second quarter of 2006, compared to 0.6 percent in the year-ago quarter. Net loss increased due to the special charges of $15.1 million pre-tax relating to the announced consolidation of Crisa's two Mexican facilities. Net income, excluding special charges, (see Table 3) was $3.9 million, or 27 cents per share, compared to net income, excluding special charges, of $3.4 million, or 25 cents per diluted share in the year ago quarter. A $6.7 million increase in interest expense compared with the year-ago quarter is the result of the refinancing consummated on June 16, 2006. Contributing to the increase in interest expense were a write-off of $4.9 million of financing fees associated with debt retired during the quarter, higher debt and higher average interest rates. The effective tax rate remained unchanged at 33 percent during the second quarters of 2006 and 2005.

Diluted Net Income Per Share

Diluted loss per share was $0.68 in the second quarter of 2006, compared with diluted loss per share of $0.06 in the second quarter of 2005. Diluted earnings per share for the second quarter of 2006, as detailed in the attached Table 3, and excluding special charges of $15.1 million pretax relating to the announced consolidation of two Mexican facilities and the write-off of $4.9 million pretax of finance fees outlined in the attached Table 2, was $0.27 per diluted share. This compares to diluted earnings per share of $0.25 during the second quarter of 2005, excluding the impact of special charges relating to the 2005 salaried workforce reduction program and the capacity realignment charges associated with the shutdown of Libbey's City of Industry, California, facility in February 2005, as detailed in the attached Table 2.

Results of Operations — First Six Months 2006 compared with First Six Months 2005

Dollars in thousands, except percentages and per-share amounts

			Variance	
Six months ended June 30,	**2006(3)**	**2005(2)**	**in dollars**	**in percent**
Net sales	$292,864	$274,322	$18,542	6.8%
Gross profit	$ 50,318	$ 48,095	$ 2,223	4.6%
Gross profit margin	17.2%	17.5%		
(Loss) income from operations (IFO)	$ (1,051)	$ 2,580	$ (3,631)	(140.7)%
IFO margin	(0.4)%	0.9%		
Earnings before interest and income taxes (EBIT)(1)	$ 336	$ 3,093	$ (2,757)	(89.1)%
EBIT margin	0.1%	1.1%		
Earnings before interest, taxes, depreciation and amortization (EBITDA)(1)	$ 16,877	$ 19,544	$ (2,667)	(13.6)%
EBITDA margin	5.8%	7.1%		
Net loss	$ (9,054)	$ (2,519)	$ (6,535)	(259.4)%
Net income margin	(3.1)%	(0.9)%		
Diluted net loss per share	$ (0.64)	$ (0.18)	$ (0.46)	(255.6)%

(1) We believe that Earnings before interest and taxes (EBIT) and Earnings before interest, taxes, depreciation and amortization (EBITDA), non-GAAP financial measures, are useful metrics for evaluating our financial performance because they provide a more complete understanding of the underlying results of our core business. See Table 1 for a reconciliation of loss before income taxes to EBIT and EBITDA.

(2) Includes special charges of $9.4 million related to capacity realignment due to the closure of our City of Industry facility and the reduction of our North American salaried workforce. (See Note 6.)

(3) Includes special charges of $20.0 million related to Crisa restructuring and write-off of finance fees. (See Note 6.)

Net Sales

For the six months ended June 30, 2006, sales increased 6.8 percent to $292.9 million from $274.3 million in the year-ago period. Excluding Crisa's sales during the last two weeks of June 2006, sales increased 4.0 percent compared with the first six months of 2005. This increase in sales was attributable to increases of at least 8 percent in shipments to foodservice glassware customers, retail customers, export customers, Traex customers and Crisal customers. Sales of Royal Leerdam ® products increased almost 2 percent as compared to the first six months of 2005. Shipments to industrial customers were down over 10 percent during the first half of 2006, while shipments of Syracuse ® China and World ® Tableware products were down slightly.

Gross Profit

For the six months ended June 30, 2006, gross profit increased by $2.2 million, or 4.6 percent, compared to the year-ago period. For the six months ended June 30, 2006, gross profit as a percentage of net sales decreased to 17.2 percent, compared to 17.5 percent in the year-ago period. Gross profit, excluding special charges (see Table 3), was $52.9 million for the six months ended June 30, 2006, as compared to $49.0 million for the year-ago period (see Table 3). This is an increase of 8 percent and as a percent of net sales was 18 percent compared to 17.8 percent for the year-ago period. Contributing to the increase in gross profit, excluding special charges, were higher sales and higher production activity at our domestic glass plants.

Income From Operations

Loss from operations was $1.1 million during the first six months of 2006, as compared to income from operations of $2.6 million during the year-ago period. Income from operations, excluding special charges (see Table 3), was $14.1 million for the first six months of 2006, as compared to $12.0 million for the year-ago period, which is an increase of $2.1 million or 17.4 percent. As a percent of net sales, income from operations was 4.8 percent compared to 4.4 for the year-ago period. Contributing to the increase in income from operations, excluding special charges, were higher sales, higher production activity and improved operating results at Crisal in Portugal.

Earnings Before Interest and Income Taxes (EBIT)

EBIT decreased by $2.8 million for the six months of 2006, compared to the year-ago period. EBIT as a percentage of net sales decreased to 0.1 percent in the first six months of 2006, compared to 1.1 percent in the year ago period. EBIT, excluding special charges, (see Table 3) was $15.5 million for the six months ended June 30, 2006, as compared to $12.5 million for the year-ago period. As a percent of sales, this increased 0.7 percent from 5.3 percent compared to 4.6 percent in the year-ago period. The contributors to the improvement in EBIT, excluding special charges, compared to the prior period are the same as those discussed above under Income from Operations, in addition to an increase in pretax equity earnings from Crisa of $2.2 million as compared to the prior-year period. The increased equity earnings were the result of increased and more profitable sales, higher translation gain, and lower natural gas and electricity costs.

Earnings Before Interest, Taxes, Depreciation & Amortization (EBITDA)

EBITDA decreased by $2.7 million, or 13.6 percent, for the six months ended June 30, 2006, compared to the year-ago period. As a percentage of net sales, EBITDA was 5.8 percent in the six months ended June 30, 2006, compared to 7.1 percent in the prior year period. For the first six months of 2006, EBITDA, excluding special charges (see Table 1), was $32.0 million, a 10.6 percent increase over EBITDA, excluding special charges, of $29.0 million during the first half of 2005. The increases in EBITDA, excluding special charges, were attributable to the factors described above with respect to EBIT, excluding special charges,.

Net Income

We reported a net loss of $9.1 million for the six months ended June 30, 2006, compared to a net loss of $2.5 million for the six months ended June 30, 2005. Net loss as a percentage of net sales was 3.1 percent for the six months-ended June 30, 2006, compared to 0.9 percent for the year-ago period. Net loss increased due to special charges of $15.1 million pretax relating to the announced consolidation of two recently acquired Mexican facilities. A $6.7 million increase in interest expense compared with the year-ago period is the result of the refinancing consummated on June 16, 2006. Contributing to the increase in interest expense was a write-off of $4.9 million of financing fees associated with debt retired during the six months ended June 30, 2006, higher debt and higher average interest rates. The effective tax rate was 33 percent during the first six months of 2006 and 2005.

Diluted Net Income Per Share

Diluted loss per share was $0.64 in the first six months of 2006, compared with diluted loss per share of $0.18 in the first six months of 2005. Diluted earnings per share for the first six months of 2006, as detailed in the attached Table 3, and excluding special charges of $15.1 million pretax relating to the announced consolidation of two recently acquired Mexican facilities and the write-off of $4.9 million pretax of finance fees outlined in the attached Table 2, were $0.31 per diluted share. This compares to diluted earnings per share of $0.27 during the first six months of 2005, excluding the impact of special charges relating to the 2005 salaried workforce reduction program and the capacity realignment charges associated with the shutdown of Libbey's City of Industry, California, facility in February 2005, as detailed in the attached Table 2.

Capital Resources and Liquidity

Based on our current level of operations, we believe our cash flow from operations and available borrowings under our new senior secured credit facility will be adequate to meet our liquidity needs for at least the next twelve months. Our ability to fund our working capital needs, debt payments and other obligations, capital expenditures program and other funding requirements, and to comply with debt agreements, depends on our future operating performance and cash flow (see Part II, Item 1A. Risk Factors). We cannot assure you that our business will generate sufficient cash flow from operations, or that future borrowings will be available to us under our new senior secured credit facility in an amount sufficient to enable us to repay our indebtedness, including the notes, or to fund other liquidity needs.

Working Capital

The following table presents working capital items:

Dollars in thousands, except percentages and DSO, DIO, DPO and DWC	June 30, 2006	March 31, 2006	Variance to June 30, 2006 in dollars	Variance to June 30, 2006 in percent	December 31, 2005	Variance to June 30, 2006 in dollars	Variance to June 30, 2006 in percent
Accounts receivable	$112,195	$ 72,244	$39,951	55.3%	$ 79,042	$33,153	41.9%
DSO (1),(6)	47.6	46.0			50.8		
Inventories	161,827	121,388	$40,439	33.3%	122,572	$39,255	32.0%
DIO (2),(6)	74.6	77.3			78.7		
Accounts payable	59,447	40,070	$19,377	48.4%	47,020	$12,427	26.4%
DPO (3), (6)	22.6	25.5			30.2		
Working capital (4)	$214,575	$153,562	$61,013	39.7%	$ 154,594	$59,981	38.8%
DWC (5),(6)	99.6	97.8			99.3		
Percentage of net sales (6)	27.3%	27.0%			27.2%		

DSO, DIO and DWC are all calculated using net sales as the denominator on a 365 day calendar year.

(1) Days sales outstanding (DSO) measures the number of days it takes, to turn receivables into cash.

(2) Days inventory outstanding (DIO) measures the number of days it takes, to turn inventory into cash.

(3) Days payable outstanding (DPO) measures the number of days it takes to pay the balances of our accounts payable.

(4) Working capital is defined as inventories and accounts receivable less accounts payable.

(5) Days working capital (DWC) measures the number of days it takes to turn our working capital into cash.

(6) Calculations exclude the Crisa results of operations for June 16, 2006 through June 30, 2006.

Working capital, defined as inventories and accounts receivable less accounts payable, was $214.6 million at June 30, 2006, which includes an addition of working capital associated with Crisa of $55.9 million. Working capital, excluding Crisa, at June 30, 2006 was $158.7 million. Excluding Crisa, working capital increased $5.1 million from March 31, 2006 and $4.1 million from December 31, 2005. These increases are the result of normal seasonal increases in working capital. However, the Company's working capital was $10.2 million lower than the year-ago period, reflecting the Company's continued efforts to reduce its investment in working capital.

Cash Flow

The following table presents key drivers to free cash flow.

Dollars in thousands, except percentages Three months ended June 30,	2006	2005	Variance in dollars	Variance in percent
Net cash provided by operating activities	$ 15,577	$22,642	$ (7,065)	(31.2)%
Capital expenditures	12,817	8,709	4,108	47.2%
Acquisitions and related costs	77,571	42	77,529	184,592.9%
Free cash flow (1)	$(74,811)	$13,891	$(88,702)	(638.6)%

Our net cash provided by operating activities was $15.6 million in the second quarter of 2006, compared to $22.6 million in the prior year quarter, or a decrease of $7.1 million. Our free cash flow was $(74.8) million during the second quarter 2006, compared to $13.9 million in the prior year quarter, a decrease of $88.7 million. The decrease is attributable to our acquisition of the remaining 51 percent of Crisa on June 16, 2006, for $77.6 million, net of cash acquired, and increased capital expenditures primarily related to the construction of our plant in China.

Dollars in thousands, except percentages Six months ended June 30,	2006	2005	Variance in dollars	Variance in percent
Net cash provided by operating activities	$ 20,375	$ 11,491	$ 8,884	77.3%
Capital expenditures	34,256	19,114	15,142	79.2%
Acquisitions and related costs	77,571	28,990	48,581	167.6%
Free cash flow (1)	$(91,452)	$(36,613)	$(54,839)	149.8%

(1) We believe that Free Cash Flow [net cash (used in) provided by operating activities, less capital expenditures and acquisitions and related costs] is a useful metric for evaluating our financial performance, as it is a measure we use to internally assess our performance .

Net cash provided by operating activities was $20.4 million during the first six months of 2006, compared to $11.5 million during the year-ago period, or an increase of $8.9 million. The increase is attributable to less cash used by working capital and higher net income, excluding special charges (see Table 2). Free cash flow was $(91.5) million during the six months ended 2006, compared to $(36.6) million in the prior-year period, a decrease of $54.8 million. This decrease is primarily attributable to our acquisition of the remaining 51 percent of Crisa for $77.6 million, net of cash acquired, and increased capital expenditures of $18.2 million for the six months ended June 30, 2006, related to the construction of our plant in China.

Borrowings

Our borrowings, prior to consummation of the refinancing on June 16, 2006, consisted of a revolving credit and swing line facility permitting borrowings up to an aggregate total of $195 million, $100 million of privately placed senior notes, a $2.7 million promissory note in connection with the purchase of our Laredo, Texas warehouse and a euro-based working capital line for a maximum of € 10 million. Other borrowings included the RMB Loan Contract and other debt related to Crisal.

On June 16, 2006, Libbey Glass issued, pursuant to private offerings, $306 million aggregate principal amount of floating rate senior secured notes and $102 million aggregate principal amount of 16 percent senior subordinated secured pay-in-kind notes, both due 2011. Concurrently, Libbey Glass entered into a new $150 million Asset Based Loan facility (ABL Facility), expiring in 2010.

