

# LIBBEY INC

## FORM 10-Q (Quarterly Report)

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Address	300 MADISON AVE PO BOX 10060 TOLEDO, Ohio 43604
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CIK	0000902274
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 March 31, 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

(State or other  
jurisdiction of  
incorporation or  
organization)

34-1559357

(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 (as defined in Rule 12b-2 of the Exchange Act).

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 — 14,084,826 shares at April 28, 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 (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 period ended March 31, 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 March 31,	
	2006	2005
Revenues:		
Net sales	\$134,866	\$129,784
Freight billed to customers	457	497
Total revenues	135,323	130,281
Cost of sales	113,177	109,242
Gross profit	22,146	21,039
Selling, general and administrative expenses	19,086	17,954
Special charges <sup>(1)</sup>	—	2,997
Income from operations	3,060	88
Equity earnings — pretax	1,065	554
Other income	396	301
Earnings before interest and income taxes and minority interest	4,521	943
Interest expense	3,609	3,378
Income (loss) before income taxes and minority interest	912	(2,435)
Provision (credit) for income taxes	301	(803)
Income (loss) before minority interest	611	(1,632)
Minority interest <sup>(2)</sup>	(96)	(15)
Net income (loss)	<u>\$ 515</u>	<u>\$ (1,647)</u>
Net income (loss) per share:		
Basic	<u>\$ .04</u>	<u>\$ (.12)</u>
Diluted	<u>\$ .04</u>	<u>\$ (.12)</u>
Dividends per share	<u>\$ .025</u>	<u>\$ 0.10</u>

See accompanying notes

(1) Refer to Note 6 of the Notes to Condensed Consolidated Financial Statements

(2) Refer to Note 2 of the Notes to Condensed Consolidated Financial Statements

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

	March 31, 2006 (unaudited)	December 31, 2005
<b>ASSETS</b>		
Current assets:		
Cash	\$ 6,502	\$ 3,242
Accounts receivable — net	72,244	79,042
Inventories — net	121,388	122,572
Deferred taxes	8,744	8,270
Prepaid and other current assets	5,494	10,787
Total current assets	214,372	223,913
Other assets:		
Repair parts inventories	8,457	6,322
Intangible pension asset	17,251	17,251
Software — net	4,536	4,561
Deferred taxes	—	952
Other assets	5,483	4,397
Investments	77,489	76,657
Purchased intangible assets — net	10,440	10,778
Goodwill — net	51,068	50,825
Total other assets	174,724	171,743
Property, plant and equipment — net	215,118	200,128
Total assets	<u>\$ 604,214</u>	<u>\$ 595,784</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Notes payable	\$ 11,167	\$ 11,475
Accounts payable	40,070	47,020
Salaries and wages	14,344	16,043
Accrued liabilities	40,746	36,968
Special charges reserve	1,138	2,002
Accrued Income taxes	—	7,131
Long-term debt due within one year	825	825
Total current liabilities	108,290	121,464
Long-term debt	272,343	249,379
Pension liability	56,097	54,760
Nonpension postretirement benefits	45,330	45,081
Other long-term liabilities	5,204	5,461
Total liabilities	487,264	476,145
Minority interest	130	34
Total liabilities including minority interest	487,394	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	301,165	301,025
Treasury stock, at cost, 4,624,497 shares (4,681,721 shares issued in 2005)	(131,960)	(132,520)
Retained deficit	(17,805)	(17,966)
Accumulated other comprehensive loss	(34,767)	(31,121)
Total shareholders' equity	116,820	119,605
Total liabilities and shareholders' equity	<u>\$ 604,214</u>	<u>\$ 595,784</u>

See accompanying notes





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

	Three months ended March 31,	
	2006	2005
<b>Operating activities:</b>		
Net income (loss)	\$ 515	\$ (1,647)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	8,335	8,385
Equity earnings — net of tax	(832)	(415)
Minority interest	96	15
Change in accounts receivable	7,238	(1,894)
Change in inventories	1,788	(3,720)
Change in accounts payable	(7,335)	(11,634)
Special charges	(864)	1,256
Pension & nonpension postretirement	1,639	1,587
Income taxes	(8,046)	(5,106)
Other operating activities	2,264	2,022
Net cash provided by (used in) operating activities	4,798	(11,151)
<b>Investing activities:</b>		
Additions to property, plant and equipment	(21,439)	(10,405)
Crisal acquisition and related costs	—	(28,948)
Net cash used in investing activities	(21,439)	(39,353)
<b>Financing activities:</b>		
Net bank credit facility activity	13,363	41,636
Other net borrowings	6,889	6,142
Stock options exercised	—	99
Dividends	(351)	(1,382)
Other	—	(40)
Net cash provided by financing activities	19,901	46,455
Increase (decrease) in cash	3,260	(4,049)
Cash at beginning of period	3,242	6,244
Cash at end of period	<u>\$ 6,502</u>	<u>\$ 2,195</u>
<b>Supplemental disclosure of cash flows information:</b>		
Cash paid during the quarter for interest	\$ 1,981	\$ 1,817
Cash paid (net of refunds received) during the quarter for income taxes	\$ 6,269	\$ 5,106

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 U.S. and Canada, in addition to supplying to other key export markets. 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, holloware and serveware, and plastic items to a broad group of customers in the foodservice, retail and industrial markets. We also import and distribute various products and have a 49% interest in Vitrocrista Holding, S. de R.L. de C.V. and related companies (Crisa), one of the largest glass tableware manufacturers in Latin America, based in Monterrey, Mexico.

We own and operate two glass tableware manufacturing plants in the United States; glass tableware manufacturing plants in the Netherlands and in Portugal; and during the third quarter of 2005, we began construction of our new green-meadow production facility in China that is expected to begin production in 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, and our investment in Crisa 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](http://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 (Libbey or the Company). Our fiscal year end is December 31<sup>st</sup>. We record our 49% interest in Crisa using the equity method. We own 95% of Crisal-Cristalaria Automatica S.A. (Crisal). Our 95% controlling interest requires that Crisal's operations be included in the Condensed Consolidated Financial Statements. The 5% equity interest of Crisal that is not owned by us 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 has 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.

**New Accounting Standards**

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment" (SFAS No. 123-R). This is an amendment to SFAS No. 123, "Accounting for Stock-Based Compensation." This new standard replaces SFAS No. 123, "Accounting for Stock-Based Compensation" (SFAS No. 123) and 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, Libbey adopted Financial Accounting Standards Board (FASB) 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 Libbey's 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 impact of applying the provisions of SFAS No. 123-R is an after-tax charge of \$0.4 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.

**3. Balance Sheet Details**

The following table provides detail of selected balance sheet items:

	March 31, 2006	December 31, 2005
<b>Accounts receivable:</b>		
Trade receivables	\$ 67,603	\$ 75,470
Other receivables	4,641	3,572
<b>Total accounts receivable, less allowances of \$9,049 and \$8,342</b>	<b>\$ 72,244</b>	<b>\$ 79,042</b>
<b>Inventories:</b>		
Finished goods	\$112,261	\$112,058
Work in process	4,434	4,456
Raw materials	3,893	5,442
Operating supplies	800	616
<b>Total inventories</b>	<b>\$121,388</b>	<b>\$122,572</b>
<b>Prepaid and other current assets:</b>		
Prepaid expenses	\$ 3,927	\$ 3,142
Derivative assets	1,567	7,645
<b>Total prepaid and other current assets</b>	<b>\$ 5,494</b>	<b>\$ 10,787</b>
<b>Other assets:</b>		
Deposits	\$ 1,314	\$ 1,386
Finance fees — net of amortization	1,973	2,003
Other	2,196	1,008
<b>Total other assets</b>	<b>\$ 5,483</b>	<b>\$ 4,397</b>
<b>Accrued liabilities:</b>		
Accrued incentives	\$ 16,006	\$ 14,306
Derivative liabilities	67	67
Workers compensation	9,297	9,134
Medical liabilities	2,811	3,019
Interest	2,713	1,843
Commissions payable	640	858
Accrued taxes	538	432
Other	8,674	7,309
<b>Total accrued liabilities</b>	<b>\$ 40,746</b>	<b>\$ 36,968</b>
<b>Other long-term liabilities:</b>		
Deferred liability	846	877
Guarantee of Crisa debt	421	421
Other	3,937	4,163
<b>Total other long-term liabilities</b>	<b>\$ 5,204</b>	<b>\$ 5,461</b>

**4. Investments in Unconsolidated Affiliates**

We are a 49% equity owner in Vitrocrisa Holding, S. de R.L. de C.V. and related companies (Crisa), which manufacture, market and sell glass tableware (beverageware, plates, bowls, serveware and accessories) and industrial glassware (coffee pots, blender jars, meter covers, glass covers for cooking ware and lighting fixtures sold to original equipment manufacturers). We record our 49% interest in Crisa using the equity method.

Condensed unaudited balance sheet information for Crisa is as follows:

	March 31, 2006	December 31, 2005
Current assets	\$ 89,487	\$ 80,102
Non-current assets	94,485	95,642
<b>Total assets</b>	<b>183,972</b>	<b>175,654</b>
Current liabilities	97,864	72,549
Other liabilities	73,427	92,275
<b>Total liabilities</b>	<b>171,291</b>	<b>164,824</b>
<b>Net assets</b>	<b>\$ 12,681</b>	<b>\$ 10,830</b>

Condensed unaudited statements of operations for Crisa are as follows:

Three months ended March 31,	2006	2005
Total revenues	\$47,566	\$49,834
Cost of sales	38,180	45,007
Gross profit	9,386	4,827
Selling, general and administrative expenses	5,721	6,477
Income (loss) from operations	3,665	(1,650)
Remeasurement gain (loss)	878	(357)
Earnings (loss) before interest and taxes	4,543	(2,007)
Interest expense	2,367	1,289
Earnings (loss) before income taxes	2,176	(3,296)
Income taxes	479	2,764
<b>Net income</b>	<b>\$ 1,697</b>	<b>\$ (6,060)</b>

**5. Borrowings**

Borrowings consist of the following:

	Interest Rate	Maturity Date	March 31, 2006	December 31, 2005
Borrowings under credit facility	floating	June 24, 2009	\$158,834	\$143,814
Senior notes	4.19%	March 31, 2008	25,000	25,000
Senior notes	5.58%	March 31, 2013	55,000	55,000
Senior notes	floating	March 31, 2010	20,000	20,000
		April 2006 to		
Promissory note	6.00%	September 2016	2,096	2,131
Notes payable	floating	April 2006	11,167	11,475
		July 2012 to		
RMB Loan contract	floating	December 2012	7,469	—
		April 2006 to		
Obligations under capital leases	floating	May 2007	1,868	2,203
Other debt	floating	September 2009	2,901	2,056
Total borrowings			284,335	261,679
Less — current portion of borrowings			11,992	12,300
Total long-term portion of borrowings			\$272,343	\$249,379

**Revolving Credit Facility**

In June 2004, we entered into an unsecured agreement for an Amended and Restated Revolving Credit Agreement (Revolving Credit Agreement or Agreement) with Libbey Glass Inc. and Libbey Europe B.V. as borrowers. We entered into an amendment to the Agreement in December 2004. The Agreement is with a group of banks and provides for a Revolving Credit and Swing Line Facility (Facility) permitting borrowings up to an aggregate total of \$195 million, maturing June 24, 2009. Swing Line borrowings are limited to \$25 million. Swing Line U.S. dollar borrowings bear interest calculated at the prime rate plus the Applicable Rate for Base Rate Loans as defined in the Agreement. Revolving Credit Agreement U.S. dollar borrowings bear interest at our option at either the prime rate plus the Applicable Rate for Base Rate Loans or a Eurodollar rate plus the Applicable Rate for Eurodollar Loans as defined in the Agreement. The Applicable Rates for Base Rate Loans and Eurodollar Loans vary depending on our performance against certain financial ratios. The Applicable Rates for Base Rate Loans and Eurodollar Loans were 0.75% and 1.75%, respectively, at March 31, 2006. The weighted average annual interest rate on these borrowings at March 31, 2006, was 5.5%.

Libbey Europe B.V. may have euro-denominated swing line or revolving borrowings under the Revolving Credit Agreement in an aggregate amount not to exceed the Offshore Currency Equivalent, as defined in the Revolving Credit Agreement, of \$105 million. Offshore Currency Swing Line borrowings are currently limited to \$15 million of the \$25 million total Swing Line borrowings permitted under the Agreement. Interest is calculated at the Offshore Currency Swing Line rate plus the Applicable Rate for Swing Line Loans in euros. Revolving Offshore Currency Borrowings bear interest at the Offshore Currency Rate plus the Applicable Rate for Offshore Currency Rate Loans, as defined in the Agreement. The Applicable Rates for Swing Line Loans in euros and Offshore Currency Rate Loans vary depending on our performance against certain financial ratios. The Applicable Rates for Swing Line Loans in euros and Offshore Currency Rate Loans were 2.25% and 1.75%, respectively, at March 31, 2006.

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Under the Agreement, we may also elect to borrow up to a maximum of \$125 million under a Negotiated Rate Loan alternative of the Facility at negotiated rates of interest. The Agreement also provides for the issuance of \$30 million of letters of credit, which are applied against the \$195 million limit. At March 31, 2006, we had \$8.4 million in letters of credit outstanding under the Facility.

We pay a Facility Fee, as defined in the Agreement, on the total credit provided under the Facility. The Facility Fee varies depending on our performance against certain financial ratios. The Facility Fee was 0.50% at March 31, 2006.

