LIBBEY INC

FORM 10-Q
(Quarterly Report)

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Address	300 MADISON AVE PO BOX 10060
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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 September 30, 2005

OR

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

Commission file number 1-12084

Libbey Inc.

(Exact name of registrant as specified in its charter)

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

300 Madison Avenue, Toledo, Ohio 43604
(Address of principal executive offices) (Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes ☑ No ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).
Yes ☑ No ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
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 — 13,976,415 shares at October 28, 2005.

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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 and nine-month periods ended September 30, 2005, are not necessarily indicative of the results that may be expected for the year-ended December 31, 2005.

The balance sheet at December 31, 2004, 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, 2004.

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

	Three months ended September 30, 2005	2004
Revenues:		
Net sales	$ 135,573	$ 131,790
Freight billed to customers	444	476
Total revenues	136,017	132,266
Cost of sales [1]	108,750	111,919
Gross profit	27,267	20,347
Selling, general and administrative expenses [1]	16,788	15,771
Special charges [1]	487	5,748
Income (loss) from operations	9,992	(1,172)
Equity loss — pretax	(1,183)	(914)
Other income	923	478
Earnings (loss) before interest and income taxes and minority interest	9,732	(1,608)
Interest expense	3,398	3,175
Income (loss) before income taxes and minority interest	6,334	(4,783)
Provision (credit) for income taxes	2,090	(1,579)
Income (loss) before minority interest	4,244	(3,204)
Minority interest [2]	(77)	—
Net income (loss)	$ 4,167	$ (3,204)
Net income (loss) per share:		
Basic	$ 0.30	$ (0.23)
Diluted	$ 0.30	$ (0.23)
Dividends per share	$ 0.10	$ 0.10

See accompanying notes

(1) Refer to Note 7 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 STATEMENTS OF OPERATIONS
(dollars in thousands, except per-share amounts)
(unaudited)

	Nine months ended September 30, 2005	Nine months ended September 30, 2004
Revenues:		
Net sales	$409,895	$390,665
Freight billed to customers	1,422	1,531
Total revenues	411,317	392,196
Cost of sales [1]	335,955	316,611
Gross profit	75,362	75,585
Selling, general and administrative expenses [1]	55,109	50,250
Special charges [1]	7,681	5,748
Income from operations	12,572	19,587
Equity loss — pretax	(1,381)	(847)
Other income	1,655	1,565
Earnings before interest and income taxes and minority interest	12,846	20,305
Interest expense	10,240	10,267
Income before income taxes and minority interest	2,606	10,038
Provision for income taxes	860	3,312
Income before minority interest	1,746	6,726
Minority interest [2]	(98)	—
Net income	$ 1,648	$ 6,726
Net income per share:		
Basic	$ 0.12	$ 0.49
Diluted	$ 0.12	$ 0.49
Dividends per share	$ 0.30	$ 0.30

See accompanying notes

(1) Refer to Note 7 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)

	September 30, 2005 (unaudited)	December 31, 2004	September 30, 2004 (unaudited)
ASSETS			
Current assets:			
Cash	$ 1,242	$ 6,244	$ 1,488
Accounts receivable — net	75,122	67,522	66,863
Inventories — net	147,848	126,625	141,366
Deferred taxes	8,847	7,462	7,402
Prepaid and other current assets	18,660	3,308	6,476
Total current assets	251,719	211,161	223,595
Other assets:			
Repair parts inventories	7,126	6,965	6,579
Intangible pension asset	22,140	22,140	15,512
Software — net	4,492	3,301	3,208
Other assets	6,257	4,131	3,273
Investments	81,271	82,125	87,123
Purchased intangible assets — net	14,576	12,314	12,166
Goodwill — net	56,281	53,689	53,052
Total other assets	192,143	184,665	180,913
Property, plant and equipment — net	204,608	182,378	174,578
Total assets	$ 648,470	$ 578,204	$ 579,086
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Notes payable	$ 15,748	$ 9,415	$ 19,308
Accounts payable	53,551	43,140	39,594
Salaries and wages	14,809	13,481	13,262
Accrued liabilities	25,604	25,515	23,124
Deposit liability	16,623	16,623	—
Special charges reserve	3,029	3,025	2,982
Income taxes	7,650	5,839	4,147
Long-term debt due within one year	243,857	115	115
Total current liabilities	380,871	117,153	102,532
Long-term debt	5,829	215,842	231,947
Deferred taxes	13,252	12,486	15,528
Pension liability	43,741	36,466	26,513
Nonpension postretirement benefits	45,882	45,716	46,805
Other long-term liabilities	6,628	6,978	6,300
Total liabilities	496,203	434,641	429,625
Minority interest	98	—	—
Total liabilities including minority interest	496,301	434,641	429,625
Shareholders' equity:			
Common stock, par value $.01 per share, 50,000,000 shares authorized, 18,689,710 shares issued (18,685,210 shares issued in 2004)	187	187	187
Capital in excess of par value	301,025	300,922	300,916
Treasury stock, at cost, 4,725,941 shares (4,879,310 shares issued in 2004)	(133,049)	(135,865)	(136,466)
Retained earnings	4,403	6,925	6,778
Accumulated other comprehensive loss	(20,397)	(28,606)	(21,954)
Total shareholders' equity	152,169	143,563	149,461
Total liabilities and shareholders' equity	$ 648,470	$ 578,204	$ 579,086

See accompanying notes

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

	Three months ended September 30, 2005	2004
Operating activities:		
Net income (loss)	$ 4,167	$ (3,204)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	9,160	7,027
Equity loss — net of tax	791	475
Minority interest	77	—
Change in accounts receivable	(2,685)	(3,373)
Change in inventories	(11,773)	(6,769)
Change in accounts payable	11,516	4,520
Loss on sale of assets	315	—
Special charges	487	11,734
Special charges cash payments	(2,843)	(17)
Other operating activities	(7,957)	(11,754)
Net cash provided by (used in) operating activities	1,255	(1,361)
Investing activities:		
Additions to property, plant and equipment	(7,389)	(11,598)
Dividends from equity investments	—	980
Proceeds from sale of assets	223	—
Net cash used in investing activities	(7,166)	(10,618)
Financing activities:		
Net bank credit facility activity	3,030	7,380
Other net borrowings	3,514	4,971
Stock options exercised	—	163
Dividends	(1,394)	(1,375)
Other	(537)	(27)
Net cash provided by financing activities	4,613	11,112
Decrease in cash	(1,298)	(867)
Cash at beginning of period	2,540	2,355
Cash at end of period	$ 1,242	$ 1,488
Supplemental disclosure of cash flows information:		
Cash paid during the quarter for interest	$ 2,448	$ 1,761
Cash paid (net of refunds received) during the quarter for income taxes	$ (50)	$ 118

See accompanying notes

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

	Nine months ended September 30, 2005	2004
Operating activities:		
Net income	$ 1,648	$ 6,726
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	25,611	22,470
Equity loss — net of tax	967	348
Minority interest	98	—
Change in accounts receivable	(4,382)	(10,431)
Change in inventories	(16,284)	(15,836)
Change in accounts payable	3,630	2,341
Loss on sale of assets	294	—
Special charges	9,895	11,734
Special charges cash payments	(8,739)	(17)
Other operating activities	8	(7,564)
Net cash provided by operating activities	12,746	9,771
Investing activities:		
Additions to property, plant and equipment	(26,503)	(28,624)
Dividends from equity investments	—	980
Proceeds from sale of assets	223	—
Crisal acquisition and related costs	(28,990)	—
Net cash used in investing activities	(55,270)	(27,644)
Financing activities:		
Net bank credit facility activity	35,910	2,380
Other net borrowings	6,227	18,709
Stock options exercised	99	491
Dividends	(4,162)	(4,103)
Other	(552)	(865)
Net cash provided by financing activities	37,522	16,612
Effect of exchange rate fluctuations on cash	—	(1)
Decrease in cash	(5,002)	(1,262)
Cash at beginning of period	6,244	2,750
Cash at end of period	$ 1,242	$ 1,488
Supplemental disclosure of cash flows information:		
Cash paid during the period for interest	$ 8,726	$ 9,289
Cash paid (net of refunds received) during the period for income taxes	$ 5,198	$ 1,428

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 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 primarily in the foodservice, retail and industrial markets. We also import and distribute various products and have a 49% interest in Vitrocrisa Holding, S. de R.L. de C.V. and related companies (Vitrocrisa), the largest glass tableware manufacturer in Latin America, based in Monterrey, Mexico.

We own and operate two domestic glass tableware manufacturing plants, one in Ohio and one in Louisiana; glass tableware manufacturing plants in the Netherlands and in Portugal; a ceramic dinnerware plant in New York; and a foodservice plastics manufacturing 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 Vitrocrisa, allows us to compete in the tableware market by offering an extensive product line at competitive prices.

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

2. Significant Accounting Policies

See our Form 10-K for the year-ended December 31, 2004 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. We record our 49% interest in Vitrocrisa using the equity method. At September 30, 2005, we owned 95% of Crisal-Cristalaria Automática S.A. (Crisal). Our 95% controlling interest requires that Crisal’s operations be consolidated in the Condensed Consolidated Financial Statements. The 5% equity interest of Crisal that is not owned by us is shown as a 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, warehousing, shipping and delivery costs, royalty expense and other costs.

Reclassifications Certain amounts in prior years' financial statements have been reclassified to conform to the presentation used in the period ended September 30, 2005.

New Accounting Standards

In January 2004, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) No. FAS 106-1 **,** "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003" (FSP No. 106-1), which permits a sponsor of a postretirement health care plan that provides a prescription drug benefit to make a one-time election to defer accounting for the effects of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act). In May 2004, the FASB issued FSP No. 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003" (FSP 106-2). FSP 106-2 supersedes FAS No. 106-1. FSP 106-2 is effective for the first interim or annual period beginning after June 15, 2004. FSP 106-2 provides authoritative guidance on the accounting for the Act and specifies the disclosure requirements for employers who have adopted FSP 106-2. Up until the third quarter of 2005, we had elected to defer accounting for the effects of the Act pending clarification of the Act on our nonpension postretirement plans. Now, in the third quarter of 2005, with guidance from the Centers for Medicare and Medicaid Services, we have determined the effects of the Act on our nonpension postretirement plans and included them in our Condensed Consolidated Financial Statements. See Note 9.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment" (SFAS No. 123 Revised). This is an amendment to SFAS No. 123, "Accounting for Stock-Based Compensation." This new standard requires share-based compensation transactions to be accounted for using a fair-value-based method and the resulting cost to be recognized in our financial statements. This new standard is effective beginning January 1, 2006. We are currently evaluating SFAS No. 123 Revised and intend to implement it in the first quarter of 2006. We do not presently have an estimate of its effect on our financial statements.

The FASB issued SFAS No. 151, "Inventory Costs — an amendment of ARB No. 43, Chapter 4." This statement clarifies the requirement that abnormal inventory-related costs be recognized as current-period charges and requires that the allocation of fixed production overhead costs to inventory conversion costs be based on the normal capacity of the production facilities. The provisions of this statement are to be applied prospectively to inventory costs incurred during fiscal years beginning after June 15, 2005. We do not presently expect the effects of adoption to be significant.