Proceeds from these transactions were immediately used to repay existing bank and private placement indebtedness. In addition, proceeds were used for the acquisition of the remaining 51 percent equity interest in Crisa, for $80 million, bringing our ownership of Crisa to 100 percent; for repayment of existing Crisa indebtedness of approximately $71.9 million; and for related fees, expenses and redemption premiums of Libbey and Crisa.

The following table presents our total borrowings at June 30, 2006.

	Interest Rate	Maturity Date	
Borrowings under ABL facility	floating	December 16, 2010	$ 43,929
Senior secured notes	floating	June 1, 2011	306,000
PIK notes	16.00%	December 1, 2011	102,000
Promissory note	6.00%	July 2006 to September 2016	2,058
Notes payable	floating	July 2006	1,546
RMB loan contract	floating	July 2012 to December 2012	15,024
Obligations under capital leases	floating	July 2006 to May 2007	1,781
Other debt	floating	September 2009	1,927
Total borrowings			$474,265
Less — unamortized discounts and warrants			9,120
Total borrowings — net			$465,145

We had total borrowings of $474.3 million at June 30, 2006, compared to total borrowings of $261.7 million at December 31, 2005. The increase of $212.6 million in borrowings is primarily a result of the acquisition of the remaining 51 percent of Crisa.

Of our total indebtedness, $370.2 million is subject to fluctuating interest rates at June 30, 2006. A change in one percentage point in such rates would result in a change in interest expense of approximately $3.7 million on an annual basis.

Reconciliation of Non-GAAP Financial Measures

We sometimes refer to data derived from consolidated financial information but not required by GAAP to be presented in financial statements. Certain of these data are considered "non-GAAP financial measures" under Securities and Exchange Commission (SEC) Regulation G and Item 10 of Regulation S-K. We believe that non-GAAP data provide investors with a more complete understanding of underlying results in our core business and trends. In addition, we use this non-GAAP data to internally assess performance. Although we believe that the non-GAAP financial measures presented enhance investors' understanding of our business and performance, these non-GAAP measures should not be considered an alternative to GAAP.

Table 1

Reconciliation of Loss before income taxes to EBIT and EBITDA

(Dollars in thousands)	Three months ended June 30, 2006	2005	Six months ended June 30, 2006	2005
Loss before income taxes	$(14,289)	$ (1,297)	$(13,473)	$ (3,749)
Add: Interest expense	10,200	3,464	13,809	6,842
Earnings before interest and income taxes (EBIT)	(4,089)	2,167	336	3,093
Add: Depreciation and amortization	8,206	8,066	16,541	16,451
Earning before interest, taxes, deprecation and amortization (EBITDA)	$ 4,117	$ 10,233	$ 16,877	$ 19,544
Add:				
Special charges (excluding write-off of finance fees) — pre-tax	15,130	6,411	15,130	9,408
EBITDA, excluding special charges	**$ 19,247**	**$ 16,644**	**$ 32,007**	**$ 28,952**

Table 2

Summary of Special Charges (1)

(Dollars in thousands)	Three months ended June 30, 2006	2005	Six months ended June 30, 2006	2005
Cost of sales	$ 2,543	$ 867	$ 2,543	$ 867
Selling, general and administrative expenses	—	1,347	—	1,347
Special charges	12,587	4,197	12,587	7,194
Interest expense	4,906	—	4,906	—
Total special charges	$ 20,036	$ 6,411	$ 20,036	$ 9,408

(1) For additional information on special charges see Note 6.

Table 3

Reconciliation of Non-GAAP Financial Measures for Special Charges

(Dollars in thousands)	Three months ended June 30, 2006	2005	Six months ended June 30, 2006	2005
Gross profit	$ 28,172	$ 27,056	$ 50,318	$ 48,095
Special charges reported in cost of sales — pre-tax	2,543	$ 867	$ 2,543	$ 867
Gross profit, excluding special charges	$ 30,715	$ 27,923	$ 52,861	$ 48,961
(Loss) income from operations	$ (4,111)	$ 2,492	$ (1,051)	$ 2,580
Special charges (excluding write-off of finance fees) — pre-tax	15,130	$ 6,411	$ 15,130	$ 9,408
Income from operations, excluding special charges	$ 11,019	$ 8,903	$ 14,079	$ 11,988
(Loss) earnings before interest and income tax (EBIT)	$ (4,089)	$ 2,167	$ 336	$ 3,093
Special charges (excluding write-off of finance fees) — pre-tax	15,130	$ 6,411	$ 15,130	$ 9,408
Earnings before interest and income tax (EBIT), excluding special charges	$ 11,041	$ 8,578	$ 15,466	$ 12,501
Reported net loss	$ (9,569)	$ (870)	$ (9,054)	$ (2,519)
Special charges — net of tax	13,424	4,295	13,424	6,303
Net income, excluding special charges	$ 3,855	$ 3,425	$ 4,370	3,784
Diluted earnings per share:				
Reported net loss	$ (0.68)	$ (0.06)	$ (0.64)	$ (0.18)
Special charges — net of tax	0.95	$ 0.31	0.95	0.45
Net income, excluding special charges, per diluted share	$ 0.27	$ 0.25	$ 0.31	$ 0.27

Table 4

Reconciliation of net cash provided by operating activities to free cash flow

(Dollars in thousands)	Three months ended June 30, 2006	Three months ended June 30, 2005	Six months ended June 30, 2006	Six months ended June 30, 2005
Net cash (used in) provided by operating activities	$ 15,577	$22,642	$ 20,375	$ 11,491
Less:				
Capital expenditures	12,817	8,709	34,256	19,114
Acquisition and related costs	77,571	42	77,571	28,990
Free flow cash	$(74,811)	$13,891	$(91,452)	$(36,613)

Table 5

Reconciliation of working capital

(Dollars in thousands)	June 30, 2006	March 31, 2006	December 31, 2005
Accounts receivable	$112,195	$ 72,244	$ 79,042
Plus:			
Inventories	161,827	121,388	122,572
Less:			
Accounts payable	59,447	40,070	47,020
Working capital	$214,575	$153,562	$154,594

Item 3. Qualitative and Quantitative Disclosures about Market Risk

Currency

We are exposed to market risks due to changes in currency values, although the majority of our revenues and expenses are denominated in the U.S. dollar. The functional currency for our European business is the euro and in China it is the RMB. The currency market risks include devaluations and other major currency fluctuations relative to the U.S. dollar, euro, RMB or Mexican peso that could reduce the cost competitiveness of our products compared to foreign competition.

Natural Gas

We are also exposed to market risks associated with changes in the price of natural gas. We use commodity futures contracts related to forecasted future natural gas requirements of our domestic manufacturing operations. The objective of these futures contracts is to limit the fluctuations in prices paid and potential losses in earnings or cash flows from adverse price movements in the underlying natural gas commodity. We consider our forecasted natural gas requirements of our North American manufacturing operations in determining the quantity of natural gas to hedge. We combine the forecasts with historical observations to establish the percentage of forecast eligible to be hedged, typically ranging from 40 percent to 60 percent of our anticipated requirements, generally six or more months in the future. For our natural gas requirements that are not hedged, we are subject to changes in the price of natural gas, which affect our earnings.

The fair value of our natural gas futures contracts are determined from market quotes and are reflected on our Condensed Consolidated Balance Sheet in accrued liabilities. At June 30, 2006, we had commodity futures contracts for 3.64 million British Thermal Units (BTU's) of natural gas with a fair market value of approximately $0.56 million. Substantially all of our derivatives qualify and are designated as cash flow hedges. We apply hedge accounting to these instruments only when the derivative is deemed to be highly effective at offsetting changes in fair values or anticipated cash flows of the hedged item or transaction. For hedged forecasted transactions, hedge accounting is discontinued if the occurrence of the forecasted transaction is no longer probable, and any previously deferred gains or losses are recorded to earnings. We recognize the ineffective portion of the change in fair value of a derivative designated as a cash flow hedge in current earnings. For the six months ended June 30, 2006, we recognized a loss of approximately $0.8 million related to these instruments, which represented the total ineffectiveness of all cash flow hedges. This loss is classified in Other Expense on the Condensed Consolidated Statements of Operations.

The effective portion of changes in the fair value of a derivative that is designated as and meets the required criteria for a cash flow hedge is recorded in other comprehensive income (loss) and reclassified into earnings in the same period or periods during which the underlying hedged item affects earnings and the contracts are closed. Amounts reclassified into earnings related to natural gas futures contracts of natural gas expense are included in cost of sales.

Pension

We are exposed to market risks associated with changes in the various capital markets. Changes in long-term interest rates affect the discount rate that is used to measure our pension benefit obligations and related pension expense. Changes in the equity and debt securities markets affect the performance of our pension plan asset performance and related pension expense. Sensitivity to these key market risk factors is as follows:

- A change of 1 percent in the expected long-term rate of return on plan assets would change total pension expense by approximately $2.2 million.
- A change of 1 percent in the discount rate would change our total pension expense by approximately $4.2 million.

Item 4. Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Securities Exchange Act of 1934 (the “Exchange Act”) reports are recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well-designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As required by SEC Rule 13a-15(b), we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the quarter covered by this report. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level.

There has been no change in our controls over financial reporting during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

PART II — OTHER INFORMATION

This document and supporting schedules contain statements that are not historical facts and constitute projections, forecasts or forward-looking statements. These forward-looking statements reflect only our best assessment at this time, and may be identified by the use of words or phrases such as “anticipate,” “believe,” “expect,” “intend,” “may,” “planned,” “potential,” “should,” “will,” “would” or similar phrases. Such forward-looking statements involve risks and uncertainty; actual results may differ materially from such statements, and undue reliance should not be placed on such statements. Readers are cautioned that these forward-looking statements are only predictions and are subject to risks, uncertainties and assumptions that are difficult to predict. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. We undertake no obligation to revise or update any forward-looking statements for any reason.

Item 1A. Risk Factors

Slowdowns in the retail, travel, restaurant and bar or entertainment industries, such as those caused by general economic downturns, terrorism, health concerns or strikes or bankruptcies within those industries could reduce our revenues and production activity levels.

Our business is affected by the health of the retail, travel, restaurant and bar or entertainment industries. Expenditures in these industries are sensitive to business and personal discretionary spending levels and may decline during general economic downturns. Additionally, travel is sensitive to safety concerns, and thus may decline after incidents of terrorism, during periods of geopolitical conflict in which travelers become concerned about safety issues, or when travel might involve health-related risks. For example, demand for our products in the foodservice industry, which is critical to our success, was significantly impacted by the events of September 11, 2001. In addition, demand for glassware in some of the industrial markets that we supply has declined in recent years. This decline is due, in part, to a decrease in retail sales of candle items by candle item manufacturers for whom we supply glassware. Demand for glassware with external enamel decorations that we supply to the foodservice, retail and premium channels and for undecorated glassware that buyers decorate and redistribute to retail and industrial customers also has decreased as a result of marketplace confusion related to California’s Proposition 65. Proposition 65 requires that clear and reasonable warnings be given in connection with the sale or distribution of products that expose consumers to certain chemicals, such as the lead contained in some enamels used to decorate glassware, that the State of California has determined either are carcinogenic or pose a risk of reproductive toxicity. We have received claims from retailers for indemnification in litigation relating to Proposition 65, but we have not made any payments on such claims. Further declines in these sectors may lead to continued adverse effect on our results of operations. The long-term effects of events or trends such as these could include, among other things, a protracted decrease in demand for our products. These effects, depending on their scope and duration, which we cannot predict at this time, could significantly impact our results of operations and financial condition.

We face intense competition and competitive pressures, which could adversely affect our results of operations and financial condition.

Our business is highly competitive, with the principal competitive factors being customer service, price, product quality, new product development, brand name, and delivery time. Advantages or disadvantages in any of these competitive factors may be sufficient to cause the customer to consider changing manufacturers.

Competitors in glass tableware include, among others: Imports from varied and numerous factories from China; Arc International (a private French company), which manufactures and distributes glass tableware worldwide; Pasabahce (a unit of Sisecam, a Turkish company), which manufactures glass tableware in various sites throughout the world and sells to all sectors of the glass industry worldwide; Oneida Ltd., which sources glass tableware from foreign and domestic manufacturers and recently filed a petition for relief under Chapter 11 of the United States Bankruptcy Code; Anchor Hocking (a unit of Global Home Products, which recently filed a petition for relief under Chapter 11 of the United States Bankruptcy Code), a manufacturer and distributor of glass beverageware, industrial products and bakeware primarily to retail, foodservice and industrial markets; Indiana Glass Company (a unit of Lancaster Colony Corporation), which manufactures in the U.S. and sells glassware; Bormioli Rocco Group, which manufactures glass tableware in Europe, where the majority of its sales are to retail and foodservice customers; and numerous other sourcing companies. In addition, tableware made of other materials such as plastics compete with glassware.

Some of our competitors have greater financial and capital resources than we do and continue to invest heavily to achieve increased production efficiencies. Competitors may have incorporated more advanced technology in their manufacturing processes, including more advanced automation techniques. Our labor and energy costs may also be higher than those of some foreign producers of glass and ceramic tableware. We may not be successful in managing our labor and energy costs or gaining operating efficiencies that may be necessary to remain competitive. In addition, our products may be subject to competition from low-cost imports that intensify the price competition we face in our markets. Finally, we may need to increase incentive payments in our marketing incentive program in order to remain competitive. Increases in these payments would adversely affect our operating margins.

Competitors in the U.S. market for ceramic dinnerware include, among others: Homer Laughlin; Oneida Ltd.; Steelite; and various sourcing companies. Competitors in metalware include, among others: Oneida Ltd.; Walco, Inc.; and various sourcing companies. Competitors in plastic products include, among others: Cambro Manufacturing Company; Carlisle Companies Incorporated; and various sourcing companies. In Mexico, where a larger portion of our sales are in the retail market, our primary competitors include Vidriera Santos and Vitro Par in the candle category and imports from foreign manufacturers located in countries such as China, France, Italy and Colombia in other categories. Competitive pressures from these competitors and producers could adversely affect our results of operations and financial condition.