No compensating balances are required by the Agreement. The Agreement does require the maintenance of certain financial ratios, restricts the incurrence of indebtedness and other contingent financial obligations, and restricts certain types of business activities and investments.

We were in compliance with all covenants as of March 31, 2006 and December 31, 2005.

### **Senior Notes**

We issued \$100 million of privately placed senior notes in March 2003. Eighty million dollars of the notes have an average annual interest rate of 5.15%, with an initial average maturity of 8.4 years and a remaining average maturity of 5.4 years. Twenty million dollars of the senior notes have a floating interest rate at a margin over the London Interbank Offer Rate (LIBOR) that is set quarterly. The floating interest rate at March 31, 2006, on the \$20 million debt was 6.08% per year.

We were in compliance with all covenants as of March 31, 2006 and December 31, 2005.

### **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 March 31, 2006 and December 31, 2005 we had \$2,096 and \$2,131, respectively outstanding on the promissory note.

### **Notes Payable**

We have a working capital line of credit for a maximum of €10 million. The \$11,166 outstanding at March 31, 2006, was the U.S. dollar equivalent under the euro-based working capital line and the interest rate was 3.6%. The balance outstanding of \$11,475 at December 31, 2005 was also under the euro-based working capital line and the interest rate was 3.4%.

**RMB Loan Contract**

On January 23, 2006, Libbey Glassware (China) Co., Ltd. (Libbey China), an indirect wholly-owned subsidiary of Libbey, 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%. As of March 31, 2006, the outstanding balance was RMB 60 million (approximately \$7.5 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 acquired 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 March 31, 2006, are as follows:

	Payments Due by Period			
	Total	1 Year	2-3 Years	4-5 Years
Capital leases	\$1,868	\$710	\$1,158	—

**Other Debt**

The other debt of \$2,901 primarily consists of governmental subsidized loans for equipment purchases at Crisal.

**Interest Rate Protection Agreements**

We have an Interest Rate Protection Agreement (Rate Agreement) with respect to \$25 million of debt as a means to manage our exposure to fluctuating interest rates. The Rate Agreement effectively converts \$25 million of our borrowings from variable rate debt to fixed-rate debt, thus reducing the impact of interest rate changes on future income. The fixed interest rate for our borrowings related to the Rate Agreement at March 31, 2006, excluding applicable fees, is 5.3% per year and the total interest rate, including applicable fees, is 7.6% per year. The maturity date is May 9, 2006. Our total remaining debt that has fluctuating interest rates and is not covered by the Rate Agreement has a weighted average rate of 5.3% per year at March 31, 2006. If the counterparties to the Rate Agreement were to fail to perform, the Rate Agreement would no longer protect us from interest rate fluctuations. However, we do not anticipate nonperformance by the counterparties.



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The fair market value of the Rate Agreement at March 31, 2006, was (\$.07) million. The fair value of the Rate Agreement is based on the market standard methodology of netting the discounted expected future variable cash receipts and the discounted future fixed cash payments. The variable cash receipts are based on an expectation of future interest rates derived from observed market interest rate forward curves.

### 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 amongst 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 March 31, 2006	Three months ended March 31, 2005
Fixed asset removal costs	\$ —	\$ 148
Employee termination costs & other	—	2,849
Included in special charges	\$ —	\$2,997

The following reflects the balance sheet activity related to the capacity realignment for the three months ended March 31, 2006:

	Balance at December 31, 2005	Cash payments	Balance at March 31, 2006
Land proceeds received	\$1,055	\$(530)	\$525
Employee termination costs & other	70	(28)	42
Total	\$1,125	\$(558)	\$567

Balance sheet classification is as follows: \$567 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.

There were no charges for the three months ended in March 31, 2006.

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The following reflects the balance sheet activity related to the salaried workforce reduction program for the three months ended March 31, 2006:

	Balance at December 31, 2005	Cash payments	Balance at March 31, 2006
Employee termination costs	\$877	\$(306)	\$571
<b>Total</b>	<b>\$877</b>	<b>\$(306)</b>	<b>\$571</b>

The employee termination costs of \$571 are included in the special charges reserve on the Condensed Consolidated Balance Sheets.

## 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 only for hourly employees. Our policy is to fund pension plans such that sufficient assets will be available to meet future benefit requirements. 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 the hourly and salaried 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, both located in the Netherlands.

### *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 March 31,	2006	2005	2006	2005	2006	2005
Service cost	\$ 1,633	\$ 1,673	\$ 168	\$ 236	\$ 1,801	\$ 1,909
Interest cost	3,519	3,621	370	405	3,889	4,026
Expected return on plan assets	(3,881)	(4,333)	(565)	(545)	(4,446)	(4,878)
Amortization of unrecognized:						
Prior service cost	521	565	(86)	(99)	435	466
Gain	809	518	10	—	819	518
<b>Pension expense (credit)</b>	<b>\$ 2,601</b>	<b>\$ 2,044</b>	<b>\$(103)</b>	<b>\$ (3)</b>	<b>\$ 2,498</b>	<b>\$ 2,041</b>

We expect to contribute \$656 to our U.S. pension plans and \$1,492 to our non-U.S. plan in 2006. Through the first quarter of 2006, there have been no contributions to the U.S. plans and contributions totaling \$293 for the non-U.S. plans.

**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. 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	
	2006	2005	2006	2005	2006	2005
Three months ended March 31,						
Service cost	\$ 208	\$ 217	\$—	\$—	\$ 208	\$ 217
Interest cost	494	544	34	37	528	581
Amortization of unrecognized:						
Prior service cost	(220)	(220)	—	—	(220)	(220)
Gain (loss)	(8)	24	—	(2)	(8)	22
Nonpension postretirement benefit expense	\$ 474	\$ 565	\$34	\$35	\$ 508	\$ 600

## **9. Employee Stock Benefit Plans**

We have two 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's common stock at a discount.

Prior to January 1, 2006, we 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 strike 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, we 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% of the market value at certain plan-defined dates. The ESPP terminates on May 31, 2012. In the first quarter 2006 no shares were issued under the ESPP, as ESPP grants normally occur annually on May 31st. At December 31, 2005, 470,062 shares were available for issuance under the ESPP. At March 31, 2006, the same number of 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% and not more than 20% of such 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.

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No ESPP awards were granted during the three months ending March 31, 2006. The following are weighted-average assumptions used for ESPP grants in the three months ended March 31, 2005:

For the quarter ended March 31, 2005	
Risk-free interest rate	3.23%
Expected term	12 months
Expected volatility	36.0%
Expected dividend yield	2.10%

### ***Employee Stock Option and Restricted Stock Plan Program Description***

We have two stock option plans for key employees: (1) the Libbey Inc. Amended and Restated Stock Option Plan for Key Employees and (2) the Amended and Restated 1999 Equity Participation Plan of Libbey Inc. Stock option grants are designed to reward employees for their long-term contributions to the Company and provide incentives for them to remain with Libbey, Inc. The maximum number of shares issuable over the term of the Libbey Inc. Amended and Restated Stock Option Plan for Key Employees is limited to 1,800,000 shares. Options granted under the Libbey Inc. Amended and Restated Stock Option Plan for Key Employees have an exercise price equal to the fair market value of the underlying stock on the grant date and expire no later than 10 years and a day from the grant date. The options will generally become exercisable for 40% of the option shares one year from the date of grant and then 20% on the second, third and fourth anniversary dates. In addition, the Board of Directors, or other committee administering the plan, has the discretion to use a different vesting schedule and has done so from time to time. Since the inception of the Libbey Inc. Amended and Restated Stock Option Plan for Key Employees, we have granted options to key employees. In 2004, we adopted the Amended and Restated 1999 Equity Participation Plan of Libbey Inc., under which options can be granted or shares can be directly issued to eligible employees. Under the Amended and Restated 1999 Equity Participation Plan of Libbey Inc. up to a total of 2,000,000 shares of common stock are authorized for issuance upon exercise of options or grants of restricted stock or other awards. Of those shares, 10,000 options have been granted in the first 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 March 31, 2006 is generally four years. Stock options are amortized over the vesting period using the FIN 28 expense attribution methodology.

### ***Pro forma Information***

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 information summarizes the effects of implementing this standard on our net income (loss) and earning (loss) per share for stock option expense.

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Pro forma information regarding option grants relating to our two options plans is based on specified valuation techniques that produce estimated compensation charges. The table below shows the effect on our net income and earnings per share for the three months ended March 31, 2005:

Three months ended March 31,	2005
<b>Net (loss) income:</b>	
Reported net (loss) income	\$(1,647)
Less: Stock-based employee compensation expense determined under fair value-based method for all awards, net of related tax effects	205
Add: Stock-based employee compensation expense included in reported net (loss) income, net of related tax effects	16
<b>Pro forma net loss</b>	<b>\$(1,836)</b>
<b>Basic (loss) earnings per share:</b>	
Reported basic loss per share	\$ (0.12)
Pro forma basic loss per share	\$ (0.13)
<b>Diluted earnings loss per share:</b>	
Reported diluted loss per share	\$ (0.12)
Pro forma diluted loss per share	\$ (0.13)

Since all outstanding options have an exercise price in excess of the March 31, 2006 closing stock price, the effects of the employee stock options and employee stock purchase plan (ESPP) are anti-dilutive and thus will have no effect on earnings per share. The effect of employee stock options and the employee stock purchase plan (ESPP), 17,800 shares at March 31, 2005 and 1,521,406 shares at March 31, 2006, was anti-dilutive and was not included in the earnings per share calculation. Diluted shares outstanding include the dilutive impact of in-the-money options, 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-affected proceeds that would be hypothetically received from the exercise of all in-the-money options are assumed to be used to repurchase shares.

### **General Stock Option Information**

Stock option compensation expense of \$.14 million included in the selling, general and administrative expense line in the Condensed Consolidated Statements of Operations at March 31, 2006. The total income tax benefit recognized in the Condensed Consolidated Statements of Operations for share-based payment transactions is \$.05 million at March 31, 2006.

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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. Under the Black-Scholes option pricing model, the weighted-average grant-date fair value of options granted during the three months ended March 31, 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 March 31, 2006 and 2005, respectively:

Three months ended March 31,	2006	2005
<b>Stock option grants:</b>		
Risk-free interest rate	4.57%	4.29%
Expected term (years)	6.1	6.1
Expected volatility	38.6%	34.6%
Expected dividend yield	3.19%	2.3%

- The risk-free 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 a quarterly 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 SAB 107 Simplified Method 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%-38.56% and the average expected volatility 34.55%. We use projected data for expected volatility of our stock options based on the average of daily, weekly and monthly historical volatility 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.

No significant modifications occurred during the first 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 options and ESPP in the following period.

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Information with respect to the stock options at March 31, 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		—

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 March 31, 2006 Condensed Consolidated Statement of Cash Flow .

For the quarter ended March 31, 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 \$7.08 as of March 31, 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 March 31, 2006.

As of March 31, 2006, \$.4 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 three months ended March 31, 2006 is \$0.

The following table summarizes our nonvested stock option activity for the three months ended March 31, 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



**10. Derivatives**

As of March 31, 2006, we had Interest Rate Protection Agreements for \$25.0 million of our variable rate debt, and commodity contracts for 2.25 million British Thermal Units (BTUs) of natural gas, with a fair value of \$1.6 million, accounted for under hedge accounting. The fair value of these derivatives is included in accrued liabilities and other assets on the Condensed Consolidated Balance Sheet for the Rate Agreements and commodity contracts, respectively. At March 31, 2005, we had Rate Agreements for \$50.0 million of our variable rate debt and commodity contracts for 3.2 million BTUs of natural gas.

We do not believe we are exposed to more than a nominal amount of credit risk in our interest rate and natural gas hedges, as the counterparties are established financial institutions.

All of our derivatives qualify and are designated as cash flow hedges at March 31, 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 current earnings. Ineffectiveness recognized in earnings during the first quarter of 2006 and 2005 was not material.

**11. Comprehensive Income**

Components of comprehensive income are as follows:

Three months ended March 31,	2006	2005
Net income (loss)	\$ 515	\$(1,647)
Change in fair value of derivative instruments (see detail below)	(3,756)	3,030
Effect of exchange rate fluctuation	110	(141)
Comprehensive (loss) income	\$(3,131)	\$ 1,242

Accumulated other comprehensive loss (net of tax) includes:

	March 31, 2006	December 31, 2005
Minimum pension liability and intangible pension assets	\$ (34,770)	\$ (34,770)
Derivatives	(13)	3,743
Exchange rate fluctuation	16	(94)
Total	\$ (34,767)	\$ (31,121)

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

Three months ended March 31,	2006	2005
Change in fair value of derivative instruments	\$(5,957)	\$ 4,855
Less:		
Income tax effect	2,201	(1,825)
Other comprehensive income related to derivatives	\$(3,756)	\$ 3,030

## 12. 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 Inc. and Libbey Europe B.V, pursuant to the Amended and Restated Revolving Credit Agreement and the privately placed senior notes, is guaranteed by Libbey Inc. and by certain subsidiaries of Libbey Glass Inc. Also, Libbey Glass Inc. guarantees a €10 million working capital facility of Libbey Europe B.V. and Royal Leerdam. All are related parties that are included in the Condensed Consolidated Financial Statements. See note 6 for further disclosure on debt of Libbey.