3. Balance Sheet Details

The following tables provide detail of selected balance sheet items:

	September 30, 2005	December 31, 2004	September 30, 2004
Accounts receivable:			
Trade receivables	$ 72,194	$ 64,744	$ 63,003
Other receivables	2,928	2,778	3,860
Total accounts receivable, less allowances of $8,123, $7,661 and $6,343	$ 75,122	$ 67,522	$ 66,863
Inventories:			
Finished goods	$ 136,185	$ 115,691	$ 129,398
Work in process	5,197	6,017	6,635
Raw materials	5,932	4,109	4,433
Operating supplies	534	808	900
Total inventories, less allowances and LIFO reserve of $17,725, $17,779 and $17,722	$ 147,848	$ 126,625	$ 141,366
Prepaid and other current assets:			
Prepaid expenses	$ 4,074	$ 3,147	$ 4,266
Derivative assets	13,236	161	2,210
Capitalized site demolition cost	1,350	—	—
Total prepaid and other current assets	$ 18,660	$ 3,308	$ 6,476
Other assets:			
Deposits	$ 1,448	$ 1,661	$ 1,473
Finance fees — net of amortization	2,191	2,002	1,575
Other	2,618	468	225
Total other assets	$ 6,257	$ 4,131	$ 3,273
Accrued liabilities:			
Accrued incentives	$ 8,027	$ 12,881	$ 9,229
Workers compensation & medical liabilities	5,513	4,318	4,181
Interest	3,102	1,538	2,584
Derivative liabilities	161	1,375	2,032
Commissions payable	774	756	754
Accrued non-income taxes	836	83	(247)
Other	7,191	4,564	4,591
Total accrued liabilities	$ 25,604	$ 25,515	$ 23,124
Other long-term liabilities:			
Deferred liability	$ 908	$ 689	$ 1,198
Guarantee of Vitrocrisa debt	421	421	421
Other	5,299	5,868	4,681
Total other long-term liabilities	$ 6,628	$ 6,978	$ 6,300

4. Acquisitions

On January 10, 2005, we purchased 95 percent of the shares of Crisal-Cristalaria Automática S.A. (Crisal) located in Marinha Grande, Portugal, from Vista Alegre Atlantis SGPS, SA. The cash transaction was valued at approximately € 28 million. Pursuant to the agreement, we will acquire the remaining shares of Crisal for approximately € 2 million approximately three years after the closing date, provided that Crisal meets a specified target relating to earnings before interest, taxes, depreciation and amortization (EBITDA). The agreement provides that, if Crisal does not meet the specified target, we will acquire the remaining shares of Crisal for one euro. In addition, the agreement provides that, if Crisal meets other specified EBITDA and net sales targets, we will pay the seller an earn-out payment in the amount of € 5.5 million no earlier than three years after the closing date of January 10, 2005. In the event that any contingent payments are made according to the agreement, the payments will be reflected as additional purchase price.

Crisal manufactures and markets glass tableware, mainly tumblers, stemware and glassware accessories, and the majority of its sales are in Portugal and Spain. This acquisition of another European glassware manufacturer is complementary to our 2002 acquisition of Royal Leerdam, a maker of fine European glass stemware. Royal Leerdam's primary markets are located in countries in northern Europe. These acquisitions are consistent with our external growth strategy to be a supplier of high-quality, machine-made glass tableware products to key markets worldwide.

The following allocation of the purchase price for the Crisal acquisition is based on preliminary data and will change when the results of the valuation of inventory, fixed assets and certain identifiable intangible assets are finalized. We expect to finalize the purchase price allocations during the fourth quarter of 2005:

Current assets	$13,215
Property, plant and equipment	31,754
Other assets	1
Intangible assets	4,187
Goodwill	3,770
Total assets acquired	52,927
Less liabilities assumed:	
Current liabilities	18,551
Long-term liabilities	5,386
Total liabilities assumed	23,937
Cash purchase price	$28,990

Crisal's results of operations are included in our Condensed Consolidated Financial Statements as of January 11, 2005. Pro forma results for both the prior-year period and the period from January 1 through January 10, 2005, are not included, as they are considered immaterial.

In late July 2005, we announced that we are pursuing the possible purchase of the remaining 51 percent of the shares of Vitrocrisa from Vitro S.A. We are still pursuing this possible purchase. Vitrocrisa is currently a joint venture between Libbey and Vitro S.A., with Libbey owning 49 percent of the shares and Vitro S.A. owning 51 percent of the shares. See Note 5.

5. Investments in Unconsolidated Affiliates

We are a 49% equity owner in Vitrocrisa Holding, S. de R.L. de C.V. and related companies (Vitrocrisa), 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 Vitrocrisa Holding, S. de R.L. de C.V. and related companies using the equity method.

Condensed balance sheet information for Vitrocrisa Holding, S. de R.L. de C.V. and subsidiaries, Crisa Libbey, S.A. de C.V. and Crisa Industrial, L.L.C. (including adjustments for U.S. GAAP) is as follows:

	September 30, 2005	December 31, 2004	September 30, 2004
Current assets	$ 92,881	$ 88,195	$ 87,658
Non-current assets	95,708	100,274	99,070
Total assets	188,589	188,469	186,728
Current liabilities	80,341	69,426	60,528
Non-current liabilities	86,727	93,962	98,699
Total liabilities	167,068	163,388	159,227
Net assets	$ 21,521	$ 25,081	$ 27,501

Condensed statements of operations for Vitrocrisa Holding, S. de R.L. de C.V. and subsidiaries, Crisa Libbey, S.A. de C.V. and Crisa Industrial, L.L.C. (including adjustments for U.S. GAAP) are as follows:

Three months ended September 30,	2005	2004
Total revenues	$46,937	$49,521
Cost of sales	41,469	42,795
Gross profit	5,468	6,726
Selling, general and administrative expenses	5,689	5,723
(Loss) income from operations	(221)	1,003
Remeasurement loss	69	387
Other expense	109	247
(Loss) earnings before interest and taxes	(399)	369
Interest expense	2,016	2,235
Loss before income taxes	(2,415)	(1,866)
Income taxes	(501)	(702)
Net loss	$ (1,914)	$ (1,164)

Nine months ended September 30,	2005	2004
Total revenues	$141,469	$140,490
Cost of sales	119,298	120,384
Gross profit	22,171	20,106
Selling, general and administrative expenses	17,017	16,739
Income from operations	5,154	3,367
Remeasurement loss	876	60
Other expense	879	370
Earnings before interest and taxes	3,399	2,937
Interest expense	6,217	4,665
Loss before income taxes	(2,818)	(1,728)
Income taxes	(845)	(822)
Net loss	$ (1,973)	$ (906)

6. Borrowings

Borrowings consist of the following:

	Interest Rate	Maturity Date	September 30, 2005	December 31, 2004	September 30, 2004
Borrowings under credit facility	floating	June 24,2009	$ 143,032	$ 113,690	$ 129,761
Senior notes	3.69%	March 31,2008	25,000	25,000	25,000
Senior notes	5.08%	March 31,2013	55,000	55,000	55,000
Senior notes	floating	March 31,2010	20,000	20,000	20,000
Promissory note	6.00%	September 2005 to September 2016	2,166	2,267	2,301
Notes payable	floating	September 2005	15,748	9,415	19,308
Obligations under capital leases	4.36%	September 2005 to May 2007	2,401	—	—
Other debt	4.00%	September 2009	2,087	—	—
Total borrowings			265,434	225,372	251,370
Less — current portion of borrowings			259,605	9,530	19,423
Total long-term portion of borrowings			$ 5,829	$ 215,842	$ 231,947

We were in compliance with all debt agreement covenants as of September 30, 2005, December 31, 2004, and September 30, 2004.

Some of the above borrowings require maintenance of certain financial covenants. On September 30, 2005, as previously reported in our Form 8-K filed October 4, 2005, we amended the terms of our Revolving Credit Facility (Facility) and our Senior Notes. The amendment temporarily reduced the Facility from $250 million to $195 million for the period September 30 to December 30, 2005, and increased the leverage ratio covenants under both the Facility and the Senior Notes from 3.50 to 1.00 to 4.25 to 1.00 at September 30, 2005. The amendment also provided for the waiver by the lenders of the leverage ratio covenant for the period from October 1, 2005, to December 29, 2005. At December 30, 2005, the leverage ratio covenant will return to 3.50 to 1.00. Based upon our forecast for the fourth quarter 2005, we expect to have a leverage ratio in excess of 3.50 to 1. Because we currently do not have further waivers or amendments of, or commitments to refinance these agreements, the borrowings under these agreements are classified as short term at September 30, 2005. However, we expect to refinance or amend these agreements in the fourth quarter of 2005 and are in the process of pursuing such amendments or financing commitments.

Revolving Credit Facility

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 provides for an unsecured Revolving Credit and Swing Line Facility (Facility). We entered into amendments to the Agreement in December 2004 and September 2005 (as described above). The Agreement permits borrowings up to an aggregate total of $195 million from September 30 to December 30, 2005, and $250 million thereafter, 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 0.35% and 1.35%, respectively, at September 30, 2005. The weighted average annual interest rate on these borrowings at September 30, 2005, was 4.3%.

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 $125 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 1.85% and 1.35%, respectively, at September 30, 2005.

Under the Agreement, we may also elect to borrow up to a maximum of $125 million under a Negotiated Rate Loan alternative 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 September 30, 2005, 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 0.4% at September 30, 2005.

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.

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 4.65%, with an initial average maturity of 8.4 years and a remaining average maturity of 5.6 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 September 30, 2005, on the $20 million debt was 4.54% per year.

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 September 30, 2005, December 31, 2004 and September 30, 2004; we had $2.2 million, $2.3 million, and $2.3 million outstanding on the promissory note, respectively.

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 (see Note 4). 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 September 30, 2005, are as follows:

	Payments Due by Period			
	Total	1 Year	2-3 Years	4-5 Years
Capital leases	$ 2,401	$ 670	$ 1,316	$ 415

Interest Rate Protection Agreements

We have Interest Rate Protection Agreements (Rate Agreements) with respect to $25 million of debt to manage our exposure to fluctuating interest rates. The Rate Agreements effectively convert $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 Agreements at September 30, 2005, excluding applicable fees, was 5.3% per year and the total interest rate, including applicable fees, was 7.1% per year. The average maturity of these Rate Agreements was 0.9 years at September 30, 2005. Total remaining debt not covered by the Rate Agreements with fluctuating interest rates has a weighted average rate of 4.2% per year at September 30, 2005. If the counterparties to these Rate Agreements were to fail to perform, these Rate Agreements would no longer protect us from interest rate fluctuations. However, we do not anticipate nonperformance by the counterparties.

The fair market value of the Rate Agreements at September 30, 2005, was $(0.2) million. The fair value of the Rate Agreements 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. We do not expect to cancel these agreements prior to their expiration dates.

7. 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 began realignment of production among our other domestic glass manufacturing facilities.

We recorded a pretax charge of $0.5 million in the third quarter of 2005 and $4.3 million in the first nine months of 2005 related to the closure of the City of Industry facility and realignment of our production capacity. These charges were primarily for employee termination and other costs. During the third and fourth quarters of 2004, we incurred a pretax charge of $14.5 million related to the closure of the City of Industry facility and realignment of our production capacity.