International economic and political factors could affect demand for imports and exports, and our financial condition and results of operations could be adversely impacted as a result.

Our operations may be affected by actions of foreign governments and global or regional economic developments. Global economic events, such as changes in foreign import/export policy, the cost of complying with environmental regulations or currency fluctuations, could also affect the level of U.S. imports and exports, thereby affecting our sales. Foreign subsidies, foreign trade agreements and each country's adherence to the terms of such agreements can raise or lower demand for our products. National and international boycotts and embargoes of other countries' or U.S. imports and/or exports, together with the raising or lowering of tariff rates, could affect the level of competition between us and our foreign competitors. Foreign competition has, in the past, and may, in the future, result in increased low-cost imports that drive prices downward. The World Trade Organization met in November 2001 in Doha, Qatar, where members launched new multilateral trade negotiations aimed at improving market access, reducing and eventually phasing out all forms of export subsidies and substantial reductions in trade-distorting domestic support. The current range of tariff rates applicable to glass tableware products that are imported into the U.S. and are of the type we manufacture in North America is approximately 12.5% to 28.5%. However, any negative changes to international agreements that lower duties or improve access to U.S. markets for our competitors, particularly changes arising out of the World Trade Organization's ongoing discussions in Doha, could have an adverse effect on our financial condition and results of operations. As we execute our strategy of acquiring manufacturing platforms in lower cost regions and increasing our volume of sales in overseas markets, our dependence on international markets and our ability to effectively manage these risks has increased and will continue to increase significantly.

We may not be able to effectively integrate Crisa or future businesses we acquire.

The acquisition of Crisal (completed in January 2005), Crisa (completed in June 2006) and any future acquisitions are subject to various risks and uncertainties, including:

- the inability to integrate effectively the operations, products, technologies and personnel of the acquired companies (some of which are spread out in different geographic regions) and to achieve expected synergies;
- the potential disruption of existing business and diversion of management's attention from day-to-day operations;
- the inability to maintain uniform standards, controls, procedures and policies or correct deficient standards, controls, procedures and policies, including internal controls and procedures sufficient to satisfy regulatory requirements of a public company in the U.S.;
- the incurrence of contingent obligations that were not anticipated at the time of the acquisitions;
- for Crisa, the failure of Vitro to provide necessary transition services to Crisa, including the services of a general manager, information technology services and others;
- the need or obligation to divest portions of the acquired companies; and
- the potential impairment of relationships with customers.

In addition, we cannot assure you that the integration and consolidation of newly acquired businesses, including Crisa, will achieve any anticipated cost savings and operating synergies. For example, integration and consolidation at Crisa entails operational risks in moving and rebuilding machines and furnaces, reducing headcount and developing internal information technology and other services that were previously provided by Vitro. The separation of Crisa from Vitro requires us to renegotiate or replace shared contracts and obtain consents and assignments from third parties, all of which may result in additional costs. In connection with the planned consolidation of Crisa's two principal manufacturing facilities, we incurred charges of approximately $15.1 million in the second quarter of 2006 for write-downs of property, plant and equipment, and inventory. We may incur additional charges in connection with the consolidation of the Crisa facilities. We also expect to make significant capital expenditures as part of the capital rationalization plan at Crisa, which we estimate to total approximately $40.0 million over the next three years. The inability to integrate and consolidate operations and improve operating efficiencies at Crisa could have a material adverse effect on our business, financial condition and results of operations.

We may not be able to achieve the objectives of our strategic plan.

Our strategy to improve our operating performance depends on our ability to defend our leadership position in the U.S. foodservice market for glass tableware and reduce our enterprise costs through LEAN initiatives while expanding into low-cost manufacturing platforms and increasing our international sales. The execution of this multi-pronged strategy depends on our ability to maintain our margins in the U.S. and Canadian foodservice industry, historically the most profitable portion of our business but also an increasingly competitive market. We must also be successful in reducing our cost structure and obtaining the cooperation of our largely union workforce in doing so. The success of our plan also will depend on our ability to increase sales in international markets in which we have significantly less experience than our domestic operations, the successful integration of Crisa into our North American operations and the successful integration of Royal Leerdam and Crisal to create a more efficient and effective competitor in Europe. In addition to the significant investment of management time and attention to these international initiatives, our strategy also will require significant capital to complete the rationalization and upgrade of the Crisa operations and the China facility expected to be completed in 2007. Since we intend to benefit from our international initiatives primarily by expanding our sales in the local markets of other countries, our success depends on continued growth in these markets, including Europe, Latin America and Asia-Pacific.

Natural gas, the principal fuel we use to manufacture our products, is subject to fluctuating prices, which could adversely affect our results of operations and financial condition.

Natural gas is the primary source of energy in most of our production processes. With the exception of our Royal Leerdam operations (where contracts expire in 2007), we do not have long-term contracts for natural gas and are therefore subject to market variables and widely fluctuating prices. Consequently, our operating results are strongly linked to the cost of natural gas. Prices for natural gas have been extremely volatile in the recent past. For example, on July 27, 2005 the price of the futures strip of natural gas for August 2005 through December 2006, as quoted on NYMEX, was $8.08 per million British Thermal Units (mmbtu). But on October 20, 2005 (after Hurricanes Katrina and Rita), the price of the 12-month futures strip of natural gas, as quoted on NYMEX, was $11.67 per mmbtu. We have no way of predicting to what extent natural gas prices will rise in the future. To the extent that we are not able to offset increases in natural gas prices, such as by passing along the cost to our customers, these increases could adversely impact our margins and operating performance.

If we are unable to obtain sourced products or raw materials at favorable prices, our operating performance could be adversely impacted.

Sand, soda ash, lime, corrugated packaging materials and resin are the principal raw materials we use. In addition, we obtain glass tableware, metal flatware and hollowware from third parties. We may experience temporary shortages due to disruptions in supply caused by weather, transportation, production delays or other factors which would require us to secure our sourced products or raw materials from sources other than our current suppliers, we may not be able to do so on terms as favorable as our current terms or at all. In addition, resins are a primary raw material for our Traex operation and, historically, the price for resins has fluctuated with the price of oil, directly impacting our profitability. Material increases in the cost of any of these items on an industry-wide basis would have an adverse impact on our operating performance and cash flows if we are unable to pass on these increased costs to our customers.

Charges related to our employee pension plans resulting from market risk and headcount realignment may adversely affect our results of operations and financial condition.

In connection with our employee pension plans we are exposed to market risks associated with changes in the various capital markets. Changes in long-term interest rates affect the discount rate that is used to measure our pension benefit obligations and related pension expense. Changes in the equity and debt securities markets affect the performance of our pension plan asset performance and related pension expense. Sensitivity to these key market risk factors is as follows:

- A change of 1% in the expected long-term rate of return on plan assets would change our annual total pension expense by approximately $2.2 million based on year-end data.
- A change of 1% in the discount rate would change our annual total pension expense by approximately $4.2 million.

Because the market rate for high-quality fixed income investments is lower than previous years, our assumed discount rate has been reduced from 6.25% in 2003 to 5.60% in 2005 for our U.S. pension and postretirement welfare plans. A lower discount rate increases the present value of benefit obligations and increases pension expense. In addition, we have an unfunded nonpension postretirement obligations in the U.S. and Canada. A change of 1% in the discount rate changes our annual nonpension postretirement expense by $0.2 million.

As part of our pension expense, we incurred pension settlement charges of $4.9 million in 2005 and pension curtailment charges of $4.0 million during 2004. These charges were triggered by excess lump sum distributions taken by employees in connection with headcount reductions related to our capacity realignment and salaried workforce reduction programs and by headcount reductions related to the closure of our City of Industry, California manufacturing facility. We anticipate an additional $3.0 million pension settlement charge in 2006 as a result of excess lump sum distributions taken by employees. To the extent that we experience additional headcount shifts or changes as we continue to implement our capacity realignment programs, we may incur further expenses related to our employee pension plans, which could have a material adverse effect on our results of operations and financial condition.

If Congress fails to extend temporary funding regulations affecting employee pension plans, our near-term cash contributions to these plans could increase significantly.

In 2004, President Bush signed the Pension Funding Equity Act of 2004 (“PFEA”). PFEA specified temporary funding regulations for pension plan years 2004 and 2005 that allowed us to delay the cash contributions we are required to make to our employee pension plans. Congress has enacted the Pension Protection Act of 2006 (“PPA”), which we believe would, among other things, permit us to further delay required cash contributions to our U.S. employee pension plans. However, President Bush has not yet signed the PPA. If President Bush does not sign the PPA and there is no extension of PFEA for plan years beginning January 1, 2006, our near-term cash contributions would increase significantly. For example, our anticipated pension and retiree welfare cash contributions in 2007 are projected to be $34.9 million.

Our business requires significant capital investment and maintenance expenditures that we may be unable to fulfill.

Our operations are capital intensive, requiring us to maintain a large fixed cost base. Our total capital expenditures were $40.5 million for the year ended December 31, 2004 and $44.3 million for the year ended December 31, 2005, including $13.4 million relating to the construction of our China facility. Excluding capital expenditures relating to the construction of our China facility, capital expenditures in 2006 are expected to be approximately $43.0 million, including approximately $16.0 million of capital expenditures relating to our Crisa operations. Our capital expenditures on Crisa's operations include approximately $13.0 million in 2006 relating to capacity rationalization as we consolidate Crisa's two manufacturing facilities into a single facility. In addition, we anticipate capital expenditures of approximately $35.0 million in 2006 related to construction of our China facility.

In the first half of 2006, we incurred $34.3 million of our expected 2006 capital expenditures, including $18.3 million related to our China facility. We anticipate capital expenditures of $27.0 million for the remaining two quarters of 2006, excluding $16.7 million related to construction of our China facility. We expect to fund the balance of the 2006 capital expenditures through our lines of credit.

Our business may not generate sufficient operating cash flow and external financing sources may not be available in an amount sufficient to enable us to make anticipated capital expenditures.

Our business requires us to maintain a large fixed cost base that can affect our profitability.

The high levels of fixed costs of operating glass production plants encourage plant managers to maintain high levels of output, even during periods of reduced demand, which can lead to excess inventory levels and exacerbate the pressure on profit margins. For example, in 2005, we liquidated approximately $13.0 million of inventory at reduced margins and slowed production in certain areas of our operations, to restore our inventory levels. Our profitability is dependent, in part, on our ability to spread fixed costs over an increasing number of products sold and shipped, and if we reduce our rate of production, as we did in 2005, our costs per unit increase, which negatively impacts our gross margins. Decreased demand or the need to reduce inventories can lower our ability to absorb fixed costs and materially impact our results of operations.

Unexpected equipment failures may lead to production curtailments or shutdowns.

Our manufacturing processes are dependent upon critical glass-producing equipment, such as furnaces, forming machines and lehrs. This equipment may incur downtime as a result of unanticipated failures. We may in the future experience facility shutdowns or periods of reduced production as a result of such equipment failures. Unexpected interruptions in our production capabilities would adversely affect our productivity and results of operations for the affected period.

If our investments in new technology and other capital expenditures do not yield expected returns, our results of operations could be reduced.

The manufacture of our tableware products involves the use of automated processes and technologies. We designed much of our glass tableware production machinery internally and have continued to develop and refine this equipment to incorporate advancements in technology. We will continue to invest in equipment and make other capital expenditures to further improve our production efficiency and reduce our cost profile. To the extent that these investments do not generate targeted levels of returns in terms of efficiency or improved cost profile, our financial condition and results of operations could be adversely affected.

Delays and budget increases related to the construction of our new production facility in China, or an inability to meet targeted production and profit margin goals after construction, could result in significant additional costs or lost sales.

We began construction of our new production facility in China during the third quarter of 2005. We expect that the total cost of this facility will be approximately $52.0 million. We also expect to incur startup losses in connection with the operation of this new facility in China. We intend to use this production facility to better supply China and the rest of the Asia-Pacific market and to improve our competitive position in that region. We plan to begin production of glass tableware at this facility in early 2007.

Construction delays, regulatory approvals and other factors beyond our control could delay the start-up of operations in our Chinese facility or significantly increase the costs of its construction. If we are unable to expand our manufacturing capacity in our Chinese production facility as planned, we may be unable to satisfy demand for our products in the Asia-Pacific market, which may result in lost future sales and could adversely affect our results of operations and financial condition. In addition, if we are unable to meet targeted production and profit margin goals in connection with the operation of our Chinese facility after construction, our profits could be reduced, which would adversely affect our results of operations and financial condition.

We may not be able to renegotiate collective bargaining agreements successfully when they expire and organized strikes or work stoppages by unionized employees may have an adverse effect on our operating performance.

We are party to collective bargaining agreements that cover most of our manufacturing employees. The agreement with our 26 hourly employees at our Mira Loma, California distribution center expires on November 15, 2006. The agreements with our unionized employees in Toledo, Ohio expire on September 30, 2007, and the agreement with our unionized employees in Shreveport, Louisiana expires on December 15, 2008. After a work stoppage at our Syracuse China facility of 38 days ending on May 8, 2006 our unionized employees at that facility ratified a new collective bargaining agreement that expires on May 15, 2009. Crisa’s collective bargaining agreements with its unionized employees have no expiration, but wages are reviewed annually and benefits are reviewed every two years. Crisal does not have a written collective bargaining agreement with its unionized employees but does have an oral agreement which is revisited annually. Royal Leerdam’s collective bargaining agreement with its unionized employees expires on July 1, 2007. We may not be able to successfully negotiate new collective bargaining agreements without any labor disruption. If any of our unionized employees were to engage in a strike or work stoppage prior to expiration of their existing collective bargaining agreements, or if we are unable in the future to negotiate acceptable agreements with our unionized employees in a timely manner, we could experience a significant disruption of operations. In addition, we could experience increased operating costs as a result of higher wages or benefits paid to union members upon the execution of new agreements with our labor unions. We could also experience operating inefficiencies as a result of preparations for disruptions in production, such as increasing production and inventories. Finally, companies upon which we are dependent for raw materials, transportation or other services could be affected by labor difficulties. These factors and any such disruptions or difficulties could have an adverse impact on our operating performance and financial condition.