In addition, Libbey Inc. guarantees the payment by Crisa of its obligation to purchase electricity. The guarantee is based on the provisions of a Power Purchase Agreement to which Crisa is a party. The guarantee is limited to 49% of any such obligation of Crisa and limited to an aggregate amount of \$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 October 1995, Libbey Inc. 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.

On April 2, 2004, Libbey Inc. and Libbey Glass Inc. guaranteed the obligations of Vitrocrisa Comercial, S. de R.L. de C.V. (Comercial) and Crisa under Tranche B loans pursuant to a Credit Agreement to which they are a party. Our portion of the guarantee is for 31% of the total \$75 million Credit Agreement, up to a maximum amount of \$23.0 million. At March 31, 2006 and December 31, 2005, \$23.0 million was outstanding. The term of the Tranche B loans of the Credit Agreement is three years, expiring April 2007. We would be obligated to pay in the event of default by Comercial or Crisa, as outlined in the guarantee agreement. In exchange for the guarantee, we receive a fee. The guarantee was recorded during the second quarter of 2004 at the fair market value of \$0.4 million in the Condensed Consolidated Balance Sheet as an increase in other long-term liabilities with an offset to Investments.

In connection with our acquisition of Crisal-Cristalaria Automática, S.A. (Crisal), Libbey Inc. 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.

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

On July 29, 2005, Libbey Inc. entered into a guarantee for the benefit of FR Caddo Parish, LLC pursuant to which Libbey Inc. guarantees the payment and performance by Libbey Glass Inc. 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, Libbey Inc. entered into a guarantee for the benefit of China Construction Bank Corporation Langfang Economic Development Area Sub-Branch (CCB) pursuant to which Libbey Inc. guarantees 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.

### 13. Subsequent Events

#### ***Proposed Acquisition of Remaining Equity Interest in Crisa***

On April 3, 2006 we entered into a definitive purchase agreement with Vitro, S.A. de C.V. (Vitro), to acquire the remaining 51 percent of Vitrocrisa Holdings, S de R.L. de C.V. and related companies (Crisa), in an \$80 million cash transaction. The transaction, which is expected to close in the second quarter of 2006, will bring our ownership of Crisa to 100 percent.

On May 4, 2006, our stockholders, at the Annual Meeting of Stockholders, elected John F. Meier, Carol B. Moerdyk and Gary L. Moreau to our Board of Directors for a three-year term ending at the annual meeting of stockholders in 2009. Our stockholders also approved the 2006 Omnibus Incentive Plan of Libbey Inc., which is attached as Exhibit 10.1, and ratified the appointment of Ernst & Young LLP as our auditors for 2006.

### **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."

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**Results of Operations — First Quarter 2006 compared with First Quarter 2005**


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Dollars in thousands, except percentages and per-share amounts

Three months ended March 31,	2006	2005 <sup>(2)</sup>	Variance	
			in dollars	in percent
Net sales	\$ 134,866	\$ 129,784	\$ 5,082	3.9%
Gross profit	\$ 22,146	\$ 21,039	\$ 1,107	5.3%
<i>Gross profit margin</i>	16.4%	16.2%		
Income from operations (IFO)	\$ 3,060	\$ 88	\$ 2,972	3,377.3%
<i>IFO margin</i>	2.3%	0.1%		
Earnings before interest and income taxes (EBIT) <sup>(1)</sup>	\$ 4,521	\$ 943	\$ 3,578	379.4%
<i>EBIT margin</i>	3.4%	0.7%		
Earnings before interest, taxes, depreciation and amortization (EBITDA) <sup>(1)</sup>	\$ 12,856	\$ 9,328	\$ 3,528	37.8%
<i>EBITDA margin</i>	9.5%	7.2%		
Net income (loss)	\$ 515	\$ (1,647)	\$ 2,162	131.3%
<i>Net income margin</i>	0.4%	(1.3)%		
Diluted net income (loss) per share	\$ .04	\$ (0.12)	\$ 0.16	133.3%

<sup>(1)</sup> 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 income before income taxes to EBIT and EBITDA.

<sup>(2)</sup> Includes special charges of \$3.0 million related to capacity realignment due to the closure of our City of Industry facility.

**Net Sales**

For the quarter-ended March 31, 2006, net sales increased 3.9 percent to \$134.9 million from \$129.8 million in the year-ago quarter. The increase in net sales was primarily attributable to a more than 10 percent increase in net sales to foodservice glassware customers. Shipments of Syracuse® China products, Traex® products, Crisal Glass® products and retail glassware were also higher than in the year-ago period. Net sales in the industrial channel of distribution decreased over \$2 million compared to the year-ago quarter, as the result of decreased demand and exiting some low-margin products. In addition, net sales of World® Tableware and Royal Leerdam® products decreased slightly as compared to the prior-year quarter.

**Gross Profit**

For the quarter-ended March 31, 2006, gross profit increased by \$1.1 million, or 5.3%, compared to the year-ago quarter. For the quarter ended March 31, 2006, gross profit as a percentage of net sales increased to 16.4% compared to 16.2% in the year-ago quarter. The increase in gross profit is primarily attributable to higher net sales discussed above. Also contributing to the increase in gross profit was higher machine activity at our domestic glass plants. Partially offsetting gross profit was substantially higher manufacturing expenses at Syracuse China, a \$1.1 million increase in natural gas costs and a \$0.5 million increase in pension and nonpension postretirement benefit expenses.

## **Income From Operations**

Income from operations was \$3.1 million for the quarter ending March 31, 2006, compared to income from operations of \$0.1 million for the quarter ended March 31, 2005. Income from operations during the first quarter of 2005 included special charges of \$3.0 million, related to our capacity realignment due to the closure of our City of Industry facility, as detailed in the attached Table 2. Excluding the impact of the special charges in the first quarter 2005, our income from operations in the first quarter 2006 was relatively unchanged compared to the year ago quarter, due to higher selling, general and administrative costs arising from higher sales activity and China start-up costs. These costs offset the \$1.1 million increase in gross profit described above.

## **Earnings Before Interest and Income Taxes (EBIT)**

EBIT increased by \$3.6 million in the first quarter of 2006 compared to the year ago quarter. EBIT as a percentage of net sales increased to 3.4% in the first quarter 2006, compared to 0.7% in the year ago quarter. EBIT and EBIT margin increased due to special charges related to our capacity realignment in the first quarter 2005 and a \$0.5 million increase in equity earnings from Crisa. The increase in Crisa equity earnings is due to an increase in sales and higher translation gains, partially offset by lower machine activity and other manufacturing costs.

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

EBITDA increased by \$3.5 million, or 37.8%, for the quarter-ended March 31, 2006, compared to the year ago quarter. As a percentage of net sales, EBITDA was 9.5% in the quarter-ended March 31, 2006, compared to 7.2% in the prior period. The increases in EBITDA and EBITDA margin were attributable to the factors described above in EBIT.

## **Net Income (Loss)**

We reported net income of \$0.5 million in the first quarter 2006, compared to a net loss of \$1.6 million in the first quarter 2005. Net income as a percentage of net sales was 0.4% in the first quarter 2006, compared to (1.3)% the year ago quarter. Net income increased due to the improvement in EBIT, partially offset by a \$0.2 million increase in interest expense due to higher average interest rates. The effective tax rate remained unchanged at 33% during the first quarters of 2006 and 2005.

## **Diluted Net Income (Loss) Per Share**

Diluted net income per share was \$0.5 million, or \$0.04 in the first quarter of 2006, compared with diluted loss per share of \$0.12 in the first quarter of 2005. Diluted earnings per share for the first quarter of 2005 as detailed in the attached Table 3, excluding special charges associated with the shutdown of our City of Industry, California, facility in February 2005, was \$0.03 per share.

**Capital Resources and Liquidity**

**Working Capital**

The following table presents working capital items.

Dollars in thousands, except percentages and DSO, DIO, DPO and DWC	March 31, 2006	December 31, 2005	Variance	
			in dollars	in percent
Accounts receivable	\$ 72,244	\$ 79,042	\$ 6,798	8.6%
DSO <sup>(1)</sup>	46.0	50.8		
Inventories	121,388	122,572	1,184	1.0%
DIO <sup>(2)</sup>	77.3	78.7		
Accounts payable	40,070	47,020	6,950	14.8%
DPO <sup>(3)</sup>	25.5	30.2		
Working capital <sup>(4)</sup>	\$ 153,562	\$ 154,594	\$ 1,032	1.0%
DWC <sup>(5)</sup>	97.8	99.3		
Percentage of net sales	27.0%	27.7%		

(1) Days sales outstanding (DSO) measures the number of days it takes, based on a 90-day average, to turn receivables into cash.

(2) Days inventory outstanding (DIO) measures the number of times per year, based on a 90-day average, 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.

**Cash Flow**

The following table presents key drivers to free cash flow.

Dollars in thousands, except percentages Three months ended March 31,	2006	2005	Variance	
			in dollars	in percent
Net cash provided by (used in) operating activities	\$ 4,798	\$(11,151)	\$ 15,949	143.0%
Capital expenditures	21,439	10,405	11,034	106.1%
Acquisitions and related costs	—	28,948	(28,948)	(100.00)%
Free cash flow <sup>(a)</sup>	\$(16,641)	\$(50,504)	\$ 33,863	67.1%

(a) 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 on which we internal assessments of our performance.

Free cash flow was \$(16.6) million in the first quarter 2006, compared to \$(50.5) million in the first quarter 2005. The improvement is primarily due to the acquisition of Crisal in January 2005 for \$28.9 million. Net cash flow from operations increased to \$4.8 million in the first quarter 2006, compared to \$(11.2) million in the first quarter 2005, primarily due to an increase in net income and decreases in inventory. Partially offsetting the increase in net cash provided by operating activities was an \$11.0 million increase in capital expenditures, primarily attributable to the construction of our plant in China.

**Borrowings**

The following table presents our total borrowings.

	Interest Rate	Maturity Date	March 31, 2006	December 31, 2005	Variance	
					in dollars	in percent
Borrowings under credit facility	floating	June 24, 2009	\$ 158,834	\$ 143,814	\$ 15,020	10.4%
Senior notes	4.19%	March 31, 2008	25,000	25,000	—	0.0%
Senior notes	5.58%	March 31, 2013	55,000	55,000	—	0.0%
Senior notes	floating	March 31, 2010	20,000	20,000	—	0.0%
Promissory note	6.00%	April 2006 to September 2016	2,096	2,131	(35)	(1.6)%
Notes payable	floating	April 2006	11,167	11,475	(308)	(2.7)%
RMB loan contract	floating	July 20, 2012	7,469	—	7,469	100.0%
Obligations under capital leases	floating	April 2006 to May 2007	1,868	2,203	(335)	(15.2)%
Other debt	floating	September 2009	2,901	2,056	845	41.1%
<b>Total borrowings</b>			<b>\$ 284,335</b>	<b>\$ 261,679</b>	<b>\$ 22,656</b>	<b>8.7%</b>

We had total borrowings of \$284.3 million at March 31, 2006, compared to total borrowings \$261.7 million at December 31, 2005. The increase of \$22.6 million in borrowings is primarily a result of the negative free cash flow discussed above.

On March 31, 2003, we issued \$100 million of privately placed senior notes (Senior Notes). Eighty million dollars of the notes have an average interest rate of 5.15% per year, with an initial average maturity of 8.4 years and a remaining average maturity of 5.4 years. Twenty million dollars of the Senior Notes have a floating interest rate at a margin over the London Interbank Offer Rate (LIBOR) that is set quarterly. The floating interest rate at March 31, 2006 on the \$20 million debt was 6.08% per year.

In June 2004, Libbey Glass Inc. and Libbey Europe B.V. entered into an Amended and Restated Revolving Credit Agreement (Revolving Credit Agreement or Agreement) with a group of banks that provided a Revolving Credit and Swing Line Facility. The Agreement has a five-year term, maturing June 24, 2009. We had additional borrowing capacity at March 31, 2006, of \$39.0 million. Note 5 to the Consolidated Financial Statements provides additional information regarding the Agreement.

On December 30, 2005, we amended the terms of the Agreement and our Senior Notes. Pursuant to the amendments, we agreed to reduce the maximum amount that we may borrow under the Agreement from \$250 million to \$195 million. We also agreed that the maximum permissible leverage ratio under both the Agreement and Senior Notes would be increased to 4.5 to 1.0 as of December 31, 2005, 4.85 to 1.00 for the period January 1, 2006 through September 30, 2006, 4.00 to 1.00 for the period October 1, 2006 through December 31, 2006, and 3.25 to 1.00 from and after January 1, 2007. In addition, we agreed to a 50 basis point increase in the applicable interest rate and an additional 50 basis point increase in the applicable rate if our actual consolidated leverage ratio exceeds 4.25 to 1.0. We also granted to the lenders a security interest in substantially all of our assets and pledged equity interests in certain subsidiaries.

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We have entered into interest rate protection agreements with respect to \$25 million of debt. The average fixed rate of interest under these interest rate protection agreements, excluding applicable fees, is 5.3% per year, and the total interest rate, including fees, is 7.6% per year. The average maturity of these interest rate protection agreements is 0.2 years at March 31, 2006. Note 5 to the Condensed Consolidated Financial Statements provides additional information regarding the interest rate protection agreements.

Of our total indebtedness, \$177.2 million is subject to fluctuating interest rates at March 31, 2006. A change in one percentage point in such rates would result in a change in interest expense of approximately \$1.8 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. We believe that non-GAAP data provide investors with a more complete understanding of underlying results in our core business and trends. In addition, it is the basis on which we internally assess performance, and certain non-GAAP measures are relevant to our determination of compliance with financial covenants included in our debt agreements. 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.