In December 2004, we sold approximately 27 acres of property in City of Industry, California, for net proceeds of $16.6 million. Pursuant to the purchase agreement, the buyer has leased the property back to us in order to enable us to cease operations, to relocate certain equipment to our other glassware manufacturing facilities, to demolish the buildings on the property and to perform related site work, as required by the purchase agreement. Demolition of all above-ground structures has been completed, and we are taking the final steps to demolish subsurface utility lines, to grade the property and to confirm that all environmental remediation that we were required to perform in fact has been performed as required. We anticipate that these steps will be completed on or before December 31, 2005.

The annual base rent payable under the lease is $1 (one dollar) until December 31, 2005. As stated above, we anticipate that the demolition, site work and remediation will be completed, and the lease terminated, on or before December 31, 2005. If, however, this work is not completed by December 31, 2005, the monthly lease payment increases to $0.2 million.

Because the risks and rewards of ownership have not been unconditionally transferred to the buyer at September 30, 2005, and the property site development activities have not been completed, we continue to carry the land and building on our Condensed Consolidated Balance Sheet. The cash received in December 2004 was recorded as a deposit liability at December 31, 2004. The cost of demolition of the buildings and related site work was estimated by an independent third party to be between $4 and $6 million. We have been capitalizing these costs in 2005 because we ultimately expect to recover these development costs and the net book value of the land and building of $8.4 million. Assuming our estimated site preparation costs are reasonably accurate, we expect to recognize a gain, in the fourth quarter of 2005, equal to the excess of the deposit received over the net book value of the land and building, including the capitalized site development costs.

The following table summarizes the capacity realignment charge incurred through September 30, 2005:

	Year ended December 31, 2004	Three months ended September 30, 2005	Nine months ended September 30, 2005	Total estimated charge
Pension & postretirement welfare	$ 4,621	$ —	$ —	$ 4,621
Inventory write-down	1,905	—	—	1,905
Included in cost of sales	6,526	—	—	6,526
Fixed asset relocation costs	4,678	130	650	5,300
Net gain on land sale	—	—	—	(2,600)
Employee termination costs & other	3,315	357	3,681	7,500
Included in special charges	7,993	487	4,331	10,200
Total pretax capacity realignment charge	$ 14,519	$ 487	$ 4,331	$ 16,726

The following reflects the balance sheet activity related to the capacity realignment for the three months ended September 30, 2005:

	Balance at June 30, 2005	Total charge to earnings	Cash payments	Inventory disposition	Non-cash utilization	Balance at September 30, 2005
Pension & postretirement welfare	$ —	$ —	$ —	$ —	$ —	$ —
Inventory write-down	458	—	—	(458)	—	—
Land proceeds received	16,623	—	—	—	—	16,623
Capitalized site demolition costs	(352)	—	(998)	—	—	(1,350)
Fixed asset relocation costs	—	130	(130)	—	—	—
Employee termination costs & other	1,142	357	(801)	—	(146)	552
Total	$ 17,871	$ 487	$ (1,929)	$ (458)	$ (146)	$ 15,825

The following reflects the balance sheet activity related to the capacity realignment for the nine months ended September 30, 2005:

	Balance at December 31, 2004	Total charge to earnings	Cash payments	Inventory disposition	Non-cash utilization	Balance at September 30, 2005
Pension & postretirement welfare	$ —	$ —	$ —	$ —	$ —	$ —
Inventory write-down	1,517	—	—	(1,517)	—	—
Land proceeds received	16,623	—	—	—	—	16,623
Capitalized site demolition costs	—	—	(1,350)	—	—	(1,350)
Fixed asset relocation costs	—	650	(650)	—	—	—
Employee termination costs & other	3,025	3,681	(5,825)	—	(329)	552
Total	$ 21,165	$ 4,331	$ (7,825)	$ (1,517)	$ (329)	$ 15,825

Balance sheet classification is as follows: $16.6 million is included in deposit liability, $(1.4) million is included in other assets and $0.6 million is included in the line item special charges reserve on the Condensed Consolidated Balance Sheet.

Salary Reduction Program

In the second quarter of 2005, we reduced our North American salaried workforce by seven percent, or approximately 50 employees, in order to reduce our overall costs. This resulted in a pretax charge of $5.6 million in the second quarter of 2005.

The following table summarizes the salary reduction charge incurred through September 30, 2005:

	Three months ended September 30, 2005	Nine months ended September 30, 2005	Total estimated charge
Pension & postretirement welfare	$ —	$ 867	$ 867
Included in cost of sales	—	867	867
Pension & postretirement welfare	—	1,347	1,347
Included in selling, general and administrative expenses	—	1,347	1,347
Employee termination costs	—	3,350	3,350
Included in special charges	—	3,350	3,350
Total pretax salary reduction charge	$ —	$ 5,564	$ 5,564

The pension and postretirement welfare expenses are further explained in Notes 8 and 9.

The following reflects the balance sheet activity related to the salary reduction program for the three months ended September 30, 2005:

	Balance at June 30, 2005	Total charge to earnings	Cash payments	Non-cash utilization	Balance at September 30, 2005
Pension & postretirement welfare	$ —	$ —	$ —	$ —	$ —
Employee termination costs & other	3,350	—	(914)	—	2,436
Total	$ 3,350	$ —	$ (914)	$ —	$ 2,436

The following reflects the balance sheet activity related to the salary reduction program for the nine months ended September 30, 2005:

	Balance at January 1, 2005	Total charge to earnings	Cash payments	Non-cash utilization	Balance at September 30, 2005
Pension & postretirement welfare	$ —	$ 2,214	$ —	$(2,214)	$ —
Employee termination costs & other	—	3,350	(914)	—	2,436
Total	$ —	$ 5,564	$ (914)	$(2,214)	$ 2,436

The employee termination costs and other of $2.4 million are included in the line item special charges reserve on the Condensed Consolidated Balance Sheet.

Summary of Special Charges

The following table summarizes the capacity realignment and salary reduction program charges and their classifications on the Condensed Consolidated Statements of Operations:

	Three months ended September 30, 2005	Nine months ended September 30, 2005
Cost of sales	$ —	$ 867
Selling, general and administrative expenses	—	1,347
Special charges	487	7,681
Total special charges	$ 487	$ 9,895

8. Pension

We have pension plans covering the majority of our employees. Benefits generally are based on compensation and length of service for salaried employees and job grade and length of service for hourly employees. 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:

Three months ended September 30,	U.S. Plans 2005	U.S. Plans 2004	Non-U.S. Plans 2005	Non-U.S. Plans 2004	Total 2005	Total 2004
Service cost	$ 1,548	$ 1,388	$ 236	$ 151	$ 1,784	$ 1,539
Interest cost	3,545	3,449	405	384	3,950	3,833
Expected return on plan assets	(4,239)	(4,415)	(545)	(456)	(4,784)	(4,871)
Amortization of unrecognized:						
Prior service cost	410	348	(99)	(90)	311	258
Gain	773	188	—	—	773	188
Curtailment charge	—	3,962	—	—	—	3,962
Pension expense (credit)	$ 2,037	$ 4,920	$ (3)	$ (11)	$ 2,034	$ 4,909

Nine months ended September 30,	U.S. Plans 2005	U.S. Plans 2004	Non-U.S. Plans 2005	Non-U.S. Plans 2004	Total 2005	Total 2004
Service cost	$ 4,897	$ 4,425	$ 708	$ 453	$ 5,605	$ 4,878
Interest cost	10,680	10,437	1,218	1,152	11,898	11,589
Expected return on plan assets	(12,781)	(14,045)	(1,635)	(1,368)	(14,416)	(15,413)
Amortization of unrecognized:						
Prior service cost	1,545	1,092	(297)	(270)	1,248	822
Gain	2,046	473	—	—	2,046	473
Curtailment charge	1,614	3,962	—	—	1,614	3,962
Pension expense (credit)	$ 8,001	$ 6,344	$ (6)	$ (33)	$ 7,995	$ 6,311

In the second quarter of 2005, we incurred a pension curtailment charge of $1.6 million as a result of a planned reduction in our North American salaried workforce of approximately 50 employees. Due to the reduction of the salaried workforce, the U.S. pension plans were revalued as of June 30, 2005. At this time, the discount rate was reduced from 5.75% to 5.00%. This revaluation resulted in additional net periodic benefit cost of $0.2 million in the second quarter of 2005, which is included in the above table. The normal measurement date of the U.S. and non-U.S. plans is December 31. The salary reduction program is explained in further detail in Note 7.

During the third quarter of 2004, Libbey incurred a pension curtailment charge of $4.0 million as a result of the planned capacity realignment whereby our manufacturing facility in City of Industry, California, ceased operations in February 2005. As a result of the plant closure, approximately 140 employees were terminated. In addition, due to the announcement of the closure of the City of Industry plant, the valuation of the U.S. pension plan was revalued as of August 16, 2004. This resulted in additional net periodic benefit cost of $0.2 million in the third quarter of 2004. This amount is included in the above table. The capacity realignment is explained in further detail in Note 7.

We expect to contribute $0 to our U.S. pension plans and $1.6 million to our non-U.S. plans in 2005. Through the third quarter of 2005, there have been no contributions to the U.S. plans and contributions totaling $1.2 million to the non-U.S. plans.

9. Nonpension Postretirement Benefits

We provide certain retiree health care and life insurance benefits covering a majority of our salaried and hourly employees. Employees are generally eligible for benefits upon retirement and completion of a specified number of years of creditable service. Benefits for most hourly retirees are determined by collective bargaining. The U.S. nonpension postretirement plans cover the hourly and salaried U.S.-based employees of Libbey. The non-U.S. nonpension postretirement plans cover the retirees and active employees of Libbey who are located in Canada. Under a cross-indemnity agreement, Owens-Illinois, Inc. assumed liability for the nonpension postretirement benefits of Libbey retirees who had retired as of June 24, 1993.

Effect on Operations

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

	U.S. Plans		Non-U.S. Plans		Total	
Three months ended September 30,	2005	2004	2005	2004	2005	2004
Service cost	$ 219	$ 179	$ —	$ —	$ 219	$ 179
Interest cost	449	585	37	36	486	621
Amortization of unrecognized:						
Prior service cost	(223)	(455)	—	—	(223)	(455)
Gain (loss)	(99)	(38)	(2)	(4)	(101)	(42)
Curtailment charge	—	(152)	—	—	—	(152)
Nonpension postretirement benefit expense	$ 346	$ 119	$ 35	$ 32	$ 381	$ 151

	U.S. Plans		Non-U.S. Plans		Total	
Nine months ended September 30,	2005	2004	2005	2004	2005	2004
Service cost	$ 660	$ 631	$ —	$ —	$ 660	$ 631
Interest cost	1,531	1,591	111	113	1,642	1,704
Amortization of unrecognized:						
Prior service cost	(663)	(1,413)	—	—	(663)	(1,413)
Gain (loss)	(15)	(51)	(17)	(8)	(32)	(59)
Curtailment charge	304	(152)	—	—	304	(152)
Nonpension postretirement benefit expense	$ 1,817	$ 606	$ 94	$ 105	$ 1,911	$ 711

In the second quarter of 2005, we incurred a nonpension postretirement curtailment charge of $0.3 million as a result of a planned reduction in our North American salaried workforce of approximately 50 employees. Due to the reduction of the salaried workforce, the U.S. postretirement plans were revalued as of June 30, 2005. At this time, the discount rate was reduced from 5.75% to 5.00%. This revaluation resulted in additional net periodic benefit cost of $0.1 million in the second quarter of 2005, which is included in the above table. The normal measurement date of the U.S. and non-U.S. plans is December 31. The salary reduction program is explained in further detail in Note 7.