In addition, we are dependent on the cooperation of our largely unionized workforce to implement and adopt the LEAN initiatives that are critical to our ability to improve our production efficiency, and the effect of strikes and other slowdowns may adversely affect the degree and speed with which we can adopt LEAN optimization objectives and the success of that program.

We are subject to risks associated with operating in foreign countries. These risks could adversely affect our results of operations and financial condition.

We operate manufacturing and other facilities throughout the world. As a result of our international operations, we are subject to risks associated with operating in foreign countries, including:

- political, social and economic instability;
- war, civil disturbance or acts of terrorism;
- taking of property by nationalization or expropriation without fair compensation;
- changes in government policies and regulations;
- devaluations and fluctuations in currency exchange rates;
- imposition of limitations on conversions of foreign currencies into dollars or remittance of dividends and other payments by foreign subsidiaries;

- imposition or increase of withholding and other taxes on remittances and other payments by foreign subsidiaries;
- ineffective intellectual property protection;
- hyperinflation in certain foreign countries; and
- impositions or increase of investment and other restrictions or requirements by foreign governments.

The risks associated with operating in foreign countries may have a material adverse effect on our results of operations and financial condition.

High levels of inflation and high interest rates in Mexico could adversely affect the operating results and cash flows of Crisa.

Mexico has experienced high levels of inflation and high domestic interest rates. If Mexico experiences high levels of inflation, Crisa's operating results and cash flows could be adversely affected, and, more generally, high inflation might result in lower demand or lower growth in demand for Crisa's glass tableware products.

Fluctuation of the currencies in which we conduct operations could adversely affect our financial condition and results of operations.

Changes in the value of the various currencies in which we conduct operations against the U.S. dollar, including the euro and the Chinese RMB, may result in significant changes in the indebtedness of our non-U.S. subsidiaries.

Currency fluctuations between the U.S. dollar and the currencies of our non-U.S. subsidiaries affect our results as reported in U.S. dollars, particularly the earnings of Crisa as expressed under U.S. GAAP, and will continue to affect our financial income and expense.

Fluctuations in the value of the foreign currencies in which we operate relative to the U.S. dollar could reduce the cost competitiveness of our products or those of our subsidiaries.

Major fluctuations in the value of the euro, the Mexican peso or the RMB relative to the U.S. dollar and other major currencies could reduce the cost competitiveness of our products or those of our subsidiaries, including our operations in the euro zone, Mexico and China, as compared to foreign competition. For example, if the U.S. dollar appreciates against the euro, the Mexican peso or the RMB, the purchasing power of those currencies effectively would be reduced against the U.S. dollar, making our U.S.-manufactured products more expensive in the euro zone, Mexico and China compared to local competitors. An appreciation of the U.S. dollar against the euro, the Mexican peso or the RMB also would increase the cost of U.S. dollar-denominated purchases for our operations in the euro zone, Mexico and China, including raw materials, which we would be forced to deduct from our profit margin or pass along to consumers. These fluctuations could adversely affect our results of operations and financial condition.

Devaluation or depreciation of, or governmental conversion controls over, the foreign currencies in which we operate could affect our ability to convert the earnings of our foreign subsidiaries into U.S. dollars.

Major devaluation or depreciation of the Mexican peso could result in disruption of the international foreign exchange markets and may limit our ability to transfer or to convert Crisa's Mexican peso earnings into U.S. dollars and other currencies, upon which we will rely in part to satisfy our debt obligations. While the Mexican government does not currently restrict, and for many years has not restricted, the right or ability of Mexican or foreign persons or entities to convert pesos into U.S. dollars or to transfer other currencies out of Mexico, the government could institute restrictive exchange rate policies in the future, which could adversely affect our results of operations and financial condition.

In addition, the government of China imposes controls on the convertibility of RMB into foreign currencies and, in certain cases, the remittance of currency out of China. Shortages in the availability of foreign currency may restrict the ability of our Chinese subsidiaries to remit sufficient foreign currency to make payments to us. Under existing Chinese foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade-related transactions, can be made in foreign currencies without prior approval from the Chinese State Administration of Foreign Exchange by complying with certain procedural requirements. However, approval from appropriate government authorities is required where RMB are to be converted into foreign currencies and remitted out of China to pay capital expenses such as the repayment of bank loans denominated in foreign currencies. In the future, the Chinese government could institute restrictive exchange rate policies for current account transactions. These policies could adversely affect our results of operations and financial condition.

If our hedges do not qualify as highly effective or if we do not believe that forecasted transactions would occur, the changes in the fair value of the derivatives used as hedges would be reflected in our earnings.

We account for derivatives in accordance with SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities,” as amended by SFAS Nos. 137 and 138. We hold derivative financial instruments to hedge certain of our interest rate risks associated with long-term debt, commodity price risks associated with forecasted future natural gas requirements and foreign exchange rate risks associated with transactions denominated in a currency other than the U.S. dollar. These derivatives qualify for hedge accounting if the hedges are highly effective, and we have designated and documented contemporaneously the hedging relationships involving these derivative instruments. If our hedges do not qualify as highly effective or if we do not believe that forecasted transactions would occur, the changes in the fair value of the derivatives used as hedges will impact our results of operations and could significantly impact our earnings.

We are subject to various environmental legal requirements and may be subject to new legal requirements in the future; these requirements could have a material adverse effect on our operations.

Our operations and properties, both in the U.S. and abroad, are subject to extensive laws, ordinances, regulations and other legal requirements relating to environmental protection, including legal requirements governing investigation and clean-up of contaminated properties as well as water discharges, air emissions, waste management and workplace health and safety. These legal requirements frequently change and vary among jurisdictions. Our operations and properties, both in the U.S. and abroad, must comply with these legal requirements. These requirements may have a material adverse effect on our operations.

We have incurred, and expect to incur, costs to comply with environmental legal requirements, and these costs could increase in the future. Many environmental legal requirements provide for substantial fines, orders (including orders to cease operations) and criminal sanctions for violations. These legal requirements may apply to conditions at properties that we presently or formerly owned or operated, as well as at other properties for which we may be responsible, including those at which wastes attributable to the Company were disposed. A significant order or judgment against us, the loss of a significant permit or license or the imposition of a significant fine may have a material adverse effect on operations.

Our failure to protect our intellectual property or prevail in any intellectual property litigation could materially and adversely affect our competitive position, reduce revenue or otherwise harm our business.

Our success depends in part on our ability to protect our intellectual property rights. We rely on a combination of patent, trademark, copyright and trade secret laws, licenses, confidentiality and other agreements to protect our intellectual property rights. However, this protection may not be fully adequate. Our intellectual property rights may be challenged or invalidated, an infringement suit by us against a third party may not be successful and/or third parties could adopt trademarks similar to our own. In particular, third parties could design around or copy our proprietary furnace, manufacturing and mold technologies, which are important contributors to our competitive position in the glass tableware industry. We may be particularly susceptible to these challenges in countries where protection of intellectual property is not strong. In addition, we may be accused of infringing or violating the intellectual property rights of third parties. Any such claims, whether or not meritorious, could result in costly litigation and divert the efforts of our personnel. Our failure to protect our intellectual property or prevail in any intellectual property litigation could materially and adversely affect our competitive position, reduce revenue or otherwise harm our business.

Our business may suffer if we do not retain our senior management.

We depend on our senior management. The loss of services of any of the members of our senior management team could adversely affect our business until a suitable replacement can be found. There may be a limited number of persons with the requisite skills to serve in these positions, and we may be unable to locate or employ such qualified personnel on acceptable terms.

Our high level of debt, as well as incurrences of additional debt, may limit our operating flexibility, which could adversely affect our results of operations and financial condition.

We have a high degree of financial leverage. As of June 30, 2006, we had drawn $43.9 million and had $44.8 million available for borrowing under our $150.0 million ABL Facility. In addition, we had $306 million of Senior Notes and $102 million of PIK Notes outstanding. We have also obtained a loan in the amount of 250 million RMB (approximately $31.0 million) from China Construction

Bank Corporation Langfang Economic Development Area Sub-Branch (“CCBC”) to finance the construction of our greenfield facility in China (“China Construction Loan”). As of June 30, 2006, we had borrowed 120 million RMB (approximately $15 million) under the China Construction Loan. In addition, we will have a payable of approximately $27.1 million, of which $7.2 million will be due and payable to Vitro in the third quarter of 2006 and approximately $19.9 million will be due and payable to Vitro in the first quarter of 2008. Our ABL facility and the indenture with respect to the Senior Notes and PIK Notes requires us to comply with certain covenants, limits on additional indebtedness and certain business activities and investments. We may also incur additional debt in the future. Our high degree of leverage, as well as the incurrence of additional debt, could have important consequences for our business, such as:

- making it more difficult for us to satisfy our financial obligations, including with respect to these notes;
- limiting our ability to make capital investments in order to expand our business;
- limiting our ability to obtain additional debt or equity financing for working capital, capital expenditures, product development, debt service requirements, acquisitions or other purposes;
- limiting our ability to invest operating cash flow in our business and future business opportunities, because we use a substantial portion of these funds to service debt and because our covenants restrict the amount of our investments;
- limiting our ability to withstand business and economic downturns and/or place us at a competitive disadvantage compared to our competitors that have less debt, because of the high percentage of our operating cash flow that is dedicated to servicing our debt; and
- limiting our ability to pay dividends.

If we cannot service our debt or if we fail to meet our covenants, we could have substantial liquidity problems. In those circumstances, we might have to sell assets, delay planned investments, obtain additional equity capital or restructure our debt. Depending on the circumstances at the time, we may not be able to accomplish any of these actions on favorable terms or at all.

In addition, the indenture will contain financial and other restrictive covenants that will limit our ability to engage in activities that may be in our long-term best interests. Our failure to comply with those covenants could result in an event of default that, if not cured or waived, could result in the acceleration of all of our indebtedness.

Despite current indebtedness levels, we may still be able to incur substantially more debt. This could further exacerbate the risks associated with our substantial leverage.

We may be able to incur substantial additional indebtedness in the future. The terms of the indentures with respect to Senior Notes and PIK Notes and our new ABL Facility do not fully prohibit us from doing so. If new indebtedness is added to our current debt levels, the related risks we now face could intensify.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuers Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
April 1 to April 30, 2006	—	—	—	1,000,000
May 1 to May 31, 2006	—	—	—	1,000,000
June 1 to June 30, 2006	—	—	—	1,000,000
Total	—	—	—	1,000,000

Warrants

On June 16, 2006, Libbey Glass and Libbey Inc. closed the sale of units consisting of $102 million aggregate principal amount 16% senior subordinated secured pay-in-kind notes due 2011 of Libbey Glass (the “PIK Notes”) and detachable warrants to purchase 485,309 shares of Libbey Inc. common stock (the “Warrants”) in a private placement pursuant to a purchase agreement, dated June 9, 2006 (the “Unit Purchase Agreement”), between Libbey Glass, Libbey and the purchaser named therein (the “Unit Purchaser”). The Warrants are exercisable at a price of $11.25 per share of Libbey Inc. common stock. The PIK Notes and warrants were sold at a discount of 2 percent of face value. The net proceeds from the offering of PIK Notes and warrants, after deducting a placement agent’s discount and the estimated offering expenses payable by Libbey Glass, were approximately $97.2 million.

The Warrants and the shares of Libbey Inc. common stock issuable upon exercise of the Warrants were not registered under the Securities Act of 1933, as amended (the “Securities Act”) or any state securities laws. Libbey Inc. offered and sold the Warrants to an accredited investor within the meaning of Rule 501(a) of Regulation D in reliance on the exemption from registration provided by Section 4(2) under the Securities Act. Libbey Inc. relied on this exemption from registration based in part on representations made by the Unit Purchaser in the Unit Purchase Agreement.

Item 4. Submission of Matters to a Vote of Security Holders

The Annual Meeting of the Shareholders of the Company was held on May 4, 2006. At the meeting, action was taken with respect to the following matters:

(a) John F. Meier, Carol B. Moerdyk and Gary L. Moreau were reelected as directors of the Company. Each will serve for a term of 3 years or until his or her successor is elected. The terms of office of William A. Foley, Deborah G. Miller, Terence P. Stewart, Carlos V. Duno, Peter C. McC. Howell and Richard I. Reynolds continued after the meeting.

(b) Approved the Libbey Inc. 2006 Omnibus Incentive Plan

(c) Ratified the appointment of Ernst & Young LLP as our independent auditors for the fiscal year ending December 31, 2006.

The following table sets forth the tabulation of votes with respect to each of the matters described above:

	Shares Voted For	Shares Voted Against	Shares Withheld	Abstentions / Broker Non-Votes
a. Election of Directors				
John F. Meier	12,194,462	—	307,694	—
Carol B. Moerdyk	11,717,445	—	784,711	—
Gary L. Moreau	11,717,742	—	784,414	—
b. Approval of 2006 Omnibus Incentive Plan	8,206,023	2,223,112		7,581
c. Ratification of 2006 auditors	12,047,406	452,643		2,107

There were no broker non-votes included in the results of the election of directors.

Item 5. Other Information

(b) There has been no material change to the procedures by which security holders may recommend nominees to the Company's board of directors.