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Table 1  
**Reconciliation of Income before income taxes to EBIT and EBITDA**

(Dollars in thousands)

Three months ended March 31,	2006	2005
(Loss) income before income taxes	\$ 912	\$(2,435)
Add: Interest expense	3,609	3,378
Earnings before interest and income taxes (EBIT)	4,521	943
Add: Depreciation and amortization	8,335	8,385
Earning before interest, taxes, deprecation and amortization (EBITDA)	\$12,856	\$ 9,328

Table 2  
**Summary of Special Charges**

(Dollars in thousands)

Three months ended March 31,	2006	2005
Fixed asset write-down	\$ —	\$ 148
Employee termination costs & other		2,849
Total pretax special charges	\$ —	\$ 2,997

Table 3  
**Reconciliation of Non-GAAP Financial Measures for Special Charges**

(Dollars in thousands except per-share amounts)

Three months ended March 31,	2006	2005
Reported net (loss) income	\$ 515	\$(1,647)
Special charges — net of tax	—	2,008
Net income excluding special charges	\$ 515	\$ 361
Diluted earnings per share:		
Reported net (loss) income	\$ 0.04	\$ (0.12)
Special charges — net of tax	—	0.15
Net income per diluted share excluding special charges	\$ 0.04	\$ 0.03

Table 4  
**Reconciliation of net cash provided by operating activities to free cash flow**

(Dollars in thousands)

Three months ended March 31,	2006	2005
Net cash (used in) provided by operating activities	\$ 4,798	\$(11,151)
Less:		
Capital expenditures	21,439	10,405
Acquisition and related costs	—	28,948
Free flow cash	\$(16,641)	\$(50,504)

Table 5  
**Reconciliation of working capital**

(Dollars in thousands)

Three months ended March 31,	2006	2005
Accounts receivable	\$ 72,244	\$ 73,919
Plus:		
Inventories	121,388	141,022
Less:		
Accounts payable	40,070	43,887
Working capital	\$153,562	\$171,054

### **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 currency market risks include devaluations and other major currency fluctuations relative to the U.S. dollar, euro or Mexican peso that could reduce the cost competitiveness of our products or those of Crisa compared to foreign competition and the impact of exchange rate changes in the Mexican peso relative to the U.S. dollar on the earnings of Crisa expressed under accounting principles generally accepted in the United States.

#### **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 domestic 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% to 60% 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 consolidated balance sheets in other current assets. At March 31, 2006, we had commodity futures contracts for 2.25 million British Thermal Units (BTU's) of natural gas with a fair market value of approximately \$1.6 million. 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 March 31, 2006, we recognized a loss of approximately \$.2 million related to these instruments, which represented the total ineffectiveness of all cash flow hedges.

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 hedges item affects earnings. 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% in the expected long-term rate of return on plan assets would change total pension expense by approximately \$2.2 million based on year-end data.
- A change of 1% in the discount rate would change our total pension expense by approximately \$3.8 million.

## 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.

Important factors potentially affecting our performance include, but are not limited to:

- major slowdowns in the retail, travel, restaurant and bar or entertainment industries, including the impact of armed hostilities or any other international or national calamity, including any act of terrorism, on the retail, travel, restaurant and bar or entertainment industries;
- significant increases in interest rates that increase our borrowing costs;
- significant increases in per-unit costs for natural gas, electricity, corrugated packaging, aragonite, resins and other purchased materials;
- protracted work stoppages related to collective bargaining agreements;
- increases in expenses associated with higher medical costs, increased pension expense associated with lower returns on pension investments and lower interest rates on pension obligations;
- currency fluctuations relative to the U.S. dollar, euro or Mexican peso that could reduce the cost competitiveness of our or Crisa’s products compared to foreign competition;
- the effect of high inflation in Mexico on the operating results and cash flows of Crisa;
- the impact of exchange rate changes in the Mexican peso relative to the U.S. dollar on the earnings of Crisa expressed under accounting principles generally accepted in the United States;

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- the inability to achieve savings and profit improvements at targeted levels at Libbey and Crisa from capacity realignment, re-engineering and operational restructuring programs or within the intended time periods;
- protracted work stoppages related to collective bargaining agreements;
- increased competition from foreign suppliers endeavoring to sell glass tableware in the United States, Mexico, Europe and other key markets worldwide, including the impact of lower duties for imported products; and
- whether we complete any significant acquisitions, including the acquisition of the remaining 51% of Crisa that we do not currently own, and whether such acquisitions can operate profitably.

### 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. Also, we have investments in certain unconsolidated entities. As we do not control or manage these entities, our disclosure controls and procedures with respect to such entities are necessarily substantially more limited than those we maintain with respect to our consolidated subsidiaries.

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

### 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

<u>Exhibit Number</u>	<u>Description</u>
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).
10.1	2006 Omnibus Incentive Plan of Libbey Inc. (filed herein)
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 May 10, 2006

By /s/ Scott M. Sellick  
Scott M. Sellick,  
Vice President, Chief Financial Officer (duly  
authorized principal financial officer)



**Libbey Inc.  
2006 Omnibus Incentive Plan**

**Effective May 4, 2006**

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# Libbey Inc. 2006 Omnibus Incentive Plan

## Article 1. Establishment, Purpose, and Duration

**1.1 Establishment** . Libbey Inc., a Delaware corporation (the “Company”), establishes an incentive compensation plan to be known as the Libbey Inc. 2006 Omnibus Incentive Plan (the “Plan”), as set forth in this document.

This Plan permits the grant of Nonqualified Stock Options, Incentive Stock Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Performance Shares, Performance Units, Cash-Based Awards and Other Stock-Based Awards.

This Plan shall become effective upon shareholder approval (the “Effective Date”) and shall remain in effect as provided in Section 1.3 hereof.

**1.2 Purpose of this Plan** . The purpose of this Plan is to enable the Company to obtain and retain the services of Employees and Non-employee Directors considered essential to the long-range success of the Company, to provide a means whereby Employees and Non-employee Directors develop a sense of proprietorship and personal involvement in the development and financial success of the Company, and to encourage them to devote their best efforts to the business of the Company, thereby advancing the interests of the Company and its shareholders.

**1.3 Duration of this Plan** . Unless sooner terminated as provided in this Plan, this Plan shall terminate ten (10) years from the Effective Date. After this Plan is terminated, no Awards may be granted, but Awards previously granted shall remain outstanding in accordance with their applicable terms and conditions and this Plan’s terms and conditions. Notwithstanding the foregoing, no Incentive Stock Options may be granted more than ten (10) years after the earlier of (a) adoption of this Plan by the Board, or (b) the Effective Date.

## Article 2. Definitions

Whenever used in this Plan, the following terms shall have the meanings set forth below, and when the meaning is intended, the initial letter of the word shall be capitalized.

- 2.1 “Affiliate”** means any corporation or other entity (including, but not limited to, a partnership or a limited liability company) that is affiliated with the Company through stock or equity ownership, or otherwise, and is designated as an Affiliate for purposes of this Plan by the Committee. For purposes of granting Options or Stock Appreciation Rights, an entity may not be considered an Affiliate if it results in noncompliance with Code Section 409A.
- 2.2 “Annual Award Limit”** or “**Annual Award Limits**” has the meaning set forth in Section 4.3.
- 2.3 “Award”** means, individually or collectively, a grant under this Plan of Nonqualified Stock Options, Incentive Stock Options, SARs, Restricted Stock, Restricted Stock Units, Performance Shares, Performance Units, Cash-Based Awards or Other Stock-Based Awards, in each case subject to the terms of this Plan.

- 2.4 “Award Agreement” or “Agreement”** means either (i) a written agreement entered into by the Company and a Participant setting forth the terms and provisions applicable to an Award granted under this Plan or (ii) a written statement issued by the Company to a Participant describing the terms and provisions of the Award, including any amendment or modification thereof. The Committee may provide for the use of electronic, internet or other non-paper Award Agreements and the use of electronic, internet or other non-paper means for the acceptance of the Award Agreements and actions under them by a Participant.
- 2.5 “Beneficial Owner” or “Beneficial Ownership”** has the meaning ascribed to that term in Rule 13d-3 of the General Rules and Regulations under the Exchange Act.
- 2.6 “Board” or “Board of Directors”** means the Board of Directors of the Company.
- 2.7 “Cash-Based Award”** means an Award, denominated in cash, granted to a Participant as described in Article 10.
- 2.8 “Change in Control”** means any of the following events:
- (a) Any Person (as defined below) is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company representing twenty percent (20%) or more of the combined voting power of the Company’s then-outstanding securities. For purposes of this Plan, the term “Person” is used as that term is used in Sections 13(d) and 14(d) of the Exchange Act; provided, however, that the term shall not include (i) the Company, any trustee or other fiduciary holding securities under an employee benefit plan of the Company, or (ii) any corporation owned, directly or indirectly, by the shareholders of the Company in substantially the same proportions as their ownership of stock of the Company, and provided further that this subsection (a) shall not apply to any Person who is the Beneficial Owner, directly or indirectly, of securities of the Company representing twenty percent (20%) or more of the combined voting power of the Company’s then-outstanding securities as of the Effective Date of this Plan if and for so long as that Person does not beneficially own, or increase its beneficial ownership to, twenty-five percent (25%) or more of the combined voting power of the Company’s then-outstanding securities;
  - (b) During any period of two (2) consecutive years beginning after the Effective Date of this Plan, Continuing Directors (excluding any Directors designated by a Person who has entered into an agreement with the Company to effect a transaction described in Sections 2.8(a), (c) or (d)) cease for any reason to constitute at least a majority of the Board;
  - (c) The consummation of a merger or consolidation of the Company with any other corporation or other entity, unless, after giving effect to the merger or consolidation, the voting securities of the Company outstanding immediately prior to the merger or consolidation continue to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than sixty-six and two-thirds percent (66 2/3%) of the combined voting power of the voting securities of the Company or the surviving entity outstanding immediately after the merger or consolidation;

- (d) The shareholders of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets; or
- (e) Any Person is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company representing ten percent (10%) or more of the combined voting power of the Company's then-outstanding securities (a "10% Owner") and (i) the identity of the Chief Executive Officer of the Company is changed during the period beginning sixty (60) days before the attainment of the ten percent (10%) Beneficial Ownership and ending two (2) years thereafter or (ii) individuals constituting at least one-third (1/3) of the Directors at the beginning of the period cease for any reason to serve as Directors during the period beginning sixty (60) days before the attainment of the ten percent (10%) Beneficial Ownership and ending two (2) years thereafter; provided, however, that this subsection (e) shall not apply to any Person who is a ten percent (10%) Owner as of the Effective Date of this Plan so long as that Person does not increase its Beneficial Ownership by five percent (5%) or more over the percentage owned by that Person as of the Effective Date of the Plan.

- 2.9 "Code"** means the U.S. Internal Revenue Code of 1986, as amended from time to time. For purposes of this Plan, references to sections of the Code shall be deemed to include references to any applicable regulations under the Code and any successor or similar provision.
- 2.10 "Committee"** means the Compensation Committee of the Board or a subcommittee thereof, or any other committee designated by the Board to administer this Plan. The members of the Committee shall be appointed from time to time by, and shall serve at the discretion of, the Board. If the Committee does not exist or cannot function for any reason, the Board may take any action under the Plan that otherwise would be the responsibility of the Committee.
- 2.11 "Company"** means Libbey Inc., a Delaware corporation, and any successor to as provided in Article 20.
- 2.12 "Continuing Directors"** means individuals who both (a) as of the end of the period in question are Directors of the Company or whose election or nomination for election by the Company's shareholders has been approved by a vote of at least two-thirds (2/3) of the Directors of the Company then in office and (b) either (i) at the beginning of the period in question or (ii) after the beginning but prior to the end of the period in question were Directors of the Company or whose election or nomination for election by the Company's shareholders was approved by a vote of at least two-thirds (2/3) of the Directors of the Company in office at the beginning of the period.
- 2.13 "Covered Employee"** means any Employee who is or may become a "Covered Employee," as defined in Code Section 162(m), and who is designated, either as an individual Employee or class of Employees, by the Committee within the shorter of (i) ninety (90) days after the beginning of the Performance Period or (ii) twenty-five percent (25%) of the Performance Period has elapsed, as a "Covered Employee" under this Plan for the applicable Performance Period.