During the third quarter of 2004, Libbey incurred a nonpension postretirement curtailment income of $0.2 million as a result of the planned capacity realignment whereby the manufacturing facility in City of Industry, California, ceased operations in February 2005. As a result of the plant closure, approximately 140 employees were terminated. In addition, due to the announcement of the closure of the City of Industry plant, the valuation of the U.S. postretirement plan was revalued as of August 16, 2004. This resulted in additional net periodic benefit cost of $0.1 million in the third quarter of 2004. This amount is included in the above table. The normal measurement date for the U.S. plans is December 31. The capacity realignment is explained in further detail in Note 7.

In the third quarter of 2005, we determined the effects of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) on our nonpension postretirement plans and included them in our Condensed Consolidated Financial Statements. Inclusion resulted in an annual reduction in expense of $0.3 million, of which $0.2 million was recorded during the third quarter 2005, for the nonpension postretirement plans. The Act is explained in further detail in Note 2.

10. Net Income per Share of Common Stock

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

Three months ended September 30,	2005	2004
Numerator for basic and diluted earnings per share—net income (loss) which is available to common shareholders	$ 4,167	$ (3,204)
Denominator for basic earnings per share—weighted-average shares outstanding	13,947,861	13,749,659
Effect of dilutive securities—employee stock options and employee stock purchase plan (ESPP) [(1)]	2,780	—
Denominator for diluted earnings per share—adjusted weighted-average shares and assumed conversions	13,950,641	13,749,659
Basic earnings (loss) per share	$ 0.30	$ (0.23)
Diluted earnings (loss) per share	$ 0.30	$ (0.23)

(1) The effect of employee stock options and the employee stock purchase plan (ESPP), 2,555 shares for the quarter ended September 30, 2004, were anti-dilutive and thus not included in the earnings per share calculation.

Nine months ended September 30,	2005	2004
Numerator for basic and diluted earnings per share—net income which is available to common shareholders	$ 1,648	$ 6,726
Denominator for basic earnings per share—weighted-average shares outstanding	13,878,877	13,685,759
Effect of dilutive securities—employee stock options and employee stock purchase plan (ESPP)	999	11,981
Denominator for diluted earnings per share—adjusted weighted-average shares and assumed conversions	13,879,876	13,697,740
Basic earnings per share	$ 0.12	$ 0.49
Diluted earnings per share	$ 0.12	$ 0.49

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.

11. Employee Stock Benefit Plans

We have two stock-based employee compensation plans. We account for the plans under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25), and related Interpretations. No stock-based employee compensation cost is reflected in net income for stock options, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. We also have issued restricted shares under the stock option plan. Restricted shares are issued at no cost to the recipient of the award. The market value of the restricted shares is charged to income ratably over the period during which these awards vest. The following table illustrates the effect on net income and earnings per share if we had applied the fair value recognition provision of SFAS No. 123, "Accounting for Stock-Based Compensation" (SFAS No. 123), to stock-based employee compensation:

Three months ended September 30,	2005	2004
Net income (loss):		
Reported net income (loss)	$ 4,167	$(3,204)
Less: Stock-based employee compensation expense determined under fair value-based method for all awards, net of related tax effects	181	405
Add: Stock-based employee compensation expense included in reported net income (loss), net of related tax effects	—	80
Pro forma net income (loss)	$ 3,986	$(3,529)
Basic earnings (loss) per share:		
Reported basic earnings (loss) per share	$ 0.30	$ (0.23)
Pro forma basic earnings (loss) per share	$ 0.29	$ (0.25)
Diluted earnings (loss) per share:		
Reported diluted earnings (loss) per share	$ 0.30	$ (0.23)
Pro forma diluted earnings (loss) per share	$ 0.29	$ (0.25)

Nine months ended September 30,	2005	2004
Net income:		
Reported net income	$ 1,648	$ 6,726
Less: Stock-based employee compensation expense determined under fair value-based method for all awards, net of related tax effects	611	1,010
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	32	80
Pro forma net income	$ 1,069	$ 5,796
Basic earnings per share:		
Reported basic earnings per share	$ 0.12	$ 0.49
Pro forma basic earnings per share	$ 0.08	$ 0.42
Diluted earnings per share:		
Reported diluted earnings per share	$ 0.12	$ 0.49
Pro forma diluted earnings per share	$ 0.08	$ 0.42

12. Derivatives

As of September 30, 2005, we had Interest Rate Protection Agreements for $25.0 million of our variable rate debt, and commodity contracts for 2,450,000 million British Thermal Units (MMBTUs) of natural gas, with a fair value of $13.2 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 September 30, 2004, we had Rate Agreements for $50.0 million of our variable rate debt and commodity contracts for 5,020,000 MMBTUs 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 September 30, 2005. 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. In the third quarter of 2005, we recognized a gain of $0.5 million, which represented the total ineffectiveness of all cash flow hedges. During the third quarter of 2004, we recognized a gain of $0.03 million, which represented the total ineffectiveness of all cash flow hedges.

13. Comprehensive Income

Components of comprehensive income are as follows:

Three months ended September 30,	2005	2004
Net income (loss)	$ 4,167	$(3,204)
Change in fair value of derivative instruments (see detail below)	5,871	1,010
Effect of exchange rate fluctuation	(41)	951
Comprehensive income (loss)	$ 9,997	$(1,243)

Nine months ended September 30,	2005	2004
Net income	$ 1,648	$ 6,726
Change in fair value of derivative instruments (see detail below)	8,540	2,931
Effect of exchange rate fluctuation	(331)	528
Comprehensive income	$ 9,857	$10,185

Accumulated other comprehensive loss (net of tax) includes:

	September 30, 2005	December 31, 2004	September 30, 2004
Minimum pension liability and intangible pension asset	$ 27,594	$ 27,594	$ 22,080
Derivatives	(7,244)	1,297	433
Exchange rate fluctuation	47	(285)	(559)
Total	$ 20,397	$ 28,606	$ 21,954

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

Three months ended September 30,	2005	2004
Change in fair value of derivative instruments	$10,440	$ 1,447
Less:		
Income tax effect	(4,569)	(437)
Other comprehensive income related to derivatives	$ 5,871	$ 1,010

Nine months ended September 30,	2005	2004
Change in fair value of derivative instruments	$14,719	$ 4,869
Less:		
Income tax effect	(6,179)	(1,938)
Other comprehensive income related to derivatives	$ 8,540	$ 2,931

14. Barter Transactions

We entered into a barter transaction during the first quarter of 2005, exchanging inventory with a net book value of $1.1 million for barter credits to be utilized on future purchased goods and services. During the second quarter of 2005, we wrote down the credits from $1.1 million to $0.4 million, reflecting our revised estimate of fair value. The write-down was a non-cash transaction. The net credits recorded of $0.4 million were recorded at the fair value of the inventory exchanged, net of fees, in accordance with EITF 93-11 “Accounting for Barter Transactions Involving Barter Credits” and are included in prepaid and other current assets in our Condensed Consolidated Balance Sheet.

Such barter credits are redeemable for a percentage of various goods and services negotiated with vendors. We regularly evaluate the recoverability of such assets and expect to utilize the fair value of the credits over the next twelve months.

15. 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 the debt of Libbey.

In addition, Libbey Inc. guarantees the payment by Vitrocrisa of its obligation to purchase electricity. The guarantee is based on the provisions of a Power Purchase Agreement to which Vitrocrisa is a party. The guarantee is limited to 49% of any such obligation of Vitrocrisa 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 Vitrocrisa 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 September 30, 2005, and December 31, 2004, the $23.0 million that was guaranteed by us 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 Vitrocrisa, 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.

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.

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 on Form 10-K 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 under "Other Information" in the section "Qualitative and Quantitative Disclosures About Market Risk."

Overview

During the first nine months of 2005, Libbey undertook several key strategic projects that will enhance our long-term financial performance. These key initiatives were as follows:

- In January 2005, we acquired 95 percent of the shares of Crisal-Cristalaria Automática S.A. (Crisal) located in Marinha Grande, Portugal. Crisal manufactures and markets glass tableware, mainly tumblers, stemware and glassware accessories. Royal Leerdam, acquired in 2002, and Crisal are complementary and key to our growth strategy to supply high-quality, machine-made glass tableware products to key markets worldwide.
- In February 2005, we ceased operations at our manufacturing facility in City of Industry, California, and realigned production among our other domestic glass manufacturing facilities.
- In June 2005, we reduced our North American salaried workforce by seven percent, or approximately 50 employees, in order to reduce our overall costs.
- Our capital spending during the first nine months of 2005 was $26.5 million, as we executed our plan to improve inspection techniques and further improve productivity in our factories.
- During the third quarter of 2005, we broke ground to begin construction of our new production facility in China. The facility is expected to be in production in early 2007.

Results of Operations — Third Quarter 2005 compared with Third Quarter 2004

Dollars in thousands, except percentages and per-share amounts

Three months ended September 30,	2005	2004	Variance In dollars	Variance In percent
Net Sales	$135,573	$131,790	$ 3,783	2.9%
Gross profit	$ 27,267	$ 20,347	$ 6,920	34.0%
gross profit margin	20.1%	15.4%		
Income (loss) from operations (IFO)	$ 9,992	$ (1,172)	$11,164	952.6%
IFO margin	7.4%	(0.9%)		
Earnings (loss) before interest, income taxes and minority interest (EBIT) (1)	$ 9,732	$ (1,608)	$11,340	705.2%
EBIT margin	7.2%	(1.2%)		
Earnings before interest, taxes, minority interest, depreciation and amortization (EBITDA) (1)	$ 18,892	$ 5,419	$13,473	248.6%
EBITDA margin	13.9%	4.1%		
Net income (loss)	$ 4,167	(3,204)	$ 7,371	230.1%
net income margin	3.1%	(2.4%)		
Diluted net income (loss) per share	$ 0.30	$ (0.23)	$ 0.53	230.4%

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

For the quarter-ended September 30, 2005, sales increased 2.9 percent to $135.6 million from $131.8 million in the year-ago quarter. The increase in sales was attributable to the Crisal acquisition in Portugal and higher sales of foodservice glassware, Syracuse China, and Traex products. Sales to World Tableware customers were down slightly. Sales to retail and industrial glassware customers and Royal Leerdam customers were all down over eight percent, largely attributable to our earlier decision to discontinue the sale of low-margin products and softness in the European retail market.

We incurred special charges for the capacity realignment of $0.5 million during the third quarter of 2005 compared to $11.7 million during the year ago period. The table below summarizes the special charges for the three months ended September 30, 2005 and 2004. See Note 7 to the Condensed Consolidated Financial Statements and Table 2 below for more detail on these charges.

Three months ended September 30,	2005	2004
Cost of sales	$ —	$ 5,986
Selling, general and administrative expenses	—	—
Special charges	487	5,748
Total special charges	$ 487	$11,734

Gross profit was $27.3 million and 20.1 percent of sales in the third quarter of 2005, compared to $20.3 million and 15.4 percent of sales in the third quarter of 2004. Factors contributing to the increase, in addition to the lower special charges in the third quarter of 2005, were higher sales to foodservice glassware and dinnerware customers, lower warehouse and distribution expenses, and lower salaried labor costs. Partially offsetting these gains were higher natural gas costs and higher pension and postretirement medical expenses.