Item 6. Exhibits

Exhibits: The exhibits listed in the accompanying "Exhibit Index" are filed as part of this report.

EXHIBIT INDEX

Exhibit Number	Description
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 3.01 to Registrant's Form 8-K filed February 7, 2005 and incorporated herein by reference).
4.1	Credit Agreement, dated June 16, 2006, among Libbey Glass Inc. and Libbey Europe B.V., Libbey Inc., the other loan parties party thereto, the lenders party thereto, JPMorgan Chase Bank, N.A., J.P. Morgan Europe Limited, LaSalle Bank Midwest National Association, Wells Fargo Foothill, LLC, Fifth Third Bank, and J.P. Morgan Securities Inc., as Sole Bookrunner and Sole Lead Arranger. (filed as Exhibit 4.1 to Registrant's Form 8-K filed June 21, 2006 and incorporated herein by reference).
4.2	Indenture, dated June 16, 2006, among Libbey Glass Inc., Libbey Inc., the Subsidiary Guarantors party thereto and The Bank of New York Trust Company, N.A., as trustee. (filed as Exhibit 4.2 to Registrant's Form 8-K filed June 21, 2006 and incorporated herein by reference).
4.3	Form of Floating Rate Senior Secured Note due 2011. (filed as Exhibit 4.3 to Registrant's Form 8-K filed June 21, 2006 and incorporated herein by reference).
4.4	Registration Rights Agreement, dated June 16, 2006, among Libbey Glass Inc., Libbey Inc., the Subsidiary Guarantors party thereto and the Initial Purchasers named therein. (filed as Exhibit 4.4 to Registrant's Form 8-K filed June 21, 2006 and incorporated herein by reference).
4.5	Indenture, dated June 16, 2006, among Libbey Glass Inc., Libbey Inc., the Subsidiary Guarantors party thereto and Merrill Lynch PCG, Inc. (filed as Exhibit 4.5 to Registrant's Form 8-K filed June 21, 2006 and incorporated herein by reference).
4.6	Form of 16% Senior Subordinated Secured Pay-in-Kind Note due 2011. (filed as Exhibit 4.6 to Registrant's Form 8-K filed June 21, 2006 and incorporated herein by reference).
4.7	Warrant, issued June 16, 2006. (filed as Exhibit 4.7 to Registrant's Form 8-K filed June 21, 2006 and incorporated herein by reference).
4.8	Registration Rights Agreement, dated June 16, 2006, among Libbey Inc. and Merrill Lynch PCG, Inc. (filed as Exhibit 4.8 to Registrant's Form 8-K filed June 21, 2006 and incorporated herein by reference).
4.9	Intercreditor Agreement, dated June 16, 2006, among Libbey Glass Inc., JPMorgan Chase Bank, N.A., The Bank of New York Trust Company, N.A., Merrill Lynch PCG, Inc. and the Loan Parties party thereto. (filed as Exhibit 4.9 to Registrant's Form 8-K filed June 21, 2006 and incorporated herein by reference).
10.1	Limited Waiver and Second Amendment to Purchase Agreement, dated June 16, 2006, among Vitro, S.A. de C.V., Crisa Corporation, Crisa Libbey S.A. de C.V., Vitrocrisa Holding, S. de R.L. de C.V., Vitrocrisa S. de R.L. de C.V., Vitrocrisa Comercial, S. de R.L. de C.V., Crisa Industrial, L.L.C., Libbey Mexico, S. de R.L. de C.V., Libbey Europe B.V., and LGA3 Corp.

Exhibit Number	Description
10.2	Guaranty, dated May 31, 2006, executed by Libbey Inc. in favor of Fondo Stiva S.A. de C.V.
10.3	Guaranty Agreement, dated June 16, 2006, executed by Libbey Inc. in favor of Vitro, S.A. de C.V.
10.4	Transition Services Agreement, dated June 16, 2006, among Crisa Libbey S.A. de C.V., Vitrocrisa Holding, S. de R.L. de C.V., Vitrocrisa S. de R.L. de C.V., Vitrocrisa Comercial, S. de R.L. de C.V., Crisa Industrial, L.L.C. and Vitro S.A de C.V. (filed as Exhibit 10.1 to Registrant's Form 8-K filed June 21, 2006 and incorporated herein by reference).
10.5	2006 Omnibus Incentive Plan of Libbey Inc. (filed as Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2006 and incorporated herein by reference)
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) or Rule 15d-14(a) (filed herein).
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) or Rule 15d-14(a) (filed herein).
32.1	Chief Executive Officer Certification Pursuant To 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 Of The Sarbanes-Oxley Act of 2002 (filed herein).
32.2	Chief Financial Officer Certification Pursuant To 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 Of The Sarbanes-Oxley Act of 2002 (filed herein).

SIGNATURES

Pursuant to the requirements 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.
Date August 9, 2006	By /s/ Scott M. Sellick
	Scott M. Sellick, Vice President, Chief Financial Officer (duly authorized principal financial officer)

Exhibit 10.1

EXECUTION COPY

**LIMITED WAIVER AND SECOND AMENDMENT
TO PURCHASE AGREEMENT**

This LIMITED WAIVER AND SECOND AMENDMENT TO PURCHASE AGREEMENT (this "AMENDMENT") is made as of June 16, 2006, among Vitro, S.A. de C.V., a Mexican Sociedad Anonima de Capital Variable ("VITRO"), Crisa Corporation, a Delaware corporation ("CRISA CORP." and, together with Vitro, the "SELLERS"), Crisa Libbey S.A. de C.V., a Mexican Sociedad Anonima de Capital Variable ("CRISA LIBBEY"), Vitrocrisa Holding, S. de R.L. de C.V., a Mexican Sociedad de Responsabilidad Limitada de Capital Variable ("VC HOLDING"), Vitrocrisa S. de R.L. de C.V., a Mexican Sociedad de Responsabilidad Limitada de Capital Variable ("VITROCRISA"), Vitrocrisa Comercial, S. de R.L. de C.V., a Mexican Sociedad de Responsabilidad Limitada de Capital Variable ("VC COMERCIAL"), Crisa Industrial, L.L.C., a Delaware limited liability company ("CRISA INDUSTRIAL" and, collectively with Crisa Libbey, VC Holding, Vitrocrisa and VC Comercial, the "ACQUIRED COMPANIES"), Libbey Mexico, S. de R.L. de C.V., a Mexican Sociedad de Responsabilidad Limitada de Capital Variable ("LIBBEY MEXICO"), Libbey Europe B.V., a limited liability company (besloten vennootschap met beperkte aansprakelijkheid) organized under the laws of the Netherlands ("LIBBEY EUROPE"), and LGA3 Corp., a Delaware corporation ("LGA3" and, together with Libbey Mexico and Libbey Europe, the "PURCHASERS"). Each of the Sellers, Acquired Companies and Purchasers is referred to herein as a "PARTY" and, collectively, as the "PARTIES". Unless otherwise defined herein, all capitalized terms have the meanings set forth in the Purchase Agreement (as defined below).

The circumstances underlying the execution of this Amendment are as follows:

A. The Parties entered into a Purchase Agreement, dated as of April 2, 2006 and first amended on May 31, 2006 (as amended, the "PURCHASE AGREEMENT"), pursuant to which the Sellers agreed to sell, assign, transfer, convey and deliver to Purchasers, and Purchasers agreed to acquire from Sellers, the Interests and certain assets related thereto.

B. Each of the Sellers and the Purchasers desires to amend the Purchase Agreement in accordance with the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the premises set forth herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

1. Limited Waiver. Subject to the terms and conditions set forth herein, the Sellers hereby waive the closing condition set forth in Section 8.01 (j) of the Purchase Agreement solely as it relates to the release of the Vitro Guarantees identified on attached Appendix A.

2. Amendment to Purchase Agreement. The Parties hereby agree that the Purchase Agreement shall be amended to reflect the following:

a. In the definition of "ANCILLARY AGREEMENTS" in Section 1.01, the phrase "and the Contracts delivered pursuant to Section 5.12(b)" shall be deleted and replaced with "the Contracts delivered pursuant to Section 5.12(b); the Stiva Guaranty Agreement, the Stiva/Libbey Guaranty Agreement; the Stiva/Vitro Guaranty Agreement and the Tractebel Guaranty Agreement".

b. Exhibit 1.01-T shall be replaced with Exhibit 1.01-T, attached hereto.

c. In Section 1.01, the following definition shall be added:

"FORM OF IBERDROLA GUARANTY AGREEMENT" means the Guaranty Agreement between Libbey Inc. and Vitro in all material respects in the form of Exhibit 1.01-W, attached hereto.

d. The definition of "PLANT I TITLE EXCEPTIONS" shall be deleted in its entirety.

e. The definition "REFERENCE INTERCOMPANY PAYABLES AMOUNT" in Section 1.01 shall be deleted in its entirety and replaced with the following:

"REFERENCE INTERCOMPANY PAYABLES AMOUNT" means $19,936,606, which amount was determined, for clarification, by subtracting the amount of Forgiven Payables ($400,000) from the amount of Intercompany Payables in existence on December 31, 2005 ($20,336,606).

f. In the definition of "REIMBURSABLE LIABILITIES" in Section 1.01, subclause (u) shall be deleted in its entirety and replaced with "(u) any inaccuracy in any representation and warranty of Sellers contained in the second sentence of Section 3.08(a) or Sections 3.17(e) or (f)(iv), as each pertain to title matters concerning the Plant I Real Property."

g. In Section 1.01, the following definition shall be added:

"STIVA GUARANTY AGREEMENT" means the Guaranty Agreement between Libbey Inc. and Vitro in all material respects in the form of Exhibit 1.01-X, attached hereto.

h. In Section 1.01, the following definition shall be added:

"STIVA/LIBBEY GUARANTY AGREEMENT" means the Guaranty Agreement between Fondo Stiva S.A. de C.V. and Libbey Inc. in all material respects in the form of Exhibit 1.01-Y, attached hereto.

i. In Section 1.01, the following definition shall be added:

"STIVA/VITRO GUARANTY AGREEMENT" means the Guaranty Agreement between Fondo Stiva S.A. de C.V. and Vitro in all material respects in the form of Exhibit 1.01-Z, attached hereto.

j. In Section 1.01, the following definition shall be added:

"TRACTEBEL GUARANTY AGREEMENT" means the Guaranty Agreement between Libbey Inc. and Vitro in all material respects in the form of Exhibit 1.01-AA, attached hereto.

k. Exhibit 2.02(b) shall be replaced with Exhibit 2.02(b), attached hereto.

l. Exhibit 5.07(b) shall be replaced with Exhibit 5.07(b), attached hereto.

m. Section 5.07(e) shall be deleted in its entirety and replaced with the following:

(e) Between the date of this Agreement and the Closing, Sellers shall not, without Purchasers' prior written consent, enter into any Vitro Guarantees, or cause or permit any of the Vitro Entities to enter into any Vitro Guarantees, for the benefit of the Acquired Companies except the Stiva/Vitro Guaranty Agreement. As soon as practicable after Closing, Sellers and Purchasers shall cooperate and use commercially reasonable efforts to (i) terminate, or to cause Purchasers or one of their Affiliates (including Libbey Inc.) to be substituted in all respects for the applicable Vitro Entities in respect of, all obligations of the Vitro Entities under the Vitro Guarantees; (ii) cause the counterparties to the Tractebel and Iberdrola Contracts to agree to amend those Shared Contracts so that, from and after the Closing Date, the liability of the Acquired Companies, on the one hand, and any other Vitro Entities that are parties to such Shared Contracts, on the other hand, is several, and not joint; and (iii) cause the beneficiaries of the Vitro Guarantees with respect to the Tractebel and Iberdrola Contracts to agree to amend such Vitro Guarantees to reduce the amount of those Vitro Guarantees to the extent of the obligations, from and after the Closing Date, of the Acquired Companies under the related Shared Contracts.

n. Section 5.07(h) shall be deleted in its entirety and replaced with "Section 5.07(h). [Intentionally Omitted]".

o. Section 5.07(j) shall be supplemented by adding the following after the first sentence:

In connection with the delivery of the Constructora Resolution Document and the consent from Constructora referred to above, on or before the Closing Date, (i) Sellers shall execute and deliver to Fondo Stiva S.A. de C.V. the Stiva/Vitro Guaranty Agreement; and (ii) Libbey Inc. shall execute and deliver to Fondo Stiva S.A. de C.V. the Stiva/Libbey Guaranty Agreement.

p. In the first sentence of Section 5.07(k), the reference to "Sections 3.17(b)(16)" of the Disclosure Schedule shall be deleted and replaced with "Sections 3.20(c)(ii)(i)".

q. In the first sentence of Section 5.07(l), the phrase "From and after the date hereof" shall be deleted and replaced with "As soon as practicable after Closing".

r. In the first sentence of Section 5.12(c), the number "$2,500,000" shall be deleted and replaced with "$400,000".

s. In the second sentence of Section 5.12(c): (1) the phrase "in Mexican Pesos" shall be inserted between the phrase "an amount" and the phrase "equal to"; (2) the phrase "in Mexican Pesos" shall be inserted between the phrase "(i) the amount" and the phrase "of the Intercompany

Payables"; and (3) the number "$20,336,606" shall be deleted and replaced with "216,267,603 Mexican Pesos".

t. In the third sentence of Section 5.12(c), the phrase "On January 15, 2007" shall be deleted and replaced with "On January 15, 2008".

3. Supplement and Amendment to Disclosure Schedule. The Disclosure Schedule shall be supplemented and amended by the Supplemented and Amended Disclosure Schedule attached hereto as Appendix B.