- 2.14 “Director”** means any individual who is a member of the Board of Directors of the Company.
- 2.15 “Dividend Equivalent”** means a right to receive the equivalent value (in cash or Shares) of dividends paid on common stock, awarded under Article 14.
- 2.16 “DRO”** means a domestic relations order as defined by the Code or Title I of the Employee Retirement Income Security Act of 1974, as amended, or the rules under such statute.
- 2.17 “Effective Date”** has the meaning set forth in Section 1.1.
- 2.18 “Employee”** means any individual designated as an employee of the Company, its Affiliates and/or its Subsidiaries on the payroll records thereof.
- 2.19 “Exchange Act”** means the Securities Exchange Act of 1934, as amended from time to time, or any successor act thereto.
- 2.20 “Extraordinary Items”** means (i) extraordinary, unusual and/or nonrecurring items of gain or loss; (ii) gains or losses on the disposition of a business; (iii) changes in tax or accounting regulations or laws; or (iv) the effect of a merger or acquisition. Extraordinary Items must be identified in the audited financial statements, including footnotes, or Management Discussion and Analysis section of the Company’s annual report.
- 2.21 “Fair Market Value” or “FMV”** means a price that is based on the opening, closing, actual, high, low or average selling prices of a Share reported on the New York Stock Exchange (“NYSE”) or other established stock exchange (or exchanges) on the applicable date, the preceding trading day, the next preceding trading day, the next succeeding trading day or an average of trading days, as determined by the Committee in its discretion. Unless the Committee determines otherwise, Fair Market Value shall be deemed to be equal to the closing price of a Share on the trading day previous to the applicable date, or if shares were not traded on the trading day previous to the applicable date, then on the next preceding trading day. If Shares are not publicly traded at the time a determination of their value is required to be made under this Plan, then the determination of their Fair Market Value shall be made by the Committee in such manner as it deems appropriate, provided that, in the case of Options and Stock Appreciation Rights, the determination shall be made in compliance with Code Section 409A. The definition(s) of FMV shall be specified in each Award Agreement and may differ depending on whether FMV is in reference to the grant, exercise, vesting, settlement or payout of an Award.
- 2.22 “Full Value Award”** means an Award other than in the form of an ISO, NQSO or SAR.
- 2.23 “Grant Price”** means the price established at the time of grant of an SAR pursuant to Article 7.

- 2.24 “Incentive Stock Option” or “ISO”** means an Option that is granted under Article 6 to an Employee, that is designated as an Incentive Stock Option and that is intended to meet the requirements of Code Section 422 or any successor provision.
- 2.25 “Insider”** means an individual who is, on the relevant date, an officer or Director of the Company, or the Beneficial Owner of more than ten percent (10%) of any class of the Company’s equity securities that are registered pursuant to Section 12 of the Exchange Act, as determined by the Board in accordance with Section 16 of the Exchange Act.
- 2.26 “Nominating and Governance Committee”** means the Nominating and Governance Committee of the Board or a subcommittee thereof, or any other committee designated by the Board to administer the pay of Non-employee Directors pursuant to this Plan. The members of the Committee shall be appointed from time to time by, and shall serve at the discretion of, the Board. If the Nominating and Governance Committee does not exist or cannot function for any reason, the Board may take any action under the Plan that otherwise would be the responsibility of the Nominating and Governance Committee.
- 2.27 “Non-employee Director”** means a Director who is not an Employee.
- 2.28 “Nonemployee Director Award”** means any NQSO, SAR or Full Value Award granted, whether singly, in combination, or in tandem, to a Non-employee Director.
- 2.29 “Nonqualified Stock Option” or “NQSO”** means an Option that is not intended to meet the requirements of Code Section 422 or that otherwise does not meet those requirements.
- 2.30 “Option”** means an option granted to a Participant to purchase the Company’s Shares, including an Incentive Stock Option or a Nonqualified Stock Option, as described in Article 6.
- 2.31 “Option Price”** means the price at which a Participant may purchase a Share pursuant to an Option.
- 2.32 “Other Stock-Based Award”** means an equity-based or equity-related Award that is not otherwise described by the terms of this Plan and that is granted pursuant to Article 10.
- 2.33 “Participant”** means any eligible individual, as determined in accordance with Article 5, to whom an Award is granted.
- 2.34 “Performance-Based Compensation”** means compensation under an Award that is intended to satisfy the requirements of Code Section 162(m) for certain performance-based compensation paid to Covered Employees. However, nothing in this Plan shall be construed to mean that an Award that does not satisfy the requirements for performance-based compensation under Code Section 162(m) does not constitute performance-based compensation for other purposes, including Code Section 409A.

- 2.35 “Performance Measures”** means the measures, as described in Article 12, on which the performance goals are based. Performance Measures must be approved by the Company’s shareholders pursuant to this Plan in order to qualify Awards as Performance-Based Compensation.
- 2.36 “Performance Period”** means the period of time during which the performance goals must be met in order to determine the degree of payout and/or vesting with respect to an Award.
- 2.37 “Performance Share”** means an Award that is granted pursuant to Article 9, is subject to the terms of this Plan and is denominated in Shares, the value of which at the time it is payable is determined as a function of the extent to which the corresponding performance criteria have been achieved.
- 2.38 “Performance Unit”** means an Award that is granted pursuant to Article 9, is subject to the terms of this Plan and is denominated in units, the value of which at the time it is payable is determined as a function of the extent to which corresponding performance criteria have been achieved.
- 2.39 “Period of Restriction”** means the period during which Restricted Stock or Restricted Stock Units are subject to a substantial risk of forfeiture based on the passage of time, the achievement of performance goals or the occurrence of other events as determined by the Committee, in its discretion, as provided in Article 8.
- 2.40 “Plan”** means the Libbey Inc. 2006 Omnibus Incentive Plan.
- 2.41 “Plan Year”** means the calendar year.
- 2.42 “Prior Plans”** means the Libbey Inc. Amended and Restated Stock Option Plan for Key Employees and the Amended and Restated 1999 Equity Participation Plan of Libbey Inc.
- 2.43 “Restricted Stock ”** means an Award granted to a Participant pursuant to Article 8.
- 2.44 “Restricted Stock Unit”** means an Award that is granted to a Participant pursuant to Article 8 but as to which no Shares actually are awarded to the Participant on the date of grant.
- 2.45 “Share”** means a share of common stock of the Company, \$.01 par value per share.
- 2.46 “Stock Appreciation Right” or “SAR”** means an Award, designated as a SAR, pursuant to the terms of Article 7.
- 2.47 “Subsidiary”** means any corporation or other entity, whether domestic or foreign, in which the Company directly or indirectly owns stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock.
- 2.48 “Substitute Award”** means an Award granted under this Plan upon the assumption of, or in substitution for, outstanding equity awards previously granted by a company or other entity in connection with a corporate transaction, such as a merger,

combination, consolidation or acquisition of property or stock; provided, however, that in no event shall the term "Substitute Award" be construed to refer to an Award made in connection with the cancellation and repricing of an Option or SAR.

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

### **Article 3. Administration**

**3.1 General** . The Committee shall be responsible for administering this Plan, subject to this Article 3 and the other provisions of this Plan. The Committee may employ attorneys, consultants, accountants, agents and other individuals, any of whom may be an Employee, and the Committee, the Company and its officers and Directors shall be entitled to rely upon the advice, opinions, or valuations of any such individuals. All actions taken and all interpretations and determinations made by the Committee shall be final and binding upon the Participants, the Company, and all other interested individuals.

**3.2 Authority of the Committee** . The Committee shall have full and exclusive discretionary power to interpret the terms and the intent of this Plan and any Award Agreement or other agreement or document ancillary to or in connection with this Plan, to determine eligibility of Employees for Awards and to adopt such rules, regulations, forms, instruments and guidelines for administering this Plan as the Committee may deem necessary or proper. That authority shall include, but not be limited to, selecting which Employees are Award recipients, establishing all Award terms and conditions, including the terms and conditions set forth in Award Agreements, granting Awards as an alternative to or as the form of payment for grants or rights earned or due under compensation plans or arrangements of the Company, construing any ambiguous provision of the Plan or any Award Agreement, and, subject to Article 18, adopting modifications and amendments to this Plan or any Award Agreement, including without limitation, any that are necessary to comply with the laws of the countries and other jurisdictions in which the Company, its Affiliates and/or its Subsidiaries operate.



**3.3 Delegation** . The Committee may delegate to one or more of its members or to one or more officers of the Company, and/or its Subsidiaries and Affiliates, or to one or more agents or advisors, such administrative duties or powers as the Committee may deem advisable, and the Committee or any individuals to whom it has delegated duties or powers may employ one or more individuals to render advice with respect to any responsibility the Committee or those individuals may have under this Plan. The Committee may, by resolution, authorize one or more officers of the Company to do one or both of the following on the same basis as can the Committee: (a) designate Employees to be recipients of Awards; and (b) determine the size of any such Awards; provided, however, that (i) in the case of Awards to be granted to Employees who are considered Insiders, the Committee shall not delegate these responsibilities to any officer; (ii) the resolution providing the authorization sets forth the total number of Awards the officer(s) may grant; and (iii) the officer(s) shall report periodically to the Committee regarding the nature and scope of the Awards granted pursuant to the delegated authority.

## **Article 4. Shares Subject to this Plan and Maximum Awards**

### **4.1 Number of Shares Available for Awards.**

- (a) There is hereby reserved for issuance under the Plan an aggregate of seven hundred fifty thousand one hundred forty (750,140) Shares of Libbey Inc. common stock. The Shares authorized under this Plan are in addition to the number of Shares previously reserved and available for issuance under the Prior Plans. In connection with approving this Plan, and contingent upon receipt of shareholder approval of this Plan, the Board of Directors has approved a merger of the Prior Plans into this Plan, so that on and after the date this Plan is approved by shareholders, the maximum number of Shares reserved for issuance under this Plan shall not exceed the total number of Shares approved under this Plan and the Shares previously approved and available for issuance under the Prior Plans, reduced by any awards made from the Prior Plans during the period beginning January 1, 2006.
- (b) The maximum number of Shares that may be issued pursuant to ISOs under this Plan shall be one million five hundred thousand (1,500,000) Shares.
- (c) The maximum number of Shares that may be granted to Non-employee Directors shall be 150,000 Shares, and no Non-employee Director may receive Awards subject to more than 7,500 Shares in any Plan Year.
- (d) Except with respect to a maximum of five percent (5%) of the shares authorized for issuance under this Plan, any Full Value Awards that vest on the basis of the Participant's continued employment with or service to the Company shall not provide for vesting that is any more rapid than annual pro rata vesting over a three- (3-) year period, and any Full Value Awards that vest upon the attainment of performance goals shall provide for a performance period of at least twelve (12) months. Notwithstanding the foregoing, the Committee may permit the acceleration of vesting of Full Value Awards in the event of the Participant's death, disability or retirement, or in the event of a Change in Control.

**4.2 Share Usage** . Shares covered by an Award shall be counted as used only to the extent they are actually issued. Any Shares related to Awards under this Plan or under Prior Plans that terminate by expiration, forfeiture, cancellation or otherwise without the issuance of the Shares, or are settled in cash in lieu of Shares, or are exchanged with the Committee's permission, prior to the issuance of Shares, for Awards not involving Shares, shall be available again for grant under this Plan. Moreover, if the Option Price of any Option granted under this Plan or the tax withholding requirements with respect to any Award granted under this Plan are satisfied by tendering Shares to the Company (by either actual delivery or by attestation), the tendered Shares shall again be available for grant under this Plan. Furthermore, if a SAR is exercised and settled in Shares, the difference between the total Shares exercised and the net Shares delivered shall again be available for grant under this Plan, with the result being that only the number of Shares issued upon exercise of a SAR are counted against the Shares available. The Shares available for issuance under this Plan may be authorized and unissued Shares or treasury Shares.

**4.3 Annual Award Limits** . Unless and until the Committee determines that an Award to a Covered Employee shall not be designed to qualify as Performance-Based Compensation, the following limits (each an "Annual Award Limit" and, collectively, "Annual Award Limits") shall apply to grants of Awards under this Plan:

- (a) **Options** : The maximum aggregate number of Shares subject to Options granted in any one Plan Year to any one Participant shall be three hundred thousand (300,000).
- (b) **SARs** : The maximum number of Shares subject to Stock Appreciation Rights granted in any one Plan Year to any one Participant shall be three hundred thousand (300,000).
- (c) **Restricted Stock or Restricted Stock Units** : The maximum aggregate grant with respect to Awards of Restricted Stock or Restricted Stock Units in any one Plan Year to any one Participant shall be two hundred thousand (200,000) Shares.
- (d) **Performance Units or Performance Shares** : The maximum aggregate Award of Performance Units or Performance Shares that a Participant may receive in any one Plan Year shall be two hundred thousand (200,000) Shares, or equal to the value of two hundred thousand (200,000) Shares determined as of the date of payout.
- (e) **Cash-Based Awards and Other Stock-Based Awards** : The maximum aggregate amount awarded or credited with respect to Cash-Based or Other Stock-Based Awards to any one Participant in any one Plan Year may not exceed the value of three million dollars (\$3,000,000) or two hundred thousand (200,000) Shares determined as of the date of payout.

**4.4 Adjustments in Authorized Shares** . In the event of any corporate event or transaction (including, but not limited to, a change in the Shares or the capitalization of the Company), such as a merger, consolidation, reorganization, recapitalization, separation, partial or complete liquidation, stock dividend, stock split, reverse stock split, split up, spin-off, or other distribution of stock or property of the Company, combination of Shares, exchange of Shares,

dividend in kind, or other like change in capital structure, number of outstanding Shares or distribution (other than normal cash dividends) to shareholders of the Company, or any similar corporate event or transaction, the Committee, in its sole discretion, in order to prevent dilution or enlargement of Participants' rights under this Plan, shall substitute or adjust, as applicable, the number and kind of Shares that may be issued under this Plan or under particular forms of Awards, the number and kind of Shares subject to outstanding Awards, the Option Price or Grant Price applicable to outstanding Awards, the Annual Award Limits, and other value determinations applicable to outstanding Awards.