We recorded income from operations of $10.0 million in the third quarter of 2005 as compared to a loss from operations of $1.2 million in the year-ago period. The $11.2 million increase in income from operations is attributable to the increase in gross profit as previously discussed and a reduction of $5.3 million of special charges not included in gross profit offset by an increase in selling, general and administrative expenses as a result of the acquisition of Crisal.

Earnings before interest and income taxes (EBIT) were $9.7 million in the third quarter of 2005, compared to a loss of $1.6 million in the year-ago quarter. The increase in EBIT was a result of higher income from operations compared to the prior year period. See Table 1 below.

Net income for the third quarter of 2005 was $4.2 million, or 30 cents per diluted share, compared to a net loss of $3.2 million, or a loss of 23 cents per diluted share, in the year-ago period. Diluted earnings per share for the quarter, as detailed in Table 3 below, excluding special charges, were 32 cents per diluted share, as compared to 34 cents per diluted share in the prior year quarter.

Results of Operations — First Nine Months 2005 compared with First Nine Months 2004

Dollars in thousands, except percentages and per-share amounts Nine months ended September 30,	2005	2004	Variance In dollars	 In percent
Net Sales	$409,895	$390,665	$19,230	4.9%
Gross profit	$ 75,362	$ 75,585	$ (223)	(0.3)%
gross profit margin	18.4%	19.3%		
Income from operations (IFO)	$ 12,572	$ 19,587	$ (7,015)	(35.8)%
IFO margin	3.1%	5.0%		
Earnings before interest and income taxes (EBIT) [(1)]	$ 12,846	$ 20,305	$ (7,459)	(36.7)%
EBIT margin	3.1%	5.2%		
Earnings before interest, taxes, depreciation and amortization (EBITDA) [(1)]	$ 38,457	$ 42,775	$ (4,318)	(10.1)%
EBITDA margin	9.4%	10.9%		
Net income	$ 1,648	$ 6,726	$ (5,078)	(75.5)%
net income margin	0.4%	1.7%		
Diluted net income per share	$ 0.12	$ 0.49	$ (0.37)	(75.5)%

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

For the nine months ended September 30, 2005, sales increased 4.9 percent to $409.9 million from $390.7 million in the year ago period. The increase in sales was attributable to the Crisal acquisition in Portugal and higher sales of World Tableware, Syracuse China and Traex products. Partially offsetting these increases were lower glassware shipments to foodservice, retail and industrial customers.

We incurred special charges for the capacity realignment of $9.9 million for the first nine months of 2005 compared to $11.7 million during the year ago period. The table below summarizes the special charges for the nine months ended September 30, 2005 and 2004. See Note 7 to the Condensed Consolidated Financial Statements and Table 2 below for more detail on these charges.

Nine months ended September 30,	2005	2004
Cost of sales	$ 867	$ 5,986
Selling, general and administrative expenses	1,347	—
Special charges	7,681	5,748
Total special charges	$9,895	$11,734

Gross profit was $75.4 million and 18.4 percent of sales in the first nine months of 2005, compared to $75.6 million and 19.3 percent of sales in the first nine months of 2004. The reduction in gross profit was caused by lower glassware sales to foodservice, retail and industrial customers, higher pension and postretirement medical expenses, and higher natural gas costs partially offset by a decrease in special charges from the year-ago period.

We recorded income from operations of $12.6 million in the first nine months of 2005 compared to income from operations of $19.6 million in the year-ago period. The $7.0 million decrease in income from operations is primarily attributable to the decrease in gross profit as previously discussed, an increase of $3.3 million of special charges not included in gross profit and an increase in selling, general and administrative expenses as a result of the acquisition of Crisal.

Earnings before interest and income taxes (EBIT) were $12.8 million in the first nine months of 2005, compared to $20.3 million in the year-ago period. The reduced EBIT was a result of lower income from operations and a $0.5 million increase in equity loss from Vitrocrisa, compared to the prior year period. See Table 1 below.

Net income for the first nine months of 2005 was $1.6 million, or 12 cents per diluted share, compared to net income of $6.7 million, or 49 cents per diluted share, in the year-ago period. Diluted earnings per share for the first nine months of 2005, as detailed in Table 3 below, excluding special charges, were 60 cents per diluted share, as compared to 1.06 cents per diluted share in the first nine months of 2004.

Capital Resources and Liquidity

Working Capital

Dollars in thousands, except percentages, DSO, DIO, DPO, and DWC	September 30, 2005	December 31, 2004	Variance In dollars	Variance In percent
Accounts receivable	$ 75,122	$ 67,522	$ 7,600	11.3%
DSO (1)	47.3	45.2		
Inventories	147,848	126,625	21,223	16.8%
DIO (2)	94.8	84.8		
Accounts payable	53,551	43,140	10,411	24.1%
DPO (3)	32.5	28.9		
Working capital (4)	$169,419	$151,007	$18,412	12.2%
DWC (5)	109.6	101.2		
Percentage of LTM (6) net sales	30.0%	27.7%		

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

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

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

(4) Working capital is defined as inventories and accounts receivable less accounts payable. See Table 5 below.

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

(6) LTM — last twelve months.

Working capital was $169.4 million at September 30, 2005, which includes working capital associated with Crisal (acquired in January 2005) of $11.3 million. This is compared to working capital at December 31, 2004, of $151.0 million. Our working capital is higher at September 30, 2005, compared to December 31, 2004, due to the acquisition of Crisal and seasonal working capital requirements.

Dollars in thousands, except percentages, DSO, DIO, DPO, and DWC	September 30, 2005	September 30, 2004	Variance In dollars	Variance In percent
Accounts receivable	$ 75,122	$ 66,863	$ 8,259	12.4%
DSO [1]	47.3	45.6		
Inventories	147,848	141,366	6,482	4.6%
DIO [2]	94.8	96.4		
Accounts payable	53,551	39,594	13,957	35.3%
DPO [3]	32.5	27.0		
Working capital [4]	$169,419	$168,635	$ 784	0.5%
DWC [5]	109.6	115.1		
Percentage of LTM [6] net sales	30.0%	31.5%		

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

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

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

(4) Working capital is defined as inventories and accounts receivable less accounts payable. See Table 5 below.

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

(6) LTM — last twelve months.

Working capital was $169.4 million at September 30, 2005 as compared to $168.6 million at September 30, 2004. However, excluding the $11.3 million of working capital associated with the Crisal business acquired in January of 2005, working capital was $10.5 million lower than at September 30, 2004, primarily as a result of the successful inventory control programs and higher accounts payable.

Cash Flow

Dollars in thousands, except percentages Three months ended September 30,	2005	2004	Variance In dollars	Variance In percent
Net cash provided by (used in) operating activities	$ 1,255	$ (1,361)	$ 2,616	192.2%
Capital expenditures	7,389	11,598	(4,209)	(36.3)%
Proceeds from asset sales and other	223	—	223	100.0%
Dividends from equity investments	—	980	(980)	(100.0)%
Free cash flow [a]	$(5,911)	$(11,979)	$ 6,068	50.7%

(a) We believe that Free Cash Flow (net cash provided by operating activities, less capital expenditures and acquisition and related costs plus proceeds from asset sales and dividends from equity investments), a non-GAAP financial measure, is a useful metric for evaluating our financial performance and it is used internally to assess performance. See Table 4 below.

Our net cash provided by operating activities was $1.3 million in the third quarter of 2005, compared to net cash used for operating activities of $1.4 million in the prior year quarter, or an increase of $2.6 million. The primary driver of the increased cash provided by operating activities was an increase in net income and a reduction in cash used for working capital requirements as discussed above. Our free cash flow was $(5.9) million during the third quarter of 2005 compared to $(12.0) in the prior year period, an increase of $6.1 million, mainly attributable to the change in net cash provided by operating activities, a decrease of capital expenditures of $4.2 million and dividends received in the prior year period of $1.0 million.

Dollars in thousands, except percentages			Variance	
Nine months ended September 30,	2005	2004	In dollars	In percent
Net cash provided by operating activities	$ 12,746	$ 9,771	$ 2,975	30.4%
Capital expenditures	26,503	28,624	(2,121)	(7.4)%
Proceeds from asset sales and other	223	—	223	100.0%
Dividends from equity investments	—	980	(980)	(100.0)%
Acquisitions and related costs	28,990	—	28,990	100.0%
Free cash flow [(a)]	$(42,524)	$(17,873)	$(24,651)	(137.9)%

(a) We believe that Free Cash Flow (net cash provided by operating activities, less capital expenditures and acquisition and related costs plus proceeds from asset sales and dividends from equity investments), a non-GAAP financial measure, is a useful metric for evaluating our financial performance and it is used internally to assess performance. See Table 4 below.

Net cash provided by operating activities was $12.7 million during the first nine months of 2005, compared to $9.8 million during the year-ago period. The increase in cash provided by operating activities was due to a decrease in cash used for working capital as discussed above offset by a reduction of net income from the prior year period. Free cash flow was $24.7 million less than in the year-ago period primarily as the result of the acquisition of Crisal for $29.0 million in 2005.

Borrowings

The following table presents our total borrowings:

Dollars in thousands	Interest Rate	Maturity Date	September 30, 2005	December 31, 2004	September 30, 2004
Borrowings under credit facility	floating	June 24,2009	$143,032	$113,690	$129,761
Senior notes	3.69%	March 31,2008	25,000	25,000	25,000
Senior notes	5.08%	March 31,2013	55,000	55,000	55,000
Senior notes	floating	March 31,2010	20,000	20,000	20,000
Promissory note	6.00%	September 2005 to September 2016	2,166	2,267	2,301
Notes payable	floating	September 2005	15,748	9,415	19,308
Obligations under capital leases	4.36%	September 2005 to May 2007	2,401	—	—
Other debt	4.00%	September 2009	2,087	—	—
Total borrowings			$265,434	$225,372	$251,370

We had total borrowings of $265.4 million at September 30, 2005, compared to $225.4 million at December 31, 2004. The $40.0 million increase in debt is primarily attributable to the purchase of Crisal for $29 million in January 2005 and seasonal working capital needs.

Total borrowings increased $14.1 million from September 30, 2004, to September 30, 2005. The increase is primarily attributable to the purchase of Crisal as discussed above, partially offset by the impact of the devaluation of the euro on our euro-based debt during this period.

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 for an unsecured Revolving Credit and Swing Line Facility. The Agreement is further detailed in Note 6 to the Condensed Consolidated Financial Statements. The Agreement has a five-year term, maturing June 24, 2009. We had additional debt capacity at September 30, 2005, under the Revolving Credit Agreement of $43.5 million.

We issued $100 million of privately placed senior notes (Senior Notes) in March 2003. Eighty million dollars of the notes have an average interest rate of 4.65%, with an initial average maturity of 8.4 years and a remaining average maturity of 5.4 years. For further discussion of maturities, see the “Contractual Obligations” below. The remaining $20 million of the notes has a floating interest rate at a margin over the London Interbank Offer Rate (LIBOR). The floating interest rate on the $20 million debt at September 30, 2005, was 4.5%.