4. Organization and Authority of Sellers. Each Seller is duly organized, validly existing and in good standing under the Laws of the jurisdiction of its incorporation or formation and has all necessary power and authority to enter into this Amendment, to carry out its obligations hereunder and to consummate the Transactions. Each Seller (other than Vitro) is a direct or indirect wholly-owned subsidiary of Vitro. The execution and delivery of this Amendment by the respective Sellers, the performance by Sellers of their respective obligations hereunder and the consummation by Sellers of the Transactions have been duly authorized by all requisite action on the part of Sellers and their respective equity holders. This Amendment has been duly executed and delivered by the respective Sellers, and (assuming due authorization, execution and delivery by the other Parties) this Amendment constitutes the legal, valid and binding obligations of Sellers, enforceable against Sellers in accordance with the terms hereof.

5. Organization and Authority of Purchasers. Purchasers are duly organized, validly existing and in good standing under the Laws of the jurisdiction of their respective incorporation or formation and have all necessary power and authority to enter into this Amendment, to carry out their respective obligations hereunder and to consummate the Transactions. Purchasers are direct or indirect wholly-owned subsidiaries of Libbey Inc. The execution and delivery of this Amendment by Purchasers, the performance by Purchasers of their respective obligations hereunder and the consummation by Purchasers of the Transactions have been duly authorized by all requisite action on the part of Purchasers and their respective equity holders. This Amendment has been duly executed and delivered by the respective Purchasers, and (assuming due authorization, execution and delivery by the other Parties) this Amendment constitutes the legal, valid and binding obligations of Purchasers, enforceable against Purchasers in accordance with the terms hereof.

6. Effect of Amendment on Other Agreements. Cross references in the Ancillary Agreements (as such term is defined in the Purchase Agreement) or Exhibits to the Purchase Agreement to sections or defined terms in the Purchase Agreement, shall be deemed to be cross references to the Purchase Agreement as amended hereby, and the Ancillary Agreements and Exhibits to the Purchase Agreement are hereby amended to the extent necessary to so provide.

7. Ratification. In connection with and simultaneous to the effectiveness of the amendments set forth herein, each Party hereby ratifies all actions it has taken in connection with the obligations under the Purchase Agreement and, to the extent applicable, the Schedules and Exhibits thereto and the Ancillary Agreements. Except as expressly stated herein, the execution of this Amendment shall not operate as a waiver of any right, power or remedy of any of the Parties under any provision of the Purchase Agreement or any other agreement to which the Parties are party relating to the transactions contemplated by the Purchase Agreement. Except as expressly set forth herein, all terms, conditions, covenants,

representations and warranties contained in the Purchase Agreement and Ancillary Agreements shall remain in full force and effect.

7. Incorporation by Reference. The provisions of Sections 11.04 (Severability), 11.06 (Assignment), 11.07 (Amendment), 11.08 (Waiver), 11.11 (Governing Law; Agent for Service of Process), 11.12 (Waiver of Jury Trial) and 11.15 (Counterparts) of the Purchase Agreement shall be incorporated into this Amendment, mutatis mutandis, as if references to "this Agreement" in the Purchase Agreement were references to "this Amendment" in this Amendment.

[signature pages follow]

IN WITNESS WHEREOF, the Parties have caused this Amendment to be signed by their duly authorized representatives.

SELLERS:	SELLER REPRESENTATIVE:
VITRO, S.A. DE C.V.	VITRO, S.A. DE C.V.
By: ----------------------------------	By: ------------------------------------
Name: --------------------------------	Name: ----------------------------------
Title: -------------------------------	Title: ---------------------------------
By: ----------------------------------	By: ------------------------------------
Name: --------------------------------	Name: ----------------------------------
Title: -------------------------------	Title: ---------------------------------

CRISA CORPORATION

By:
Name:
Title:

By:
Name:
Title:

[Signature Page to Second Amendment to Purchase Agreement]

ACQUIRED COMPANIES:	PURCHASERS:
CRISA LIBBEY S.A. DE C.V.	LIBBEY EUROPE B.V.
By: ----------------------------------	By: -------------------------------------
Name: --------------------------------	Name: ----------------------------------
Title: -------------------------------	Title: ---------------------------------
By: ----------------------------------	
Name: --------------------------------	
Title: -------------------------------	
VITROCRISA HOLDING, S. DE R.L. DE C.V.	LIBBEY MEXICO, S. DE R.L. DE C.V.
By: ----------------------------------	By: -------------------------------------
Name: --------------------------------	Name: ----------------------------------
Title: -------------------------------	Title: ---------------------------------
By: ----------------------------------	
Name: --------------------------------	
Title: -------------------------------	
VITROCRISA S. DE R.L. DE C.V.	LGA3 CORP.
By: ----------------------------------	By: -------------------------------------
Name: --------------------------------	Name: ----------------------------------
Title: -------------------------------	Title: ---------------------------------
By: ----------------------------------	
Name: --------------------------------	
Title: -------------------------------	

[Signature Page to Second Amendment to Purchase Agreement]

VITROCRISA COMERCIAL, S. DE R.L. DE C.V.

By:
Name:
Title:

By:
Name:
Title:

CRISA INDUSTRIAL, L.L.C.

By:
Name:
Title:

By:
Name:
Title:

JOINDER OF LIBBEY INC.

The undersigned, Libbey Inc., the direct or indirect parent company of Purchasers, hereby joins in the execution of this Amendment for the sole purpose of consenting to the terms hereof as guarantor of all the obligations of Purchasers pursuant to this Agreement until the Closing shall have occurred, if ever.

LIBBEY INC.

By:
Name: Susan A. Kovach
Title: Vice President, General
Counsel & Secretary

APPENDIX A

- Pursuant to the Parent Guarantee, dated as of December 15, 1999, made by Vitro in favor of Enron Energia Industrial de Mexico, S. de R.L. de C.V., Vitro is the guarantor of Vitrocrisa, S. de R.L.'s obligations under the Amended and restated Agreement for Provision of Electrical Power Generation Capacity and Associated Electrical Energy, dated as of December 15, 1999, by and between Vitro Corporativo S.A. de C.V and Enron Energia Industrial de Mexico, S. de R.L. de C.V.

- Pursuant to the Bond Agreement (Contrato de Fianza), dated as of March 28, 2003, Vitro, S.A. de C.V. has an obligation to guaranty Vitrocrisa, S. de R.L.'s obligations under the Electrical Power Supply Agreement, dated as of March 28, 2003, by and between Iberdrola Energia Monterrey, S.A. de C.V., Vitrocrisa and Vidriera Monterrey, S.A. de C.V. Vitro, S.A. de C.V. has never provided a Parent Guaranty agreement in favor of or executed any other agreement with Iberdrola Energia Monterrey, S.A. de C.V. evidencing such guaranty obligations.

EXHIBIT 1.01-T (VITRO GUARANTEES)

1. Pursuant to the Parent Guarantee, dated as of December 15, 1999, made by Vitro in favor of Enron Energia Industrial de Mexico, S. de R.L. de C.V., Vitro is the guarantor of Vitrocrisa, S. de R.L.'s obligations under the Amended and restated Agreement for Provision of Electrical Power Generation Capacity and Associated Electrical Energy, dated as of December 15, 1999, by and between Vitro Corporativo S.A. de C.V and Enron Energia Industrial de Mexico, S. de R.L. de C.V.

2. Pursuant to the Bond Agreement (Contrato de Fianza), dated as of March 28, 2003, Vitro, S.A. de C.V. has an obligation to guaranty Vitrocrisa, S. de R.L.'s obligations under the Electrical Power Supply Agreement, dated as of March 28, 2003, by and between Iberdrola Energia Monterrey, S.A. de C.V., Vitrocrisa and Vidriera Monterrey, S.A. de C.V. Vitro, S.A. de C.V. has never provided a Parent Guaranty agreement in favor of or executed any other agreement with Iberdrola Energia Monterrey, S.A. de C.V. evidencing such guaranty obligations.

3. Vidrio Plano de Mexico, S.A. de C.V. ("Vidrio Plano"), as lessor, and Vitro Vidrio y Cristal, S.A. de C.V. ("VVyC"), as lessor's guarantor (obligado solidario), are guarantors (obligados solidarios) of Vitrocrisa Comercial's obligations as a sub-lessee under the Lease Agreement, dated as of March 5, 2002, by and between Vidrio Plano, VVyC and Cabi Tultitlan, S.A. de C.V, as mandated by Article 7.715 of the Civil Code of the State of Mexico and the Nineteenth clause of such agreement.

4. Pursuant to the Vitro Guaranty, dated as of April 2, 2004, Vitro is the guarantor of VC Comercial's and Vitrocrisa's obligations under that certain Credit Agreement, dated as of April 2, 2004 (as amended, supplemented or otherwise modified from time to time, the "Credit Agreement"), among VC Comercial, Vitrocrisa, Bank of Montreal, Banco Nacional de Mexico, S.A., Comerica Bank, HSBC Mexico, S.A., Institucion de Banca Multiple, Grupo Financiero HSBC, The Bank of Nova Scotia, Standard Federal Bank, N.A., Harris Nesbitt, HSBC Bank USA and Citibank N.A., Nassau Bahamas Branch.

5. All right, title and interest in, to, and under all of the following assets of Crisa Texas Limited (d/b/a Crisa Ltd.) (hereinafter "Crisa Texas"), whether now or hereafter existing or acquired, are pledged, hypothecated, charged and mortgaged under the Security Agreement, dated as of April 2, 2004, by and between Crisa Texas Limited (d/b/a Crisa Ltd.) and HSBC Bank USA:

a. all accounts (as defined in the Uniform Commercial Code) of Crisa Texas and all rights to the payment of money for or relating to the sale or lease of goods or services rendered (excluding the that certain profit sharing fee payable to Crisa Texas by Libbey pursuant to the terms of the Amended and Restated Distribution Agreement dated to be effective as of August 29, 1997 entered into by and between Vitro, Crisa Corporation, Vitrocrisa, Libbey Inc. and Libbey Glass Inc., as amended (hereinafter, the "Profit Sharing Fee")), in each case whether or not earned by performance, including all moneys or rights to payment due and to become due to Crisa Texas for goods sold or leased or for services rendered including, without limitation, rights evidenced by an account, note, contract, security agreement or other evidence of indebtedness or security together with (i) all security pledged, assigned, hypothecated or granted to or held by Crisa Texas to secure the foregoing, (ii) all guarantees, endorsements and indemnifications on, or of, any of the foregoing, (iii) all powers of attorney for the execution of any evidence of indebtedness or security or other writing in connection therewith, (iv) all books, records, ledger cards, and invoices relating thereto, (v) all evidence of the filing of financing statements and other statements and the registration of other instruments in connection therewith and amendments thereto, notices to other creditors or secured parties, and certficates from filing or other registration officers, (vi) all credit information, reports and memoranda relating thereto and (vii) all other writings related in any way to the foregoing (collectively for purposes of this Exhibit 1.01-V, "Crisa Texas' Receivables");

b. all instruments, chattel paper or letters of credit (each as defined in the Uniform Commercial Code) and all security agreements, guaranties, leases and other contracts and contract rights arising from the sale of goods or services rendered, of Crisa Texas (but exclding in all cases the Profit Sharing Fee), including, without limitation, all those evidencing, representing, arising from of existing in respect of, securing or otherwise supporting the payment of, or in any way relating to, any of Crisa Texas' Receivables (collectively for purposes of this Exhibit 1.01-V, "Crisa Texas' Related Contracts");

c. all funds or other property received by Crisa Industrial in payment of any amounts owed (including, without limitation, purchase prices, rents, finance charges, interest and all other charges) in respect of Crisa Texas' Receivables, or applied to such amounts owed (collectively for purposes of this Exhibit 1.01-V, "Crisa Texas' Related Collections");

d. all deposit accounts, securities accounts, securities entitlement and all other investment property (each as defined in the Uniform Commercial Code) of Crisa Texas arising from or existing in respect of, securing or otherwise supporting the payment of, or in any way relating to, any of Crisa Texas' Receivables, and all funds and all money, securities entitlements, investments property or other property credited to any such accounts; all certificates and instruments, if any from time to time representing any of the foregoing; all notes, certificates of deposit and other instruments form time to time hereafter delivered to or otherwise possessed by HSBC Bank USA or Crisa Texas in substitution for, or in addition to, any or all of the foregoing; and all interest dividends, moneys, instruments, receivable or otherwise distributed in respect of or on in exchange for any or all of the foregoing (collectively for purposes of this Exhibit 1.01-P2, "Crisa Texas' Related Accounts");

e. all proceeds (as such term is defined in the Uniform Commercial Code as in effect in any relevant jurisdiction the laws of which govern the perfection of security interests hereunder or under other relevant law) and to the extent not included in the foregoing, all products, offspring, rents, issues, profits, returns, income and proceeds of and from any and all of the foregoing (including, without limitation, proceeds which constitute property of the types described above and proceeds deposited from time to time in any of Crisa Texas' Related Account or any lock box of Crisa Texas), and, to the extent not otherwise included, all payments under insurance (whether or not HSBC Bank USA is the loss payee thereof) and all condemnation awards, or any indemnity, warranty or guaranty, payable by reason of loss or damage to or otherwise with respect to any of the foregoing (together with all rights to recover and proceed with respect to eh same), and all accessories to, substitutions for and replacements of all or any part of the foregoing.

6. Pursuant to the US Affiliate Limited Recourse Guaranty, dated as of April 2, 2004, Crisa Texas is the guarantor of VC Comercial's and Vitrocrisa's obligations under the Credit Agreement.