The Committee, in its sole discretion, also may make appropriate adjustments in the terms of any Awards under this Plan to reflect or relate to the changes or distributions and to modify any other terms of outstanding Awards, including modifications of performance goals and changes in the length of Performance Periods. Notwithstanding anything in this Plan to the contrary, the Committee may not take any action described in this Section 4.4 if the action would result in a violation of the requirements of Code Section 409A. The determination of the Committee as to the foregoing adjustments, if any, shall be conclusive and binding on Participants under this Plan.

Subject to the provisions of Article 18 and notwithstanding anything else in this Plan to the contrary, the Board or the Committee may authorize the issuance of Awards under this Plan in connection with the assumption of, or substitution for, outstanding benefits previously granted to individuals who become Employees of Libbey Inc. or any Subsidiary as a result of any merger, consolidation, acquisition of property or stock, or reorganization, upon such terms and conditions as the Committee may deem appropriate, subject to compliance with the rules under Code Sections 409A, 422, and 424, as and where applicable. Any Substitute Awards granted under the Plan shall not count against the share limitations set forth in Section 4.3 hereof, to the extent permitted by Section 303A.08 of the Corporate Governance Standards of the New York Stock Exchange.

## **Article 5. Eligibility and Participation**

**5.1 Eligibility** . Individuals eligible to participate in this Plan include all Employees and Non-employee Directors.

**5.2 Actual Participation** . Subject to the provisions of this Plan, the Committee from time to time may select from all eligible individuals those individuals to whom Awards shall be granted and shall determine, in its sole discretion, the nature of, any and all terms permissible by law with respect to, and the amount of each Award.

## **Article 6. Stock Options**

**6.1 Grant of Options** . Subject to the terms and provisions of this Plan, Options may be granted to Participants in such number, and upon such terms, and at any time and from time to time as shall be determined by the Committee in its sole discretion, provided that ISOs may be granted only to eligible Employees of the Company or of any parent or Subsidiary (as permitted under Code Sections 422 and 424). However, an Employee who is employed by an Affiliate and/or Subsidiary may be granted Options only to the extent the Affiliate and/or Subsidiary is part of: (i) the Company's controlled group of corporations or (ii) a trade or business under common control, as of the date of grant, as determined within the meaning of Code Section 414(b) or 414(c) and substituting for this purpose ownership of at least fifty percent (50%) of the

Affiliate and/or Subsidiary to determine the members of the controlled group of corporations and the entities under common control.

**6.2 Award Agreement** . Each Option grant shall be evidenced by an Award Agreement that shall specify the Option Price, the maximum duration of the Option, the number of Shares to which the Option pertains, the conditions upon which an Option shall become vested and exercisable, and such other provisions as the Committee shall determine and as are not inconsistent with the terms of this Plan. The Award Agreement also shall specify whether the Option is intended to be an ISO or a NQSO.

**6.3 Option Price** . The Option Price for each grant of an Option under this Plan shall be determined by the Committee in its sole discretion and shall be specified in the Award Agreement; provided, however, the Option Price must be at least equal to one hundred percent (100%) of the FMV of the Shares as determined on the date of grant.

Notwithstanding this Section 6.3 to the contrary, in the case of an Option that is a Substitute Award, the price per share of the Shares subject to the Option may be less than the Fair Market Value per Share on the date of grant; provided, however, that X shall not exceed Y, where X is the amount, if any, by which the aggregate Fair Market Value (as of the date the Substitute Award is granted) of the Shares subject to the Substitute Award exceeds the aggregate option price thereof, and Y is the amount, if any, by which the aggregate Fair Market Value (determined by the Committee as of the time immediately preceding the transaction giving rise to the Substitute Awards) of the Shares of the predecessor entity that were subject to the grant assumed or substituted for the Company exceeds the aggregate option price of such Shares.

**6.4 Term of Options** . Each Option granted to a Participant shall expire at such time as the Committee shall determine at the time of grant; provided, however, no Option shall be exercisable later than the tenth (10<sup>th</sup>) anniversary date of its grant. Notwithstanding the foregoing, the Committee has the authority to grant to Participants who are not residents of the United States Nonqualified Stock Options that have a term greater than ten (10) years.

**6.5 Exercise of Options** . Options granted under this Article 6 shall be exercisable at such times and be subject to such restrictions and conditions as the Committee shall in each instance approve. The terms and restrictions applicable to Options need not be the same for each grant or for each Participant.

**6.6 Payment** . Options granted under this Article 6 shall be exercised by the delivery to the Company or an agent designated by the Company of a notice of exercise in a form specified or accepted by the Committee, or by complying with any alternative procedures authorized by the Committee. The notice of exercise shall set forth the number of Shares with respect to which the Option is to be exercised and be accompanied by full payment for the Shares.

Payment of the Option Price shall be a condition to the issuance of the Shares as to which an Option shall be exercised. The Option Price of any Option shall be payable to the Company in full either: (a) in cash or its equivalent; (b) by tendering (either by actual delivery or attestation) previously acquired Shares having an aggregate Fair Market Value at the time of exercise equal to the Option Price; (c) by a cashless (broker-assisted) exercise; (d) by a combination of (a), (b) and/or (c); or (e) any other method approved or accepted by the Committee, in its sole discretion.

Subject to any governing rules or regulations, as soon as practicable after receipt of written notification of exercise and full payment (including satisfaction of any applicable tax withholding), the Company shall deliver to the Participant evidence of book entry Shares or, upon the Participant's request, Share certificates in an appropriate amount based upon the number of Shares purchased under the Option(s).

Unless otherwise determined by the Committee, all payments under all of the methods indicated above shall be paid in United States dollars.

**6.7 Restrictions on Share Transferability** . The Committee may impose such restrictions on any Shares acquired pursuant to the exercise of an Option granted under this Article 6 as it may deem advisable, including, without limitation, minimum holding period requirements or restrictions under applicable federal securities laws, under the requirements of any stock exchange or market upon which the Shares are then listed and/or traded, or under any blue sky or state securities laws applicable to the Shares.

**6.8 Termination of Employment** . Each Participant's Award Agreement shall set forth the extent to which the Participant shall have the right to exercise the Option following Termination of Employment or termination of services to the Company, its Affiliates and/or its Subsidiaries, as the case may be. These provisions shall be determined in the sole discretion of the Committee, shall be included in the Award Agreement entered into with each Participant, need not be uniform among all Options issued pursuant to this Article 6, and may reflect distinctions based on the reasons for termination.

**6.9 Notification of Disqualifying Disposition** . If any Participant shall make any disposition of Shares issued pursuant to the exercise of an ISO under the circumstances described in Code Section 421(b) (relating to certain disqualifying dispositions), the Participant shall notify the Company of such disposition within ten (10) days thereof.

**6.10 No Other Feature of Deferral** . No Option granted pursuant to this Plan shall provide for any feature for the deferral of compensation other than the deferral of recognition of income until the exercise of the Option.

## **Article 7. Stock Appreciation Rights**

**7.1 Grant of SARs** . Subject to the terms and conditions of this Plan, SARs may be granted to Participants at any time and from time to time as shall be determined by the Committee. However, an Employee who is employed by an Affiliate and/or Subsidiary may be granted SARs only to the extent the Affiliate and/or Subsidiary is: (i) part of the Company's controlled group of corporations or (ii) a trade or business under common control, as of the date of grant, as determined within the meaning of Code Section 414(b) or 414(c) and substituting for this purpose ownership of at least fifty percent (50%) of the Affiliate and/or Subsidiary to determine the members of the controlled group of corporations and the entities under common control.

Subject to the terms and conditions of this Plan, the Committee shall have complete discretion in determining the number of SARs granted to each Participant and, consistent with the provisions of this Plan, in determining the terms and conditions pertaining to the SARs.

The Grant Price for each grant of a SAR shall be determined by the Committee and shall be specified in the Award Agreement; provided, however, the Grant Price on the date of grant must be at least equal to one hundred percent (100%) of the FMV of the Shares as determined on the date of grant.

Notwithstanding this Section 7.1 to the contrary, in the case of a SAR that is a Substitute Award, the Grant Price of the Shares subject to the SAR may be less than the Fair Market Value per Share on the date of grant; provided, however, that the X shall not exceed Y, where X is the amount, if any, by which the aggregate Fair Market Value (as of the date on which the Substitute Award is granted) of the Shares subject to the Substitute Award exceeds the aggregate Grant Price with respect to the Shares subject to the Substitute Award and Y is the amount, if any, by which the aggregate Fair Market Value (determined by the Committee as of the time immediately preceding the transaction giving rise to the Substitute Awards), of the Shares of the predecessor entity that were subject to the grant assumed or substituted for the Company exceeds the aggregate Grant Price of the Shares.

**7.2 SAR Agreement** . Each SAR Award shall be evidenced by an Award Agreement that shall specify the Grant Price, the term of the SAR and such other provisions as the Committee shall determine.

**7.3 Term of SAR** . The term of a SAR granted under this Plan shall be determined by the Committee, in its sole discretion, and, except as determined otherwise by the Committee and specified in the SAR Award Agreement, no SAR shall be exercisable later than the tenth (10<sup>th</sup>) anniversary date of its grant. Notwithstanding the foregoing, the Committee has the authority to grant to Participants who are not residents of the United States SARs that have a term greater than ten (10) years.

**7.4 Exercise of SARs** . SARs may be exercised upon whatever terms and conditions the Committee, in its sole discretion, imposes.

**7.5 Settlement of SARs** . Upon the exercise of a SAR, a Participant shall be entitled to receive payment from the Company in an amount equal to the product of the excess of the Fair Market Value of a Share on the date of exercise over the Grant Price and the number of Shares with respect to which the SAR is exercised.

At the discretion of the Committee, the payment upon SAR exercise may be in cash, Shares or any combination of cash and Shares, or in any other manner approved by the Committee in its sole discretion. The Committee's determination regarding the form of SAR payout shall be set forth in the Award Agreement pertaining to the grant of the SAR.

**7.6 Termination of Employment** . Each Award Agreement shall set forth the extent to which the Participant shall have the right to exercise the SAR following Termination of Employment with, or provision of services to, the Company, its Affiliates and/or its Subsidiaries, as the case may be. These provisions shall be determined in the sole discretion of the Committee, shall be included in the Award Agreement entered into with Participants, need not be uniform among all SARs issued pursuant to this Plan, and may reflect distinctions based on the reasons for termination.

**7.7 Other Restrictions** . The Committee shall impose such other conditions and/or restrictions on any Shares received upon exercise of a SAR granted pursuant to this Plan as it

may deem advisable or desirable. These restrictions may include, but shall not be limited to, a requirement that the Participant hold the Shares received upon exercise of a SAR for a specified period of time.

**7.8 No Other Feature of Deferral** . No SAR granted pursuant to this Plan shall provide for any feature for the deferral of compensation other than the deferral of recognition of income until the exercise of the SAR.

## **Article 8. Restricted Stock and Restricted Stock Units**

**8.1 Grant of Restricted Stock or Restricted Stock Units** . Subject to the terms and provisions of this Plan, the Committee, at any time and from time to time, may grant Shares of Restricted Stock and/or Restricted Stock Units to Participants in such amounts as the Committee shall determine.

**8.2 Restricted Stock or Restricted Stock Unit Agreement** . Each grant of Restricted Stock and/or Restricted Stock Units shall be evidenced by an Award Agreement that shall specify the Period(s) of Restriction, the number of Shares of Restricted Stock or the number of Restricted Stock Units granted, and such other provisions as the Committee shall determine.

**8.3 Other Restrictions** . The Committee shall impose such other conditions and/or restrictions on any Shares of Restricted Stock or Restricted Stock Units granted pursuant to this Plan as it may deem advisable, including, without limitation, a requirement that Participants pay a stipulated purchase price for each Share of Restricted Stock or each Restricted Stock Unit, restrictions based upon the achievement of specific performance goals, time-based restrictions on vesting following the attainment of the performance goals, time-based restrictions, restrictions under applicable laws or under the requirements of any stock exchange or market upon which the Shares are listed or traded, or holding requirements or sale restrictions placed on the Shares by the Company upon vesting of the Restricted Stock or Restricted Stock Units.

To the extent deemed appropriate by the Committee, the Company may retain the certificates representing Shares of Restricted Stock in the Company's possession until such time as all conditions and/or restrictions applicable to the Shares have been satisfied or have lapsed.

Except as otherwise provided in this Article 8, Shares of Restricted Stock covered by each Restricted Stock Award shall become freely transferable by the Participant after all conditions and restrictions applicable to the Shares have been satisfied or have lapsed (including satisfaction of any applicable tax withholding obligations), and Restricted Stock Units shall be paid in cash, Shares or a combination of cash and Shares as the Committee, in its sole discretion, shall determine.

**8.4 Certificate Legend** . In addition to any legends placed on certificates pursuant to Section 8.3, each certificate representing Shares of Restricted Stock granted pursuant to this Plan may bear a legend such as the following or as otherwise determined by the Committee in its sole discretion:

The sale or transfer of Shares of stock represented by this certificate, whether voluntary, involuntary or by operation of law, is subject to certain restrictions on transfer as set forth in the Libbey

Inc. 2006 Omnibus Incentive Plan, and in the associated Award Agreement. A copy of this Plan and the Award Agreement may be obtained from Libbey Inc.

**8.5 Voting Rights** . Unless otherwise determined by the Committee and set forth in a Participant's Award Agreement, to the extent permitted or required by law, Participants holding Shares of Restricted Stock granted pursuant to this Plan may be granted the right to exercise full voting rights with respect to those Shares during the Period of Restriction. A Participant shall have no voting rights with respect to any Restricted Stock Units granted pursuant to this Plan.