Of our total outstanding indebtedness, $158.3 million was subject to fluctuating interest rates at September 30, 2005. A change of one percent in such rates would have resulted in a change in interest expense of approximately $1.6 million on an annual basis as of September 30, 2005.

We have entered into Interest Rate Protection Agreements with respect to $25 million of our debt. The average fixed rate of interest under these Interest Rate Protection Agreements is 5.3%, and the total interest rate, including applicable fees, is 7.1%. The average maturity of these Interest Rate Protection Agreements was 0.9 years at September 30, 2005.

We believe that our free cash flow and available borrowings under the Revolving Credit Agreement, private placement senior notes and other short-term lines of credit will be sufficient to fund our operating requirements, capital expenditures, share repurchases, commitments and all other obligations (including debt service and dividends) throughout the remaining term of the Revolving Credit Agreement. We believe that the most strategic uses of our cash resources include strategic investments to further enhance our manufacturing and distribution processes, acquisitions, payment of debt principal and interest, and working capital requirements.

Some of the borrowings described above require maintenance of certain financial covenants. On September 30, 2005, as previously reported in our Form 8-K filed October 4, 2005, we amended the terms of our Revolving Credit Facility (Facility) and our Senior Notes. The amendments temporarily reduced the Facility from $250 million to $195 million for the period September 30 to December 30, 2005, and increased the leverage ratio covenants under both the Facility and the Senior Notes from 3.50 to 1.00 to 4.25 to 1.00 at September 30, 2005. The amendment also provided for the waiver by the lenders of the leverage ratio covenant for the period from October 1, 2005, to December 29, 2005. At December 30, 2005, the leverage ratio covenant will return to 3.50 to 1.00. Based upon our forecast for the fourth quarter 2005, we expect to have a leverage ratio in excess of 3.50 to 1. Because we currently do not have further waivers or amendments of, or commitments to refinance these agreements, the borrowings under these agreements are classified as short term at September 30, 2005. However, we expect to refinance or amend these agreements in the fourth quarter of 2005 and are in the process of pursuing such amendments or financing commitments.

Share Repurchase Program

Since mid-1998, we have repurchased 5,125,000 shares of our common stock for $140.7 million. As of September 30, 2005, we have Board authorization to purchase an additional 1,000,000 shares. No treasury shares were purchased during the third quarter of 2005. A portion of the repurchased common stock is being used by us to fund the Employee Stock Purchase Plan (ESPP) and the Company match contributions for our employee 401(k) plans.

Contractual Obligations

Our long-term operating leases are reported in our 2004 Annual Report on Form 10-K. The long-term operating leases have not materially changed since the 2004 Form 10-K. Our obligations for debt and capital leases are listed below and further described in Note 6 to the Condensed Consolidated Financial Statements.

	Payments Due by Period				
	Total	1 Year	2-3 Years	4-5 Years	After 5 Years
Capital leases	$ 2,401	$ 670	$1,316	$ 415	—
Debt	$263,033	$258,895	$ 230	$2,317	$1,591

Some of our borrowings require maintenance of certain financial covenants. On September 30, 2005, as previously reported in our Form 8-K filed October 4, 2005, we amended the terms of our Revolving Credit Facility (Facility) and our Senior Notes. The amendments temporarily reduced the Facility from $250 million to $195 million for the period September 30 to December 30, 2005, and increased the leverage ratio covenants under both the Facility and the Senior Notes from 3.50 to 1.00 to 4.25 to 1.00 at September 30, 2005. The amendment also provided for the waiver by the lenders of the leverage ratio covenant for the period from October 1, 2005, to December 29, 2005. At December 30, 2005, the leverage ratio covenant will return to 3.50 to 1.00. Based upon our forecast for the fourth quarter 2005, we expect to have a leverage ratio in excess of 3.50 to 1. Because we currently do not have further waivers or amendments of, or commitments to refinance these agreements, the borrowings under these agreements are classified as short term at September 30, 2005. However, we expect to refinance or amend these agreements in the fourth quarter of 2005 and are in the process of pursuing such amendments or financing commitments.

In addition, we have commercial commitments for letters of credit and guarantees. Our letters of credit outstanding at September 30, 2005, totaled $8.4 million. For further detail with respect to our guarantees, see Note 15 to the Condensed Consolidated Financial Statements.

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.

Table 1

Reconciliation of Income before income taxes to EBIT and EBITDA

(Dollars in thousands)

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
Income (loss) before income taxes	$ 6,334	$(4,783)	$ 2,606	$10,038
Add: Interest expense	3,398	3,175	10,240	10,267
Earnings (loss) before interest and income taxes (EBIT)	9,732	(1,608)	12,846	20,305
Add: Depreciation and amortization	9,160	7,027	25,611	22,470
Earnings before interest, taxes, depreciation and amortization (EBITDA)	$18,892	$ 5,419	$38,457	$42,775

Table 2

Summary of Special Charges

(Dollars in thousands)

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
Capacity realignment:				
Pension and postretirement welfare	$ —	$ 4,080	$ —	$ 4,080
Inventory write-down	—	1,906	—	1,906
Included in cost of sales	—	5,986	—	5,986
Fixed asset write-down	130	4,653	650	4,653
Severance & benefits	—	1,095	2,019	1,095
Miscellaneous	357	—	1,662	—
Included in special charges	487	5,748	4,331	5,748
Total pretax capacity realignment charges	$487	$11,734	$4,331	$11,734
Salary reduction program:				
Pension & retiree welfare	$ —	$ —	$ 867	$ —
Included in cost of sales	—	—	867	—
Pension & retiree welfare	—	—	1,347	—
Included in selling, general & administrative expenses	—	—	1,347	—
Employee termination costs	—	—	3,350	—
Included in special charges	—	—	3,350	—
Total pretax salary reduction program	$ —	$ —	$5,564	$ —
Total special charges	$487	$11,734	$9,895	$11,734

Table 3

Reconciliation of Non-GAAP Financial Measures for Special Charges

(Dollars in thousands except per-share amounts)

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
Reported net income (loss)	$4,167	$(3,204)	$1,648	$ 6,726
Special charges — net of tax	326	7,862	6,630	7,862
Net income excluding special charges	$4,493	$ 4,658	$8,278	$14,588
Diluted earnings (loss) per share:				
Reported net income (loss)	$ 0.30	$ (0.23)	$ 0.12	$ 0.49
Special charges — net of tax	0.02	0.57	0.48	0.57
Net income per diluted share excluding special charges	$ 0.32	$ 0.34	$ 0.60	$ 1.06

Table 4

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

(Dollars in thousands)

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
Net cash provided by (used in) operating activities	$ 1,255	$ (1,361)	$ 12,746	$ 9,771
Less:				
Capital expenditures	7,389	11,598	26,503	28,624
Acquisition and related costs	—	—	28,990	—
Proceeds from asset sales and other	223	—	223	—
Dividends from equity investments	—	980	—	980
Free cash flow	$(5,911)	$(11,979)	$(42,524)	$(17,873)

Table 5

Reconciliation of working capital

(Dollars in thousands)

	September 30, 2005	December 31, 2004	September 30, 2004
Accounts receivable	$ 75,122	$ 67,522	$ 66,863
Plus:			
Inventories	147,848	126,625	141,366
Less:			
Accounts payable	53,551	43,140	39,594
Working capital	$169,419	$151,007	$168,635

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 Vitrocrisa 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 Vitrocrisa expressed under accounting principles generally accepted in the United States.

Interest Rates

We are exposed to market risk associated with changes in interest rates in the U.S. and have entered into Interest Rate Protection Agreements (Rate Agreements) with respect to $25 million of debt as a means to manage our exposure to fluctuating interest rates. The Rate Agreements effectively convert $25 million of our long-term borrowings from variable rate debt to fixed-rate debt, thus reducing the impact of interest rate changes on future income. The average fixed rate of interest for our borrowings related to the Rate Agreements at September 30, 2005, excluding applicable fees, was 5.3% per year, and the total interest rate, including applicable fees, was 7.1% per year. The average maturity of these Rate Agreements was 0.9 years at September 30, 2005. Debt not covered by the Rate Agreements has fluctuating interest rates with a weighted average rate of 4.2% per year at September 30, 2005. We had $158.3 million of debt subject to fluctuating interest rates at September 30, 2005. A change of one percentage point in such rates would result in a change in interest expense of approximately $1.6 million on an annual basis as of September 30, 2005. If the counterparties to these Rate Agreements were to fail to perform, these Rate Agreements would no longer protect us from interest rate fluctuations. However, we do not anticipate nonperformance by the counterparties.

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, with smaller quantities hedged beyond this time frame. For our natural gas requirements that are not hedged, we are subject to changes in the price of natural gas, which affects our earnings.

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.

Other Information

This document contains 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;
- 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 Vitrocrisa’s products compared to foreign competition;
- the effect of high inflation in Mexico on the operating results and cash flows of Vitrocrisa;
- the impact of exchange rate changes in the Mexican peso relative to the U.S. dollar on the earnings of Vitrocrisa expressed under accounting principles generally accepted in the United States;
- the inability to achieve savings and profit improvements at targeted levels at Libbey and Vitrocrisa 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 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 reports filed with the Securities and Exchange Commission (the “SEC”) under the Securities Exchange Act of 1934 (the “Exchange Act”) reports are recorded, processed, summarized and reported within the time periods specified in the SEC’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 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 internal 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 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (1)
July 1 to July 31, 2005	—	—	—	1,000,000
August 1 to August 31, 2005	—	—	—	1,000,000
September 1 to September 30, 2005	—	—	—	1,000,000
Total	—	—	—	1,000,000

(1) We announced on December 10, 2002, that our Board of Directors authorized the purchase of up to 2,500,000 shares of our common stock in the open market and through negotiated purchases. The timing of the purchases will depend on financial and market conditions. There is no expiration date for this plan.

Item 5. Other Information

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

Item 6. Exhibits

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

EXHIBIT INDEX

Exhibit Number	Description
3.1	Restated Certificate of Incorporation of Libbey Inc. (filed as Exhibit 3.1 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1993 and incorporated herein by reference).
3.2	Amended and Restated By-Laws of Libbey Inc. (filed as Exhibit 3.2 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1993 and incorporated herein by reference).
4.1	Restated Certificate of Incorporation of Libbey Inc. (incorporated by reference herein as Exhibit 3.1).
4.2	Amended and Restated By-Laws of Libbey Inc. (incorporated by reference herein as Exhibit 3.2).
10.1	Amendment No. 2 and Waiver to Credit Agreement dated September 30, 2005, among Libbey Glass Inc. and Libbey Europe B.V., to amend its Credit Agreement, dated June 24, 2004, as the borrowers, the Bank of America, N.A., as the Administrative Agent, Swing Line Lender and as an L/C Issuer, the Bank of New York, as the Syndication Agent, The Bank of Tokyo-Mitsubishi, Ltd., Chicago Branch, as the Documentation Agent, and other lenders listed therein (filed herein).
10.2	Amendment, dated September 30, 2005, with respect to the Note Purchase Agreement and Guaranty Agreement, both dated March 31, 2003, among Libbey Glass Inc. and the Purchasers of the notes (filed herein).
10.3	Waiver on September 30, 2005, by the Tranche B Lenders party to the Credit Agreement, dated April 2, 2004, among Vitrocrisa Comercial, S. de R.L. de C.V., Vitrocrisa, S. de R.L. de C.V., the lenders party thereto and Bank of Montreal, as the Administrative Agent among Libbey Inc. and Libbey Glass 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 November 9, 2005

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

Exhibit 10.1

Execution Version

AMENDMENT NO. 2 AND WAIVER TO CREDIT AGREEMENT

THIS AMENDMENT NO. 2 AND WAIVER TO CREDIT AGREEMENT (this " Amendment Agreement ") is made and entered into as of September 30, 2005, by and among **LIBBEY GLASS INC.,** a Delaware corporation (the " US Borrower "), **LIBBEY EUROPE B.V.,** a company organized and existing under the laws of the Netherlands (the " Dutch Borrower ", and together with the US Borrower, the " Borrowers "), **EACH LENDER SIGNATORY HERETO,** and **BANK OF AMERICA, N.A.,** as the administrative agent for the Lenders (in such capacity, the " Administrative Agent "), Swing Line Lender and an L/C Issuer.