EXHIBIT 2.02(B)

ALLOCATION OF THE PURCHASE PRICE

Purchase Agreement Purchase Price Allocation June 2006

Acquiring Company	Company Acquired	Shares Acquired	Purchase Price Allocation
LGA3 Corp.	Crisa Libbey SA de CV	25,500 Series A fixed capital stock	1
LGA 4 Corp.	Crisa Libbey SA de CV	1 Series A fixed capital stock	1
LGA3 Corp.	Crisa Industrial LLC	Remaining 51% of partnership	1,900,000
Libbey Europe BV	Vitrocrisa SRL	Class II Series "A" Variable Capital Value of 510 MXP	1
Libbey Europe BV	Vitrocrisa Comercial SRL	Class II Series "A" Variable Capital Value of 510 MXP	1
Libbey Mexico SRL	Vitrocrisa Holding SRL	Class I Series "A" Fixed Capital Value of 510,000 MXP	2,900,000
Libbey Mexico SRL	Vitrocrisa Holding SRL	Class II Series "A" Variable Capital Value of 13,273,077 MXP	73,199,996
Libbey Mexico SRL	Vitrocrisa Holding SRL	Non-compete included in Vitrocrisa Holding	2,000,000
		Total Purchase Agreement Purchase Price	80,000,000

EXHIBIT 5.07(B)

SUPPLEMENTAL ASSETS AND LIABILITIES

1. The Racks and Conveyors used in the Business are owned by Fabricacion de Cubiertos, S.A. de C.V.

2. Water Use Concession titles number 2NVL100180/24FMGE94, 2NVL100181/24FMGE94 and 2NVL100182/24FMGE94 over three water wells located at Plant I are held by Aceros Porcelanizados S.A. and currently being transferred to Fabricacion de Cubiertos, S.A. de C.V. (FACUSA). These titles will be transferred to the Acquired Companies subject to the consent from the corresponding authorities.

3. SAP Business One Software Sublicence Agreement dated as of February 22, 2005, by and between Vitro Corporativo, S.A. de C.V. and Xamai, S.A. de C.V.

4. Master Equipment Lease Agreement, dated as of February 14, 2003 by and between Vitro Plan, S.A. de C.V. and CSI Leasing Mexico, S. de R.L. de C.V. in connection with three labelers used by the Acquired Companies and sublet from Vitro Plan, S.A. de C.V. These labelers will be transferred to the Acquired Companies subject to the consent of C.S.I. Leasing Mexico, S. de R.L. de C.V.

5. Supply Agreement dated as of March 26, 2001 between Vitro Corporativo and Grupo Mexicano Imperial, S.A. de C.V.

6. The following Assets are owned by Vitro, S.A. de C.V.: Plant I Real Property, Plant I Building Lease, Plant I Improvements, Plant I Surface Use Right.

7. Exhibit 8 to Disclosure Schedule 3.08 is hereby incorporated by this reference. Such exhibits include a list of trademarks registered by Crisa Corporation that will be assigned to the Acquired Companies.

8. Domain names owned by Vitro Corporativo, S.A. de C.V. for (a) "boroclass.com"; and (b) "boroclass.com.mx".

Exhibit 10.2

CORPORATE GUARANTY

This guaranty (hereinafter the "Guaranty") is granted by LIBBEY INC. (hereinafter "LIBBEY") pursuant to the lease agreement dated February 17, 2004, as amended, (hereinafter referred as the "Lease Agreement") entered into by and between Constructora de Naves Industriales, S.A. de C.V. (the "Original Lessor") and Fomento Inmobiliario de la Construccion, S.A. de C.V. (the "Original Lessee"), regarding the real estate located at Avenida San Nicolas, number 2121, in Monterrey, N.L. (the "Real Estate") (simple copy of the Lease Agreement and of its amendments are herein attached as Exhibits 1,2,3,4 and 5 respectively). Per the request of the Original Lessee, the construction was built by the Original Lessor on the property encompassed by the portions of the real estate property of the Original Lessee as referred to in section 1.02 of the Lease Agreement (the "Property"), in which the Original Lessee formalized through separate document and for the benefit of the Original Lessor a "derecho real de superficie" (1)("Surface Right") and a Mortgage (2) ("Mortgage").

Additionally, the Original Lessee is obliged to formalize for the benefit of the Original Lessor an additional Surface Right ("Additional Surface Right") and an additional Mortgage ("Additional Mortgage") over portions of the real estate which the Original Lessee has physical and legal possession pursuant to the terms of section 1.02.1 of the Lease Agreement; for this purpose on June 9th, 2006, VITRO S.A. de C.V. ("VITRO") as successor of the Original Lessee formalized for the benefit of FONDO STIVA S.A. DE C.V. the Additional Surface Right and Additional Mortgage as stated on Public Deed No. 7,109 and 7,110, ratified by Licenciado Gustavo Escamilla Flores Public Notary 26 in the city of Monterrey N.L., currently in process of being filed before State's "cadastre" "Catastro del Estado" and the public registry of property ("Registro Publico de la Propiedad") corresponding to the Additional Surface Right ("Derecho Real de Superficie Adicional") and in the public registry of property (Registro Publico de la Propiedad) for purposes of the Additional Mortgage.

The parties declare that according to the penultimate paragraph of this guaranty, on May 31st, 2006, the Lease Agreement entered into by and between the Original Lessor and the Original Lessee, valid and effective for its successors, was assigned with the previous consent of FONDO STIVA, S.A. DE C.V. as successor to the Original Lessor, (hereinafter referred as the "Assignment") consequently Vitrocrisa Comercial, S. de R.L. de C.V. is the lessee of the Real Estate (simple copy of the authorization issued by FONDO

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(1) PUBLIC DEED NO. 308 DATED FEBRUARY 17, 2004, GRANTED BEFORE LIC. JORGE MALDONADO NOTARY PUBLIC NO. 55 IN THE FIRST DISTRICT OF THE STATE OF NUEVO LEON, WHICH TESTIMONY WAS REGISTERED UNDER THE DOCKET 1024, VOLUME 164, BOOK 21, LIENS SECTION II IN THE PUBLIC REGISTRY OF COMMERCE AND PROPERTY FOR THE FIRST DISTRICT OF THE STATE OF NUEVO LEON, IN MONTERREY, DATED MARCH 12TH 2004

(2) PUBLIC DEED NO. 309 DATED FEBRUARY 17, 2004, GRANTED BEFORE LIC. JORGE MALDONADO NOTARY PUBLIC NO. 55 IN THE FIRST DISTRICT OF THE STATE OF NUEVO LEON, WHICH TESTIMONY WAS REGISTERED UNDER THE DOCKET 967, VOLUME 164, BOOK 20, LIENS SECTION II IN THE PUBLIC REGISTRY OF COMMERCE AND PROPERTY FOR THE FIRST DISTRICT OF THE STATE OF NUEVO LEON, IN MONTERREY, DATED MARCH 8TH 2004

STIVA, S.A. DE C.V. and a simple copy of the Assignment are attached herein as Exhibits 6 and 7 respectively).

LIBBEY declares that it is aware that VITRO and VITROCRISA, S. DE R.L. DE C.V. (or the name hereinafter adopted by the latter) ("CRISA") will execute an Exchange in Kind Agreement ("Permuta") regarding the Property, through which CRISA shall own the Surface Right and guaranty the Mortgage. Likewise, it has knowledge that such exchange in kind agreement will establish:

(i) A valid and effective stipulation or obligation by CRISA for the benefit of FONDO STIVA, S.A. DE C.V. (as "Superficiario" or "LESSOR") through which CRISA assumes the rights and obligations as Owner according to the Surface Right without any limitation.

(ii) The reference to the rights and obligations derived from the Surface Right and to the acknowledgement from CRISA that the rights and limitations through which the Bartering is formalized.

(iii) The acknowledgement from CRISA of the express agreement that the Mortgage shall be in effect as long as any of the guaranteed obligations by the Mortgage has not been paid in its entirety, pursuant to the terms of article 2803 of the Civil Code for the State Nuevo Leon and its correlative article 2911 of the Civil Federal Code.

LIBBEY represents that it desires to grant a guaranty according to the terms and conditions set forth herein.

LIBBEY in this act, jointly, severally, unconditionally and irrevocably guarantees to LESSOR, the payment and the timely fulfillment of all the conditions, agreements, obligations, responsibilities and duties imposed to Vitrocrisa Comercial, S. de R.L. de C.V. (hereinafter referred as the "LESSEE") pursuant to the Lease Agreement and the Assignment and CRISA regarding to the Surface Right and the Mortgage, including the Additional Surface Right and the Additional Mortgage.

In the event that LIBBEY makes a payment of any amount to the LESSOR as a consequence of this Guaranty, LIBBEY will subrogate in the recovery rights against the LESSEE, pursuant the applicable legal terms.

This guaranty shall remain in effect during all the time which the Lease Agreement, and/or its possible renewals, remains in full force and effect, pursuant to the terms and conditions set forth in the Lease Agreement; in the understanding that any breach of the obligations of the LESSEE, as set forth in such Agreement, shall entitle the LESSOR to execute the Guaranty set forth herein. Notwithstanding the foregoing, the parties agree that this guaranty shall remain in full force and effect until all the obligations of the LESSEE set forth in the Lease Agreement are fulfilled, including the obligation of payment of the Monthly Rent during the obligatory term set forth in Clause 18.01 of the Lease Agreement, to the Surface Right, the Mortgage and the Additional Surface Right and the Additional Mortgage.

In the event that LIBBEY fails to fulfill the terms and conditions of this Guaranty, and therefore LESSOR is forced to require, either judicially or extra judicially the fulfillment of the Guaranty; LIBBEY shall pay the reasonable expenses ("gastos y costas") related to attorney's fees or any other fee related to such failure until the execution of this Guaranty set forth herein is issued by a competent authority.

LIBBEY and its representatives represent that it and they have all the necessary and sufficient legal capacity and power of attorney required to execute this Guaranty, powers that have not been either limited or revoked; in order to guarantee the payments and fulfillment of all LESSEE's conditions, obligations and duties set forth in the Lease Agreement (a simple copy of the proxies are attached herein as Exhibit 8) and the Additional Surface Right, to the Mortgage, and to the Additional Mortgage.

This Agreement and the Exhibits hereto, contain the final, complete and exclusive statement of the guaranty; therefore, LIBBEY represents there are no prior verbal agreements or agreements in writing, nor any understanding that may affect the conditions set forth herein.

LIBBEY hereby resigns to the benefits of "orden, excusion y division" established by the articles 2706, 2707, and 2731 of the Civil Code of Nuevo Leon, and to any other legal remedy opposite to the subject matter hereof, including but not limited articles 2736, 2738, 2740 and 2741 of the Civil Code of Nuevo Leon.

For all the effects of this Agreement, the parties designate the following addressees:

LIBBEY
300 Madison Avenue
Toledo, Ohio 43604
Attn: General Counsel

FONDO STIVA, S.A. de C.V.
Av. Ricardo Margain Zozaya # 333
Col. Santa Engracia
San Pedro Garza Garcia
Nuevo Leon,
Mexico 66265

It is understood that the guaranty hereof shall not be in full force and effect until VITRO notifies FONDO STIVA the Assignment is in effect.

IN WITNESS WHEREOF, this Guaranty is duly executed in Monterrey Nuevo, Leon as of the day of ____ of June, 2006 and all the rights and obligations shall be interpreted and executed pursuant the applicable law of the State of Nuevo Leon.

LIBBEY INC.	Fondo Stiva, S.A. de C.V.
-------------------------------------	---------------------------------------
By:	By: C.P. Pedro Elizondo Montemayor

LIST OF EXHIBITS

Exhibit 1	Simple Copy of Lease Agreement
Exhibit 2	Simple Copy of First Amendment (February 17th, 2004)
Exhibit 3	Simple Copy of Second Amendment (March 9th, 2004)
Exhibit 4	Simple Copy of Third Amendment (July 23, 2004)
Exhibit 5	Simple Copy of Fourth Amendment (September 29th 2004)
Exhibit 6	Simple Copy of Authorization issued by Fondo Stiva, S.A. de C.V. of the Assignment
Exhibit 7	Simple Copy of the Assignment of the Lease Agreement.
Exhibit 8	Simple Copy of the certificate that shows the authority of the person that signs this guarantee.

Exhibit 10.3

EXECUTION COPY

GUARANTY AGREEMENT

GUARANTY AGREEMENT (this "Agreement") between LIBBEY INC. ("Guarantor"), a Delaware corporation, and VITRO, S.A. DE C.V., a Mexican corporation (referred to herein as "Vitro" or "Guaranteed Party"), effective as of June 16, 2006 (the "Effective Date").

PRELIMINARY STATEMENTS

As of April 2, 2006, certain affiliates of Guarantor and Vitro have entered into the Purchase Agreement, as amended on or prior to the date hereof (the "Purchase Agreement") among Vitro, Crisa Corporation, Crisa Libbey S.A. de C.V., Vitrocrisa Holding, S. de R.L. de C.V., Vitrocrisa S. de R.L. de C.V., Vitrocrisa Comercial, S. de R.L. de C.V., Crisa Industrial, L.L.C., Libbey Mexico, S. de R.L. de C.V., Libbey Europe B.V., and LGA3 Corp..

In connection with the consummation of the transactions contemplated by the Purchase Agreement, as of the date hereof Vitro has executed and delivered that certain Corporate Guaranty in favor of Fondo Stiva, S.A. de C.V. ("Stiva"), a copy of which is attached hereto as Exhibit A (the "Vitro/Stiva Guaranty"), pursuant to which it has guaranteed certain obligations of Vitrocrisa, S. de R.L. de C.V., and any subsidiary or affiliate hereof (and the successors and assigns of the foregoing) (collectively, "Vitrocrisa") as specified therein.

As a material inducement to Vitro to consummate the transactions contemplated by the Purchase Agreement and to deliver the Vitro/Stiva Guaranty, Guarantor has agreed to enter into this Agreement.