**8.6 Termination of Employment** . Each Award Agreement shall set forth the extent to which the Participant shall have the right to retain Restricted Stock and/or Restricted Stock Units following Termination of Employment with, or provision of services to, the Company, its Affiliates and/or its Subsidiaries, as the case may be. These provisions shall be determined in the sole discretion of the Committee, shall be included in the Award Agreement entered into with each Participant, need not be uniform among all Shares of Restricted Stock or Restricted Stock Units issued pursuant to this Plan, and may reflect distinctions based on the reasons for termination.

**8.7 Section 83(b) Election** . The Committee may provide in an Award Agreement that the Award of Restricted Stock is conditioned upon the Participant making or refraining from making an election with respect to the Award under Code Section 83 (b). If a Participant makes an election pursuant to Code Section 83(b) concerning a Restricted Stock Award, the Participant shall be required to file promptly a copy of the election with the Company.

## **Article 9. Performance Units/Performance Shares**

**9.1 Grant of Performance Units/Performance Shares** . Subject to the terms and provisions of this Plan, the Committee, at any time and from time to time, may grant Performance Units and/or Performance Shares to Participants in such amounts and upon such terms as the Committee shall determine.

**9.2 Value of Performance Units/Performance Shares** . Each Performance Unit shall have an initial value that is established by the Committee at the time of grant. Each Performance Share shall have an initial value equal to the Fair Market Value of a Share on the date of grant. The Committee shall set performance goals in its discretion which, depending on the extent to which they are met, will determine the value and/or number of Performance Units/Performance Shares that will be paid out to the Participant.

**9.3 Earning of Performance Units/Performance Shares** . Subject to the terms of this Plan, after the applicable Performance Period has ended, the holder of Performance Units/Performance Shares shall be entitled to receive payout on the value and number of Performance Units/Performance Shares earned by the Participant over the Performance Period, to be determined as a function of the extent to which the corresponding performance goals have been achieved.

**9.4 Form and Timing of Payment of Performance Units/Performance Shares** . Payment of earned Performance Units/Performance Shares shall be as determined by the Committee and as evidenced in the Award Agreement. Subject to the terms of this Plan, the Committee, in its sole discretion, may pay earned Performance Units/Performance Shares in



the form of cash or in Shares (or in a combination thereof) equal to the value of the earned Performance Units/Performance Shares at the close of the applicable Performance Period, or as soon as practicable after the end of the Performance Period. Any Shares may be granted subject to any restrictions deemed appropriate by the Committee. The determination of the Committee with respect to the form of payout of the Awards shall be set forth in the Award Agreement pertaining to the grant of the Award.

**9.5 Termination of Employment** . Each Award Agreement shall set forth the extent to which the Participant shall have the right to retain Performance Units and/or Performance Shares following Termination of Employment with, or provision of services to, the Company, its Affiliates and/or its Subsidiaries, as the case may be. These provisions shall be determined in the sole discretion of the Committee, shall be included in the Award Agreement entered into with each Participant, need not be uniform among all Awards of Performance Units or Performance Shares issued pursuant to this Plan, and may reflect distinctions based on the reasons for termination.

## **Article 10. Cash-Based Awards and Other Stock-Based Awards**

**10.1 Grant of Cash-Based Awards** . Subject to the terms and provisions of the Plan, the Committee, at any time and from time to time, may grant Cash-Based Awards to Participants in such amounts and upon such terms as the Committee may determine.

**10.2 Other Stock-Based Awards** . The Committee may grant other types of equity-based or equity-related Awards not otherwise described by the terms of this Plan (including the grant or promise to deliver or offer for sale of unrestricted Shares) in such amounts and subject to such terms and conditions as the Committee shall determine. Other Stock-Based Awards may involve the transfer of actual Shares to Participants, or payment in cash or otherwise of amounts based on the value of Shares, and may include, without limitation, Awards designed to comply with or take advantage of the applicable local laws of jurisdictions other than the United States.

**10.3 Value of Cash-Based and Other Stock-Based Awards** . Each Cash-Based Award shall specify a payment amount or payment range as determined by the Committee. Each Other Stock-Based Award shall be expressed in terms of Shares or units based on Shares, as determined by the Committee. The Committee may establish performance goals in its discretion. If the Committee exercises its discretion to establish performance goals, the number and/or value of Cash-Based Awards or Other Stock-Based Awards that will be paid out to the Participant will depend on the extent to which the performance goals are met.

**10.4 Payment of Cash-Based Awards and Other Stock-Based Awards** . Payment, if any, with respect to a Cash-Based Award or an Other Stock-Based Award shall be made, in accordance with the terms of the Award, in cash or Shares as the Committee determines.

**10.5 Termination of Employment** . The Committee shall determine the extent to which the Participant shall have the right to receive Cash-Based Awards or Other Stock-Based Awards following Termination of Employment with, or provision of services to, the Company, its Affiliates and/or its Subsidiaries, as the case may be. These provisions shall be determined in the sole discretion of the Committee, may be included in an agreement entered into with each Participant, need not be uniform among all Awards of Cash-Based Awards or Other Stock-Based Awards issued pursuant to the Plan, and may reflect distinctions based on the reasons for termination.

## Article 11. Transferability of Awards

**11.1 Transferability** . Except as provided in Section 11.2 below, during a Participant's lifetime, his or her Awards shall be exercisable only by the Participant. Awards shall not be transferable other than by will or the laws of descent and distribution or, subject to the consent of the Committee, pursuant to a DRO; no Awards shall be subject, in whole or in part, to attachment, execution or levy of any kind; and any purported transfer in violation of this Section 11.1 shall be null and void. The Committee may establish such procedures as it deems appropriate for a Participant to designate a beneficiary to whom any amounts payable or Shares deliverable in the event of, or following, the Participant's death may be provided.

**11.2 Committee Action** . The Committee may, in its discretion, determine that notwithstanding Section 11.1, any or all Awards (other than ISOs) shall be transferable to and exercisable by such transferees, and subject to such terms and conditions, as the Committee may deem appropriate; provided, however, no Award may be transferred for value (as defined in the General Instructions to Form S-8).

## Article 12. Performance Measures

**12.1 Performance Measures** . The performance goals upon which the payment or vesting of an Award to a Covered Employee that is intended to qualify as Performance-Based Compensation shall be limited to the following Performance Measures:

- (a) Net earnings or net income (before or after taxes);
- (b) Earnings per share;
- (c) Net sales or revenue growth;
- (d) Net operating profit;
- (e) Return measures (including, but not limited to, return on assets, capital, invested capital, equity, sales or revenue);
- (f) Cash flow (including, but not limited to, operating cash flow, free cash flow, cash flow return on equity and cash flow return on investment);
- (g) Earnings before or after taxes, interest, depreciation and/or amortization;
- (h) Gross or operating margins;
- (i) Productivity ratios;
- (j) Share price (including, but not limited to, growth measures and total shareholder return);
- (k) Expense targets;
- (l) Cost reductions or savings;
- (m) Performance against operating budget goals;
- (n) Margins;
- (o) Operating efficiency;
- (p) Funds from operations;
- (q) Market share;
- (r) Customer satisfaction;
- (s) Working capital targets; and
- (t) Economic value added or EVA<sup>®</sup> (net operating profit after tax minus the sum of capital multiplied by the cost of capital).

Any Performance Measure(s) may be used to measure the performance of the Company, Subsidiary and/or Affiliate as a whole or any business unit of the Company, Subsidiary and/or Affiliate, or any combination thereof, as the Committee may deem appropriate, or any of the

above Performance Measures as compared to the performance of a group of comparator companies, or published or special index that the Committee, in its sole discretion, deems appropriate, or the Company may select Performance Measure (j) above as compared to various stock market indices. The Committee also has the authority to provide for accelerated vesting of any Award based on the achievement of performance goals pursuant to the Performance Measures specified in this Article 12.

**12.2 Evaluation of Performance** . The Committee may provide in any such Award that any evaluation of performance may include or exclude any of the following events that occurs during a Performance Period: (a) asset write-downs, (b) litigation or claim judgments or settlements, (c) the effect of changes in tax laws, accounting principles or other laws or provisions affecting reported results, (d) any reorganization and restructuring programs, (e) Extraordinary Items, (f) acquisitions or divestitures, and (g) foreign exchange gains and losses. To the extent the inclusions or exclusions affect Awards to Covered Employees, they shall be prescribed in a form that meets the requirements of Code Section 162(m) for deductibility.

**12.3 Adjustment of Performance-Based Compensation** . Awards that are intended to qualify as Performance-Based Compensation may not be adjusted upward. The Committee shall retain the discretion to adjust the Awards downward, either on a formula or discretionary basis or any combination, as the Committee determines.

**12.4 Committee Discretion** . If applicable tax and/or securities laws change to permit Committee discretion to alter the governing Performance Measures without obtaining shareholder approval of the changes, the Committee shall have sole discretion to make the changes without obtaining shareholder approval provided the exercise of such discretion does not violate Code Section 409A. In addition, if the Committee determines that it is advisable to grant Awards that shall not qualify as Performance-Based Compensation, the Committee may make the grants without satisfying the requirements of Code Section 162 (m) and base vesting on Performance Measures other than those set forth in Section 12.1.

### **Article 13. Non-employee Director Awards**

Non-employee Directors may be granted Awards pursuant to this Plan only in accordance with this Article 13. Awards granted to Non-employee Directors pursuant to this Plan shall not be subject to management's discretion. From time to time, the Nominating and Governance Committee shall set the amount(s) and type(s) of Awards that shall be granted to all Non-employee Directors on a periodic, nondiscriminatory basis pursuant to the Plan, as well as any additional amount(s), if any, to be awarded, also on a periodic, nondiscriminatory basis, based on each of the following: (a) the number of committees of the Board on which a Non-employee Director serves, (b) service of a Non-employee Director as the chair of a committee of the Board, (c) service of a Non-employee Director as Chairman of the Board, or (d) the first selection or appointment of an individual to the Board as a Non-employee Director. Subject to the limits set forth in Section 4.1(c) and the foregoing, the Nominating and Governance Committee shall grant these Awards to Non-employee Directors and any Non-employee Chairman of the Board, and grant new Non-employee Director Awards, as it shall from time to time determine. The terms and conditions of any grant to any Non-employee Director shall be set forth in an Award Agreement.

## **Article 14. Dividend Equivalents**

Any Participant selected by the Committee may be granted Dividend Equivalents on Shares that are subject to any Award, to be credited as of dividend payment dates, during the period between the date the Award is granted and the date the Award is exercised, vests or expires, as determined by the Committee. However, no Dividend Equivalents may be granted on any Award of Options or SARs.

## **Article 15. Beneficiary Designation**

Each Participant under this Plan may, from time to time, name any beneficiary or beneficiaries (who may be named contingently or successively) to whom any benefit under this Plan is to be paid in case of his death before he receives any or all of the benefit. Each such designation shall revoke all prior designations by the same Participant, shall be in a form prescribed by the Committee, and shall be effective only when filed by the Participant in writing with the Company during the Participant's lifetime. In the absence of any such beneficiary designation, benefits remaining unpaid or rights remaining unexercised at the Participant's death shall be paid to or exercised by the Participant's executor, administrator or legal representative.

## **Article 16. Rights of Participants**

**16.1 Employment** . Nothing in this Plan or an Award Agreement shall interfere with or limit in any way the right of the Company, its Affiliates and/or its Subsidiaries to terminate any Participant's employment or service on the Board or to the Company at any time or for any reason not prohibited by law, nor confer upon any Participant any right to continue his employment or service as a Director for any specified period of time.

Neither an Award nor any benefits arising under this Plan shall constitute an employment contract with the Company, its Affiliates and/or its Subsidiaries. Accordingly, subject to Articles 3 and 18, this Plan and the benefits under it may be terminated at any time in the sole and exclusive discretion of the Committee without giving rise to any liability on the part of the Company, its Affiliates and/or its Subsidiaries.

**16.2 Participation** . No individual shall have the right to be selected to receive an Award under this Plan, or, having been so selected, to be selected to receive a future Award.

**16.3 Rights as a Shareholder** . Except as otherwise provided in this Plan, a Participant shall have none of the rights of a shareholder with respect to Shares covered by any Award until the Participant becomes the record holder of the Shares.

## **Article 17. Change in Control**

**17.1 Change of Control of the Company** . Notwithstanding any other provision of this Plan to the contrary, the provisions of this Article 17 shall apply in the event of a Change of Control, unless otherwise determined by the Committee in connection with the grant of an Award as reflected in the applicable Award Agreement.

Upon a Change of Control, all then-outstanding Options and SARs shall become fully vested and exercisable immediately, and all other Awards that are not then vested and as to which vesting depends upon only the satisfaction of a service obligation by a Participant to the Company, Subsidiary or Affiliate shall vest in full and be free of restrictions related to the vesting of the Awards, except to the extent that another Award meeting the requirements of Section

17.2 (a “ Replacement Award ”) is provided to the Participant to replace the Award in question (the “ Replaced Award ”). The treatment of any other Awards shall be as determined by the Committee in connection with the grant thereof, as reflected in the applicable Award Agreement.