WITNESSETH :

WHEREAS, the Administrative Agent, the lenders party thereto (collectively, the " Lenders " and individually, a " Lender ") and the Borrowers have entered into that certain Credit Agreement dated as of June 24, 2004 (as amended by Amendment No. 1 and Waiver to Credit Agreement dated as of December 21, 2004 and as hereby and from time to time amended, restated, supplemented, modified or replaced, the " Credit Agreement "; capitalized terms used herein but not otherwise defined herein shall have the meanings assigned to such terms in the Credit Agreement), pursuant to which the Lenders have agreed to make and have made available to the Borrowers a revolving credit facility in an aggregate principal amount of $250,000,000; and

WHEREAS, the Borrowers anticipate that the Borrowers will be in default of the financial covenant set forth in Section 7.14(a) of the Credit Agreement commencing as of September 30, 2005; and

WHEREAS, the Borrowers have requested that certain terms of the Credit Agreement be amended in the manner set forth herein, and that the financial covenant default described above be waived effective as of the date hereof and for a period from the date hereof through and including December 29, 2005, and the Administrative Agent and the Lenders, subject to the terms and conditions contained herein, have agreed to such amendment and waiver, to be effective as of the date hereof; and

WHEREAS, the Borrowers, the Administrative Agent and the Lenders acknowledge that the terms of this Amendment Agreement constitute an amendment and modification of, and not a novation of, the Credit Agreement;

NOW, THEREFORE, in consideration of the mutual covenants and the fulfillment of the conditions set forth herein, the parties hereby agree as follows:

1. Definitions . The term "Credit Agreement" or "Agreement" (as the case may be) as used herein, in the Credit Agreement and in the other Loan Documents shall mean the Credit Agreement as hereby amended and modified, and as further amended, modified replaced or supplemented from time to time as permitted thereby.

2. Amendments to and Restatements of Terms of the Credit Agreement . Subject to the conditions hereof and upon satisfaction of the terms set forth in Section 7 , the Credit Agreement is hereby amended, effective as of the date hereof, as follows:

(a) Section 1.01 of the Credit Agreement is hereby amended by adding the definition of "Available Amount", in alphabetical order, to read as follows:

" Available Amount " means,

(a) through and including December 29, 2005, an amount equal to the lesser of (A) $195,000,000 and (B) the Aggregate Commitments; and

(b) thereafter, the Aggregate Commitments.

(b) Section 1.01 of the Credit Agreement is hereby further amended to restate the definition of "Letter of Credit Sublimit" in its entirety to read as follows:

" Letter of Credit Sublimit " means an amount equal to the lesser of (a) $30,000,000 and (b) the Available Amount. The Letter of Credit Sublimit is part of, and not in addition to, the Revolving Loan Commitments.

(c) Section 1.01 of the Credit Agreement is hereby further amended to restate the definition of "Negotiated Rate Loan Sublimit" in its entirety to read as follows:

" Negotiated Rate Loan Sublimit " means an amount equal to the lesser of (a) $125,000,000 and (b) the Available Amount. The Negotiated Rate Loan Sublimit is part of, and not in addition to, the Revolving Loan Commitments.

(d) Section 1.01 of the Credit Agreement is hereby further amended to restate the definition of "Offshore Currency Sublimit" in its entirety to read as follows:

" Offshore Currency Sublimit " means an amount equal to the lesser of (a) $125,000,000 and (b) the Available Amount. The Offshore Currency Sublimit is a part of, and not in addition to, the Revolving Loan Commitments.

(e) Section 1.01 of the Credit Agreement is hereby further amended to restate the definition of "Offshore Currency Swing Line Loan Sublimit" in its entirety to read as follows:

" Offshore Currency Swing Line Loan Sublimit " means the amount not at any time to exceed the lesser of (a) $15,000,000 and (b) the Available Amount, as designated by the US Borrower (by written notice to the Swing Line Lender at the Applicable Swing Line Funding Office and to the Administrative Agent) from time to time, but not more frequently than once each month. The Offshore

Currency Swing Line Loan Sublimit is part of, and not in addition to, the Revolving Loan Commitments.

(f) Section 1.01 of the Credit Agreement is hereby further amended to restate the definition of "US Swing Line Loan Sublimit" in its entirety to read as follows:

" US Swing Line Loan Sublimit " means an amount equal to (a) the lesser of (i) $25,000,000 and (ii) the Available Amount minus (b) the Offshore Currency Swing Line Loan Sublimit. The US Swing Line Loan Sublimit is part of, and not in addition to, the Revolving Loan Commitments.

(g) Section 2.01 (a) of the Credit Agreement is hereby amended to restate the first sentence of such Section in its entirety to read as follows:

Subject to the terms and conditions set forth herein, each Lender severally agrees to make loans in Dollars (each such loan, a " Revolving Loan ") to the US Borrower from time to time on any Business Day during the period from the Effective Date to the Revolving Loan Termination Date, in an aggregate amount not to exceed at any time the Revolving Loan Commitment of such Lender; provided , however , that after giving effect to any Revolving Borrowing, (i) the Dollar Equivalent of the Outstanding Revolving Credit Obligations shall not exceed the Available Amount, and (ii) no Revolving Lender's Pro Rata Share of the Outstanding Revolving Credit Obligations (excluding any Negotiated Rate Loans made by such Lender) shall exceed such Lender's Revolving Loan Commitment.

(h) Section 2.01 (b) of the Credit Agreement is hereby amended to restate the first sentence of subsection (i) of such Section in its entirety to read as follows:

Subject to the terms and conditions set forth herein, each Lender severally agrees to make loans in euro (each such loan, a " Offshore Currency Loan ") to the Dutch Borrower from time to time on any Business Day during the period from the Effective Date to the Revolving Loan Termination Date, in an aggregate amount not to exceed at any time such Lender's Pro Rata Share of the Offshore Currency Sublimit; provided , however , that after giving effect to any Offshore Currency Borrowing, (x) the Dollar Equivalent of the Outstanding Revolving Credit Obligations shall not exceed the Available Amount, (y) the Dollar Equivalent of the Outstanding Offshore Currency Obligations shall not exceed the Offshore Currency Sublimit and (z) no Lender's Pro Rata Share of the Dollar Equivalent of the Outstanding Offshore Currency Obligations shall exceed such Lender's Pro Rata Share of the Offshore Currency Sublimit.

(i) Section 2. 03(a) of the Credit Agreement is hereby amended to restate the last sentence of such Section in its entirety to read as follows:

The US Borrower and Revolving Lenders acknowledge that (x) subject to the proviso in the first sentence of this paragraph, notwithstanding the Revolving Loan Commitment of any Revolving Lender, each Revolving Lender may, but shall not be obligated to, make Negotiated Rate Loans as of any date in any aggregate amount that would not cause the Outstanding Revolving Credit Obligations to exceed the Available Amount then in effect (and for such purposes each Revolving Lender may rely on the information provided by the US Borrower in the Notice of Borrowing); and (y) Negotiated Rate Loans need not be made in accordance with the Revolving Lenders' Pro Rata Shares.

(j) Section 2. 04(a) of the Credit Agreement is hereby amended to restate the first sentence of subsection (i) of such Section in its entirety to read as follows:

Subject to the terms and conditions set forth herein, (A) each L/C Issuer agrees, in reliance upon the agreements of the other Revolving Lenders set forth in this Section 2.04 , (1) from time to time on any Business Day during the period from the Effective Date until the Letter of Credit Expiration Date, to issue Letters of Credit denominated in Dollars for the account of the US Borrower, and to amend or renew Letters of Credit previously issued by it, in accordance with subsection (b) below, and (2) to honor drafts under the Letters of Credit; and (B) the Revolving Lenders severally agree to participate in Letters of Credit issued for the account of the US Borrower; provided that no L/C Issuer shall be obligated to make any L/C Credit Extension with respect to any Letter of Credit, and no Lender shall be obligated to participate in, any Letter of Credit if as of the date of such L/C Credit Extension, (x) the Dollar Equivalent of the Outstanding Revolving Credit Obligations would exceed the Available Amount, (y) such Lender's Pro Rata Share of the Dollar Equivalent of the Outstanding Revolving Credit Obligations (excluding the Outstanding Amount of such Lender's Negotiated Rate Loans) would exceed such Lender's Revolving Loan Commitment, or (z) the Outstanding Amount of the L/C Obligations would exceed the Letter of Credit Sublimit.

(k) Section 2. 04(c) of the Credit Agreement is hereby amended to restate the fourth sentence of subsection (i) of such Section in its entirety to read as follows:

In such event, the US Borrower shall be deemed to have requested a Revolving Borrowing of Base Rate Loans to be disbursed on the Honor Date in an amount equal to the Unreimbursed Amount, without regard to the minimum and multiples specified in Section 2.02 for the principal amount of Base Rate Loans, but subject to the amount of the unutilized portion of the Available Amount.

(1) Section 2. 06(a) of the Credit Agreement is hereby amended to restate the first sentence of such Section in its entirety to read as follows:

Subject to the terms and conditions set forth herein, the Swing Line Lender agrees to make (i) loans in Dollars to the US Borrower (each such Loan, a " US Swing

Line Loan ") and (ii) loans in euro to the Dutch Borrower (each such Loan, an " Offshore Currency Swing Line Loan ") from time to time on any Business Day during the period from the Effective Date to the Revolving Loan Termination Date in an aggregate amount not to exceed at any time outstanding (x) as to all US Swing Line Loans, the amount of the US Swing Line Loan Sublimit and (y) as to Offshore Currency Swing Line Loans, the Offshore Currency Swing Line Loan Sublimit, notwithstanding the fact that such Swing Line Loans, when aggregated with the Swing Line Lender's Pro Rata Share of the Dollar Equivalent of the Outstanding Amount of Revolving Loans, Offshore Currency Loans and Negotiated Rate Loans plus the Pro Rata Share of the Outstanding Amount of L/C Obligations of the Swing Line Lender in its capacity as a Lender of Revolving Loans and Negotiated Rate Loans, may exceed the amount of such Lender's Revolving Loan Commitment; provided , however , that after giving effect to any Swing Line Loan, (1) the Dollar Equivalent of the aggregate Outstanding Revolving Credit Obligations shall not exceed the Available Amount, (2) the Dollar Equivalent of the Outstanding Offshore Currency Obligations shall not exceed the Offshore Currency Sublimit, and (3) other than the Swing Line Lender, no Revolving Lender's Pro Rata Share of the Dollar Equivalent of the aggregate Outstanding Revolving Credit Obligations shall exceed such Lender's Revolving Loan Commitment (excluding the Outstanding Amount of such Lender's Negotiated Rate Loans).