NOW, THEREFORE, in consideration of the foregoing premises, Guarantor hereby agrees as follows:

1. Guaranty. (a) Subject to the provisions of Section 1(b) and (c), Guarantor hereby irrevocably guarantees to Vitro the due and punctual performance, including payment, by Vitrocrisa, of all of the obligations and covenants guaranteed by Vitro pursuant to the terms of the Vitro/Stiva Guaranty (collectively such obligations and covenants, as may from time to time be amended, altered or modified, are hereinafter referred to as the "Performance Obligations", and such guarantee to Vitro of the Performance Obligations is hereinafter referred to as the "Guaranty"). The Guaranty may be satisfied by Guarantor performing, or by Guarantor causing the Performance Obligations to be performed. Guarantor shall forthwith, upon the request of the Guaranteed Party, pay such additional amounts as may be necessary to reimburse the Guaranteed Party for all reasonable costs and expenses (including, without limitation, reasonable legal fees) incurred to enforce this Agreement as a result of any failure or

inability of Guarantor to duly and punctually perform its obligations under this Agreement.

(b) Notwithstanding any provision to the contrary contained in this Agreement, (i) Guarantor shall not be obligated to perform the Guaranty until 10
(ten) Business Days after the date Guarantor has received written notice from the Guaranteed Party of a failure by Vitrocrisa to perform any of its Performance Obligations; and (ii) except for defenses arising from the proceedings described in Section 2(vi), Guarantor shall have the right to assert any setoff, claim, counterclaim or other defense otherwise available to Vitrocrisa with respect to the Performance Obligations, provided that Guarantor must immediately pay all amounts and obligations that are not subject to a setoff, claim, counterclaim or other defense.

(c) The foregoing limitations shall not imply any specification of which Performance Obligations are guaranteed, and the Guaranteed Party may request from the Guarantor the payment or performance of any Performance Obligations. The Guaranteed Party may apply all payments received for application to the Performance Obligations in the order determined by the Guaranteed Party.

2. Guaranty Absolute. Except as provided in Section 1(b) and (c), the obligations of Guarantor under the Guaranty (a) shall not be subject to any reduction, limitation, impairment or termination for any reason other than by reason and only to the extent of the payment or performance of the Performance Obligations (including any waiver, release, surrender, alteration or compromise); (b) shall not be subject to recoupment or termination; and (c) shall be absolute and unconditional irrespective of:

(i) any waiver, modification, extension or renewal or assignment of all or any of the Vitro/Stiva Guaranty and the Performance Obligations (except in the circumstances and to the extent described in Section 7);

(ii) the failure of the Guaranteed Party or of Vitrocrisa or of any other person to assert any claim or demand or to enforce any right or remedy or to mitigate damages;

(iii) the furnishing or acceptance of any collateral or credit support or the release of any collateral or credit support held by the Guaranteed Party or any other person for all or any of the Performance Obligations;

(iv) any default, failure or delay, willful or otherwise, in the performance of the Performance Obligations by Vitrocrisa;

(v) any sale, transfer or other disposition, directly or indirectly, by Guarantor of any interest in Vitrocrisa;

(vi) any insolvency, bankruptcy, reorganization, arrangement, composition, liquidation, dissolution or similar proceeding with respect to Vitrocrisa (and therefore the Performance Obligations shall include post petition interest and other obligations with respect to the Performance Obligations that would accrue but for such proceedings); or

(vii) any other circumstance that might otherwise constitute a defense available to, or a discharge of, Guarantor in respect of the Guaranty as a matter of law or equity in each case, other than the payment or performance of the Performance Obligations.

3. Guarantor's Waiver, Remedies; Subrogation. Except as provided in
Section 1(b), Guarantor hereby waives (i) notice of acceptance of this Agreement; (ii) promptness, diligence, presentment and demand for performance;
(iii) protest and notice of dishonor or of default; (iv) any right, defense or other benefit it may have with respect to this Agreement (including, without limitation, any right to terminate, or to assert any defense to its performance of its obligations under this Agreement) arising under any bankruptcy code; and
(v) any other circumstance which might otherwise constitute a defense available to it (other than a defense of performance) or a discharge of it other than as set forth in Section 2(c)(vi) above. No failure on the part of the Guaranteed Party to exercise, and no delay in exercising, any rights hereunder shall operate as a waiver thereof, nor shall any such delay or any single or partial exercise of any other right. The remedies herein provided are cumulative and not exclusive of any remedies provided by law. The Guaranteed Party may assert a claim against or seek reimbursement for payments it makes with respect to its obligations under the Vitro/Stiva Agreement either from Vitrocrisa as provided by the Vitro/Stiva Agreement or the Guarantor as provided by this Agreement, but in no event shall the Guaranteed Party be entitled to reimbursement in excess of
(a) payments made by it to Stiva in satisfaction of its obligations under the Vitro/Stiva Agreement, plus (b) such additional amounts as may be necessary to reimburse the Guaranteed Party for all reasonable costs and expenses (including, without limitation, reasonable legal fees) incurred to enforce this Agreement as a result of any failure or inability of Guarantor to duly and punctually perform its obligations under this Agreement.

If Guarantor makes a payment of any amount to Stiva as a consequence of this Agreement, Guarantor will subrogate to Guaranteed Party in the recovery rights against Vitrocrisa, pursuant to applicable legal terms. Guarantor shall enforce or be entitled to enforce any reimbursement from Vitrocrisa in respect of payments made by Guarantor hereunder. Nothing in this paragraph shall restrict the right of Guarantor to ask for and receive from Vitrocrisa distributions or other voluntary payments from Vitrocrisa.

4. Continuing Guaranty. The Guaranty is a present and continuing guarantee of payment and performance and not of collection and, subject to the terms and conditions set forth herein, is not conditional or contingent upon any attempt to collect or obtain performance form Vitrocrisa. Guarantor waives any right, as a condition to the enforcement of the Guaranty or the reimbursement and indemnity obligations set forth herein, that any action or other proceeding be brought against Vitrocrisa or any other

person, that resort be made to any collateral or credit support held for performance of the Performance Obligations or that any other remedy be exercised against Vitrocrisa or any other person.

5. Representations and Warranties. Guarantor represents and warrants to the Guaranteed Party that as of the Effective Date:

(a) Guarantor is a corporation validly existing and in good standing under the laws of the State of Delaware. Guarantor has the corporate power and authority to own its property and assets, carry on its business as it is now conducted and to enter into and perform its obligations under this Agreement.

(b) This Agreement has been duly authorized by all necessary corporate action on the part of Guarantor and has been duly executed and delivered by Guarantor, and the execution delivery and performance of this Agreement by Guarantor do not and will not (i) require any approval of the stockholders of Guarantor or any approval or consent of any trustee or holder of any indebtedness or obligation of Guarantor, (ii) contravene any applicable law, regulation, judgment, or order applicable to or binding on Guarantor or any of its properties or assets, (iii) contravene Guarantor's charter or bylaws or (iv) conflict with or, with or without notice or lapse of time of both, cause a material breach or default under any indenture, mortgage, loan agreement, lease or other agreement or instrument to which Guarantor is a party or by which Guarantor or any of its properties or assets is bound.

(c) This Agreement constitutes a legal, valid and binding obligation of Guarantor, enforceable against Guarantor in accordance with the terms hereof, except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting the enforcement of creditor's rights generally and by general principles of equity.

(d) There is no action, suit or proceeding pending or, to the knowledge of Guarantor, threatened against Guarantor before or by any Federal, state, municipal, foreign or other governmental authority, agency, instrumentality, arbitrator or court that, if determined adversely to Guarantor, would materially adversely affect the ability of Guarantor to perform its obligations under this Agreement.

6. Rights and Powers. The Guaranteed Party may proceed, either in its own name or otherwise, to protect and enforce any or all of its respective rights under this Agreement in equity, at law or by other appropriate proceedings, including for the specific performance of any covenants or agreements contained in this Agreement, and shall be entitled to require and enforce the performance of all acts and obligations required to be performed hereunder by Guarantor.

7. Successors and Assigns. This Agreement shall be binding upon the successors and assigns of Guarantor and shall inure to the benefit of the successors and assigns of the Guaranteed Party.

8. Term. Subject to Section 9 hereof, Guarantor's obligations under this Agreement shall continue in full force and effect until the earlier of the date on which (i) all of the Performance Obligations have been performed in full or (ii) Vitro's obligations with respect to Vitrocrisa, under the Vitro/Stiva Guaranty, are fully and unconditionally released; provided that such termination shall not release Guarantor from the obligation to pay to the Guaranteed Party any amounts which relate to (i) the Performance Obligations that have accrued with respect to the period up to and including the date of termination of this Agreement and (ii) claims pending as of the date of termination of this Agreement that were previously asserted in accordance with Section 1.

9. Reinstatement. Guarantor agrees that this Agreement shall continue to be effective or be reinstated, as the case may be, if at any time payment, or any part thereof, of any Performance Obligation is rescinded or must otherwise be restored by the Guaranteed Party or any other person upon the insolvency, bankruptcy, dissolution, liquidation or reorganization of Vitrocrisa or otherwise. Guarantor shall not commence, or join in the commencement of, any case under the Bankruptcy Code against Vitrocrisa.

10. Notices. All notices, requests, claims, demands and other communications hereunder shall be in writing and shall be given or made (and shall be deemed to have been duly given or made upon receipt) by delivery in person, by an internationally recognized overnight courier service, by facsimile or registered or certified mail (postage prepaid, return receipt requested) to the respective party at the following addresses (or at such other address for a party as shall be specified in a notice given in accordance with this Section 10):

(a) If to Vitro:

Av. Ricardo Margain Zozaya #440 Col. Valle del Campestre
San Pedro Garza Garcia, Nuevo Leon, 66265 Mexico
Attn: Director Juridico
Telephone No.: (5281) 8863-1200 Facsimile No.: (5281) 8863-1372

(b) If to Guarantor:

Libbey Inc.
300 Madison Avenue
Toledo, Ohio 43604
Attn: Richard I. Reynolds
Telephone No.: (419) 325-2100
Facsimile No.: (419) 325-2585

SECTION 11. Severability. If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any law or public policy, all other terms and provisions of this Agreement shall nevertheless remain in full force and effect. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in an acceptable manner.

SECTION 12. Assignment. This Agreement may not be assigned by operation of law or otherwise without the express written consent of Vitro and Guarantor (which consent may not be unreasonably withheld), as the case may be.

SECTION 13. Amendments. This Agreement may not be amended or modified except (a) by an instrument in writing signed by, or on behalf of, Vitro and Guarantor or (b) by a waiver in accordance with Section 14.

SECTION 14. Waiver. Either Vitro or Guarantor may (a) extend the time for the performance of any of the obligations or other acts of the other party,
(b) waive any inaccuracies in the representations and warranties of the other party contained herein or in any document delivered by the other party pursuant hereto or (c) waive compliance with any of the agreements of the other party or conditions to such party's obligations contained herein. Any such extension or waiver shall be valid only if set forth in an instrument in writing signed by the party to be bound thereby. Any waiver of any term or condition shall not be construed as a waiver of any subsequent breach or a subsequent waiver of the same term or condition, or a waiver of any other term or condition of this Agreement. The failure of either Vitro or Guarantor to assert any of their rights hereunder shall not constitute a waiver of any of such rights.

SECTION 15. Governing Law. This Agreement, and any disputes arising hereunder, shall be governed by, and construed in accordance with, the applicable laws in the State of New York. All actions arising out of or relating to this Agreement shall be heard and determined exclusively in any state or federal court located in the city of New York, New York. Consistent with the preceding sentence, the parties hereby (a) submit to the exclusive jurisdiction of any federal or state court sitting in the city of New York, New York for the purpose of any action arising out of or relating to this Agreement brought by any party and (b) irrevocably waive, and agree not to assert by way of motion, defense, or otherwise, in any such action, any claim that it is not subject personally to the jurisdiction of the above-named courts, that its property is exempt or immune from attachment or execution, that the action is brought in an inconvenient forum, that the venue of the action is improper, that any other forum would be more convenient or less burdensome, or that this Agreement or the transactions contemplated herein may not be enforced in or by any of the above-named courts.

SECTION 16. Counterparts. This Agreement may be executed and delivered (including by facsimile transmission) in one or more counterparts, and by the different parties in separate counterparts, each of which when executed shall be deemed to be an original, but all of which taken together shall constitute one and the same agreement.

SECTION 17. Entire Agreement. This Agreement and the Purchase Agreement contain the final, complete and exclusive statement of the agreement between the parties with respect to the subject matter hereof and all prior or contemporaneous agreements with respect to the subject matter hereof are superseded hereby.

(Signature page follows)

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of the date first written above.

LIBBEY INC.

By

Name:
Title:

VITRO, S.A. DE C.V.

By

Name:
Title:

[Signature page to Stiva Guaranty Agreement]

EXHIBIT 31.1

Certification of Chief Executive Officer

Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, John F. Meier, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Libbey Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonable likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2006

By /s/ John F. Meier
John F. Meier,
Chief Executive Officer

EXHIBIT 31.2

Certification of Chief Financial Officer

Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Scott M. Sellick, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Libbey Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonable likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2006

By /s/ Scott M. Sellick

Scott M. Sellick,

Chief Financial Officer

EXHIBIT 32.1

Certification of Chief Executive Officer

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Libbey Inc. (the "Company") hereby certifies, to such officer's knowledge, that:

(i) the accompanying Quarterly Report on Form 10-Q of the Company for the quarterly period ended June 30, 2006 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 9, 2006

/s/ John F. Meier
John F. Meier
Chief Executive Officer

EXHIBIT 32.2

Certification of Chief Financial Officer

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Libbey Inc. (the "Company") hereby certifies, to such officer's knowledge, that:

(i) the accompanying Quarterly Report on Form 10-Q of the Company for the quarterly period ended June 30, 2006 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 9, 2006

/s/ Scott M. Sellick
Scott M. Sellick
Chief Financial Officer