Except to the extent that a Replacement Award is provided to the Participant, the Committee may, in its sole discretion: (i) determine that any or all outstanding Awards granted under the Plan, whether or not exercisable, will be canceled and terminated and that in connection with the cancellation and termination the holder of the Award may receive for each Share of Common Stock subject to the Awards a cash payment (or the delivery of shares of stock, other securities or a combination of cash, stock and securities equivalent to the cash payment) equal to the difference, if any, between the consideration received by shareholders of the Company in respect of a Share of Common Stock in connection with the transaction and the product of the purchase price, if any, per share under the Award and the number of Shares of Common Stock subject to the Award; provided, however, that if the product is zero or less, or to the extent that the Award is not then exercisable, the Awards will be canceled and terminated without payment therefor; or (ii) provide that the period to exercise Options or SARs granted under the Plan shall be extended (but not beyond the expiration of the Option or SAR).

**17.2 Replacement Awards** . An Award shall meet the conditions of this Section 17.2 (and hence qualify as a Replacement Award) if: (i) it has a value at least equal to the value of the Replaced Award as determined by the Committee in its sole discretion; (ii) it relates to publicly traded equity securities of the Company or its successor pursuant to the Change in Control or another entity that is affiliated with the Company or its successor following the Change in Control; and (iii) its other terms and conditions are not less favorable to the Participant than the terms and conditions of the Replaced Award (including the provisions that would apply in the event of a subsequent Change of Control). Without limiting the generality of the foregoing, the Replacement Award may take the form of a continuation of the Replaced Award if the requirements of the preceding sentence are satisfied. The determination as to whether the conditions of this Section 17.2 are satisfied shall be made by the Committee, as constituted immediately before the Change of Control, in its sole discretion.

**17.3 Termination of Employment** . Upon a Termination of Employment or, in the case of Directors, a termination of service as a Director, of a Participant occurring in connection with or during the period of two (2) years after the Change in Control, other than for Cause, (i) all Replacement Awards held by the Participant shall become fully vested and (if applicable) exercisable and free of restrictions, and (ii) all Options and SARs held by the Participant immediately before the termination of employment or termination of service as a Director that the Participant held as of the date of the Change in Control or that constitute Replacement Awards shall remain exercisable for not less than one (1) year following the termination or until the expiration of the stated term of the Option or SAR, whichever period is shorter; provided that, if the applicable Award Agreement provides for a longer period of exercisability, that provision shall control.

## **Article 18. Amendment, Modification, Suspension, and Termination**

**18.1 Amendment, Modification, Suspension, and Termination** . Subject to Section 18.3, the Committee may, at any time and from time to time, alter, amend, modify, suspend or terminate this Plan and any Award Agreement in whole or in part; provided, however, that, without the prior approval of the Company’s shareholders and except as provided in Section 4.4, Options or SARs issued under this Plan will not be repriced, replaced or regranted through

cancellation and substitution of another Award, or by lowering the Option Price of a previously granted Option or the Grant Price of a previously granted SAR, and no amendment of this Plan shall be made without shareholder approval if shareholder approval is required by law, regulation or stock exchange rule.

**18.2 Awards Previously Granted** . Notwithstanding any other provision of this Plan to the contrary (other than Section 18.3), no termination, amendment, suspension or modification of this Plan or an Award Agreement shall adversely affect in any material way any Award previously granted under this Plan, without the written consent of the Participant holding the Award.

**18.3 Amendment to Conform to Law** . Notwithstanding any other provision of this Plan to the contrary, the Board of Directors may amend the Plan or an Award Agreement, to take effect retroactively or otherwise, as deemed necessary or advisable for the purpose of conforming the Plan or an Award Agreement to any present or future law relating to plans of this or similar nature (including, but not limited to, Code Section 409A), and to the administrative regulations and rulings promulgated under the present or future law.

## **Article 19. Withholding**

**19.1 Tax Withholding** . The Company shall have the power and the right to deduct or withhold, or require a Participant to remit to the Company, the minimum statutory amount to satisfy federal, state and local taxes, domestic or foreign, required by law or regulation to be withheld with respect to any taxable event arising as a result of this Plan.

**19.2 Share Withholding** . With respect to withholding required upon the exercise of Options or SARs, upon the lapse of restrictions on Restricted Stock and Restricted Stock Units, or upon the achievement of performance goals related to Performance Shares, or any other taxable event arising as a result of an Award granted pursuant to this Plan, Participants may elect, subject to the approval of the Committee, to satisfy the withholding requirement, in whole or in part, by having the Company withhold Shares having a Fair Market Value on the date the tax is to be determined equal to the minimum statutory total tax that could be imposed on the transaction. All such elections shall be irrevocable, made in writing and signed by the Participant, and shall be subject to any restrictions or limitations that the Committee, in its sole discretion, deems appropriate.

## **Article 20. Successors**

All obligations of the Company under this Plan with respect to Awards granted pursuant to this Plan shall be binding on any successor to the Company, whether the existence of the successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business and/or assets of the Company.

## **Article 21. General Provisions**

### **21.1 Forfeiture Events** .

- (a) The Committee may specify in an Award Agreement that the Participant's rights, payments and benefits with respect to an Award shall be subject to reduction, cancellation, forfeiture or recoupment upon the occurrence of certain specified events, in addition to any otherwise applicable vesting or performance conditions of an Award. These events may include, but shall not

be limited to, termination of employment for cause, termination of the Participant's provision of services to the Company, Affiliate and/or Subsidiary, violation of material Company, Affiliate and/or Subsidiary policies, breach of noncompetition, confidentiality or other restrictive covenants that may apply to the Participant, or other conduct by the Participant that is detrimental to the business or reputation of the Company, its Affiliates and/or its Subsidiaries.

- (b) If the Company is required to prepare an accounting restatement due to the material noncompliance of the Company, as a result of misconduct, with any financial reporting requirement under the securities laws, and if the Participant knowingly or grossly negligently engaged in the misconduct, or knowingly or grossly negligently failed to prevent the misconduct, or if the Participant is one of the individuals subject to automatic forfeiture under Section 304 of the Sarbanes-Oxley Act of 2002, the Participant shall reimburse the Company the amount of any payment in settlement of an Award earned or accrued during the twelve (12) month period following the first public issuance or filing with the United States Securities and Exchange Commission (whichever just occurred) of the financial document embodying the financial reporting requirement.

**21.2 Legend** . The certificates for Shares may include any legend that the Committee deems appropriate to reflect any restrictions on transfer of the Shares.

**21.3 Gender and Number** . Except where otherwise indicated by the context, any masculine term used in this Plan also shall include the feminine, the plural shall include the singular, and the singular shall include the plural.

**21.4 Severability** . In the event any provision of this Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of this Plan, and this Plan shall be construed and enforced as if the illegal or invalid provision had not been included.

**21.5 Requirements of Law** . The granting of Awards and the issuance of Shares under this Plan shall be subject to all applicable laws, rules and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

**21.6 Delivery of Title** . The Company shall have no obligation to issue or deliver evidence of title for Shares issued under this Plan prior to:

- (a) Obtaining any approvals from governmental agencies that the Company determines are necessary or advisable; and
- (b) Completion of any registration or other qualification of the Shares under any applicable national or foreign law or ruling of any governmental body that the Company determines to be necessary or advisable.

**21.7 Inability to Obtain Authority** . The inability of the Company to obtain from any regulatory body having jurisdiction such authority as the Company's counsel deems to be necessary to the lawful issuance and sale of any Shares under this Plan, shall relieve the Company of any liability in respect of the failure to issue or sell the Shares as to which requisite authority shall not have been obtained.

**21.8 Investment Representations** . The Committee may require any individual receiving Shares pursuant to an Award under this Plan to represent and warrant in writing that the individual is acquiring the Shares for investment and without any present intention to sell or distribute the Shares.

**21.9 Employees Based Outside of the United States** . Notwithstanding any provision of this Plan to the contrary, in order to comply with the laws in other countries in which the Company, its Affiliates and/or its Subsidiaries operate or in which Employees or Directors of the Company, its Affiliates and/or its Subsidiaries are located, the Committee, in its sole discretion, shall have the power and authority to:

- (a) Determine which Affiliates and Subsidiaries shall be covered by this Plan;
- (b) Determine which Employees and/or Directors outside the United States are eligible to participate in this Plan;
- (c) Modify the terms and conditions of any Award granted to Employees and/or Directors outside the United States to comply with applicable foreign laws;
- (d) Establish subplans and modify exercise procedures and other terms and procedures, to the extent the actions may be necessary or advisable. Any sub-plans and modifications to Plan terms and procedures established under this Section 21.9 by the Committee shall be attached to this Plan document as appendices; and
- (e) Take any action, before or after an Award is made, that it deems advisable to obtain approval or comply with any necessary local government regulatory exemptions or approvals.

Notwithstanding the above, the Committee may not take any actions under this Section 21.9, and no Awards shall be granted, that would violate applicable law.

**21.10 Uncertificated Shares** . To the extent that this Plan provides for issuance of certificates to reflect the transfer of Shares, the transfer of the Shares may be effected on a noncertificated basis, to the extent not prohibited by applicable law or the rules of any stock exchange.

**21.11 Unfunded Plan** . Participants shall have no right, title or interest in or to any investments that the Company and/or its Subsidiaries and/or its Affiliates may make to aid it in meeting its obligations under this Plan. Nothing contained in this Plan, and no action taken pursuant to its provisions, shall create or be construed to create a trust of any kind, or a fiduciary relationship between the Company and any Participant, beneficiary, legal representative or any other individual. To the extent that any individual acquires a right to receive payments from the Company, its Subsidiaries and/or its Affiliates under this Plan, the right shall be no greater than the right of an unsecured general creditor of the Company, a Subsidiary or an Affiliate, as the case may be. All payments to be made under this Plan shall be paid from the general funds of the Company, a Subsidiary or an Affiliate, as the case may be, and no special or separate fund shall be established and no segregation of assets shall be made to assure payment of the amounts except as expressly set forth in this Plan.



**21.12 No Fractional Shares** . No fractional Shares shall be issued or delivered pursuant to this Plan or any Award. The Committee shall determine whether cash, Awards or other property shall be issued or paid in lieu of fractional Shares or whether fractional Shares or any rights to fractional Shares shall be forfeited or otherwise eliminated.

**21.13 Retirement and Welfare Plans** . Neither Awards made under this Plan nor Shares or cash paid pursuant to Awards may be included as "compensation" for purposes of computing the benefits payable to any Participant under the Company's or any Subsidiary's or Affiliate's retirement plans (both qualified and non-qualified) or welfare benefit plans unless the other plan expressly provides that the compensation shall be taken into account in computing a Participant's benefit.

**21.14 Deferred Compensation** . It is intended that any Award made under this Plan that results in the deferral of compensation (as defined under Code Section 409A) complies with the requirements of Code Section 409A.

**21.15 Nonexclusivity of this Plan** . The adoption of this Plan shall not be construed as creating any limitations on the power of the Board or Committee to adopt the other compensation arrangements as it may deem desirable for any Participant.

**21.16 No Constraint on Corporate Action** . Nothing in this Plan shall be construed to: (i) limit, impair or otherwise affect the Company's or a Subsidiary's or an Affiliate's right or power to make adjustments, reclassifications, reorganizations or changes of its capital or business structure, or to merge or consolidate, or dissolve, liquidate, sell or transfer all or any part of its business or assets; or (ii) limit the right or power of the Company or a Subsidiary or an Affiliate to take any action that the entity deems to be necessary or appropriate.

**21.17 Governing Law** . The Plan and each Award Agreement shall be governed by the laws of the State of Delaware, excluding any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation of this Plan to the substantive law of another jurisdiction. Unless otherwise provided in the Award Agreement, recipients of an Award under this Plan are deemed to submit to the exclusive jurisdiction and venue of the federal or state courts of Delaware, to resolve any and all issues that may arise out of or relate to this Plan or any related Award Agreement.

**21.18 Indemnification** . Subject to requirements of Delaware law, each individual who is or shall have been a member of the Board, or a Committee appointed by the Board, or an officer of the Company to whom authority was delegated in accordance with Article 3, shall be indemnified and held harmless by the Company against and from any loss, cost, liability or expense that may be imposed upon or reasonably incurred by him or her in connection with or resulting from any claim, action, suit or proceeding to which he or she may be a party or in which he or she may be involved by reason of any action taken or failure to act under this Plan and against and from any and all amounts paid by him or her in settlement thereof, with the Company's approval, or paid by him or her in satisfaction of any judgment in any such action, suit or proceeding against him or her, provided he or she shall give the Company an opportunity, at its own expense, to handle and defend the same before he or she undertakes to handle and defend it on his/her own behalf, unless the loss, cost, liability or expense is a result of his/her own willful misconduct or except as expressly provided by statute.

The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which the individuals may be entitled under the Company's Certificate of Incorporation or Bylaws, as a matter of law, or otherwise, or any power that the Company may have to indemnify them or hold them harmless.

**21.19 No Guarantee of Favorable Tax Treatment.** Although the Company intends to administer the Plan so that Awards will be exempt from, or will comply with, the requirements of Code Section 409A, the Company does not warrant that any Award under the Plan will qualify for favorable tax treatment under Code Section 409A or any other provision of federal, state, local or foreign law. The Company shall not be liable to any Participant for any tax the Participant might owe as a result of the grant, holding, vesting, exercise or payment of any Award under the Plan.



**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: May 10, 2006

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



**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: May 10, 2006

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



**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 March 31, 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: May 10, 2006

/s/ John F. Meier

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John F. Meier  
Chief Executive Officer





**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 March 31, 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: May 10, 2006

/s/ Scott M. Sellick

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Scott M. Sellick  
Chief Financial Officer