(m) Section 2. 06(c) of the Credit Agreement is hereby amended to restate the third sentence of subsection (i) of such Section in its entirety to read as follows:

Such request shall be made in accordance with the requirements of Section 2.02 , without regard to the minimum and multiples specified therein for the principal amount of Base Rate Loans, but subject to the unutilized portion of the Available Amount and the Offshore Currency Sublimit, as applicable, and the conditions set forth in Section 4.02 .

(n) Section 2. 08(b) of the Credit Agreement is hereby amended to restate such Section in its entirety to read as follows:

(b) If for any reason, the Dollar Equivalent of the aggregate Outstanding Revolving Credit Obligations exceed the Available Amount as in effect from time to time in accordance with the terms hereof, the applicable Borrower shall immediately prepay Revolving Loans, Offshore Currency Loans and/or Cash Collateralize the L/C Obligations in an aggregate amount equal to such excess.

(o) Section 7.01 of the Credit Agreement is hereby amended to add a proviso to the end of such Section, to read as follows:

provided , further , however , that, notwithstanding the Permitted Liens otherwise allowed pursuant to this Section 7.01, during the period from September 30, 2005 through and including December 29, 2005 US Borrower shall not, nor shall it permit any Restricted Subsidiary to, directly or indirectly create, incur or assume (X) additional Liens under subsection (i) or (Y) additional Liens under subsection (q) hereof securing obligations in excess of $1,000,000.

(p) Section 7.03 of the Credit Agreement is hereby amended to restate subsection (e) of such Section in its entirety to read as follows:

(e) Receivables Facility Attributed Indebtedness in an aggregate amount not to exceed $75,000,000 at any time; provided , however , that during the period from September 30, 2005 through and including December 29, 2005, Receivables Facility Attributed Indebtedness may not exceed $0 at any time;

(q) Section 7.14 of the Credit Agreement is hereby amended to restate subsection (a) of such Section in its entirety to read as follows:

(a) Leverage Ratio . Without limiting the provisions of Section 7.14(c) , permit the Leverage Ratio at any time to be greater than (i) from the Effective Date through and including September 30, 2004, 3.50 to 1.00; (ii) from October 1, 2004 through and including June 29 2005, 3.75 to 1.00; (iii) from June 30, 2005 through and including September 29, 2005, 3.50 to 1.00; (iv) from October 1, 2005 through and including March 30, 2006, 3.50 to 1.00; and (v) from March 31, 2006 and continuing thereafter, 3.25 to 1.00.

(r) Section 7.14 of the Credit Agreement is hereby amended to add a new subsection (c) to such Section to read as follows:

(c) Specified Date Leverage Ratio . Without limiting the provisions of Section 7.14(a) , permit the Leverage Ratio to be greater than 4.25 to 1.00 on September 30, 2005.

3. Waiver . Effective as of the date hereof and for a period from the date hereof through and including December 29, 2005 (the " Waiver Period "), the Administrative Agent and the undersigned Lenders hereby waive compliance with the provisions of Section 7.14(a) of the Credit Agreement, as amended by this Amendment Agreement (the " Section 7.14(a) Leverage Ratio "), at all times during the Waiver Period. Upon the expiration of the Waiver Period, any Event of Default that would have occurred during the Waiver Period for a failure to comply with the Section 7.14(a) Leverage Ratio but for the waiver set forth in this Section 3 shall be deemed to be no longer subject to an effective waiver to the same extent as if the waiver requested herein had never been in effect; provided , that the Borrowers shall not pay interest at the Default Rate pursuant to Section 2.09(b) of the Credit Agreement for any Event of Default declared upon the expiration of the Waiver Period for failure to comply with the Section 7.14(a) Leverage Ratio during the Waiver Period. The waiver set forth in this Section 3 is limited to the extent specifically set forth above and shall in no way serve to waive compliance with Section 7.14(a) of the Credit Agreement for any period other than the Waiver Period or as at any other date or to

waive any other terms, covenants or provisions of the Credit Agreement or any other Loan Document, or any obligations of any Borrower, other than as expressly set forth above.

4. Consent of the Guarantors . Each Guarantor hereby consents, acknowledges and agrees to the amendments set forth herein and hereby confirms, reaffirms and ratifies in all respects the Guaranties to which such Guarantor is a party (including without limitation the continuation of such Guarantor's payment and performance obligations thereunder upon and after the effectiveness of this Amendment Agreement and the amendments contemplated hereby) and the enforceability of such Guaranty against such Guarantor in accordance with its terms.

5. Full Force and Effect of Agreement . Except as hereby specifically amended, modified or supplemented, each Borrower hereby acknowledges and agrees that the Credit Agreement and all of the other Loan Documents are hereby confirmed and ratified in all respects and shall remain in full force and effect according to their respective terms.

6. Representations and Warranties . The US Borrower hereby certifies that after giving effect to this Amendment Agreement:

(a) The representations and warranties of the US Borrower contained in Article V of the Credit Agreement, or which are contained in any document furnished at any time under or in connection with the Credit Agreement, that are qualified by materiality are true and correct on and as of the date hereof, and each of the representations and warranties of the US Borrower contained in Article V of the Credit Agreement, or which are contained in any document furnished at any time under or in connection with the Credit Agreement, that are not qualified by materiality are true and correct in all material respects on and as of the date hereof, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they are true and correct, or true and correct in all material respects, as the case may be, as of such earlier date;

(b) The Persons appearing as Guarantors on the signature pages to this Amendment Agreement constitute all Persons who are required to be Guarantors pursuant to the terms of the Credit Agreement and the other Loan Documents, including without limitation all Persons who became Subsidiaries or were otherwise required to become Guarantors after the Effective Date, and each of such Persons has become and remains a party to a Guaranty as a Guarantor;

(c) This Amendment Agreement has been duly authorized, executed and delivered by each Borrower and each Guarantor party hereto and constitutes a legal, valid and binding obligation of such parties, except as may be limited by general principles of equity or by the effect of any applicable bankruptcy, insolvency, reorganization, moratorium or similar law affecting creditors' rights generally; and

(d) After giving effect to this Amendment Agreement, no Default or Event of Default exists.

7. Conditions to Effectiveness . This Amendment Agreement shall not be effective until the Administrative Agent has received to its reasonable satisfaction each of the following:

(a) four (4) counterparts of this Amendment Agreement executed by the Borrowers, the Administrative Agent and the Required Lenders;

(b) payment of (i) all reasonable out of pocket fees and expenses of counsel to the Administrative Agent incurred in connection with the execution and delivery of this Amendment Agreement to the extent invoiced prior to the date hereof; (ii) an upfront fee to each Lender executing this Amendment Agreement by 5:00 p.m. (New York, New York time) on September 28, 2005, such upfront fee for each such Lender's own account in an amount as shall have been separately agreed upon in writing; and (iii) all other fees agreed to be paid;

(c) an executed copy of an amendment to the guaranty agreement by Libbey Inc. relating to the US Borrower's note purchase agreement, dated as of March 31, 2003 and entered into with institutional investors covering the issuance of the US Borrower's senior notes maturing on March 31, 2008, March 31, 2010 and March 31, 2013, in form and substance satisfactory to the Administrative Agent; and

(d) such other documents, instruments and certificates as reasonably requested by the Agent.

Upon the satisfaction of the conditions set forth in this Section 7, this Amendment Agreement shall be effective as of the date hereof.

8. Counterparts. This Amendment Agreement may be executed in one or more counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

9. Governing Law. This Amendment Agreement shall in all respects be governed by, and construed in accordance with, the laws of the State of New York.

10. Enforceability. Should any one or more of the provisions of this Amendment Agreement be determined to be illegal or unenforceable as to one or more of the parties hereto, all other provisions nevertheless shall remain effective and binding on the parties hereto.

11. No Novation. This Amendment Agreement is given as an amendment and modification of, and not as a payment of, the Obligations of each Borrower under the Credit Agreement and is not intended to constitute a novation of the Credit Agreement. All of the indebtedness, liabilities and obligations owing by each Borrower under the Credit Agreement shall continue.

12. Successors and Assigns. This Amendment Agreement shall be binding upon and inure to the benefit of each of the Borrowers, the Lenders and the Administrative Agent and their respective successors, assigns and legal representatives; provided, however, that the Borrowers, without the prior consent of the Administrative Agent, may not assign any rights, powers, duties or obligations hereunder.

13. Expenses. Without limiting the provisions of Section 10.04 of the Credit Agreement, the Borrowers agree to pay all reasonable out of pocket costs and expenses

(including without limitation reasonable legal fees and expenses) incurred before or after the date hereof by the Administrative Agent and its Affiliates in connection with the preparation, negotiation, execution, delivery and administration of this Amendment Agreement.

[Signature pages follow.]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment No. 2 and Waiver to Credit Agreement to be duly executed by their duly authorized officers, all as of the day and year first above written.

BORROWERS :

LIBBEY GLASS INC.

By: /s/ Kenneth A. Boerger
Name: Kenneth A. Boerger
Title: Vice President and Treasurer

LIBBEY EUROPE B.V.

By: /s/ PJ Buch
Name: PJ. Buch
Title: Managing Director

By: /s/ Kenneth G. Wilkes
Name: Kenneth G. Wilkes
Title: Director

GUARANTORS :

LIBBEY GLASS INC.

By: /s/ Kenneth A. Boerger
Name: Kenneth A. Boerger
Title: Vice President and Treasurer

LIBBEY INC.

By: /s/ Kenneth A. Boerger
Name: Kenneth A. Boerger
Title: Vice President and Treasurer

THE DRUMMOND GLASS COMPANY

By: /s/ Kenneth A. Boerger
Name: Kenneth A. Boerger
Title: Vice President

SYRACUSE CHINA COMPANY

By: /s/ Kenneth A. Boerger
Name: Kenneth A. Boerger
Title: Vice President

WORLD TABLEWARE INC.

By: /s/ Kenneth A. Boerger
Name: Kenneth A. Boerger
Title: Vice President

LGA3 CORP.

By: /s/ Kenneth A. Boerger
Name: Kenneth A. Boerger
Title: Vice President

LGA4 CORP.

By: /s/ Kenneth A. Boerger
Name: Kenneth A. Boerger
Title: Vice President

LGFS INC.

By: /s/ Kenneth A. Boerger
Name: Kenneth A. Boerger
Title: Vice President

LGAC LLC

By: /s/ Kenneth A. Boerger
Name: Kenneth A. Boerger
Title: Vice President

TRAEX COMPANY

By: /s/ Kenneth A. Boerger
Name: Kenneth A. Boerger
Title: Vice President

LGC CORP.

By: /s/ Kenneth A. Boerger
Name: Kenneth A. Boerger
Title: Vice President

ADMINISTRATIVE AGENT:

BANK OF AMERICA, N.A., as Administrative Agent

By: /s/ Anthea Del Bianco
Name: Anthea Del Bianco
Title: Vice President

Signature Page

BANK OF AMERICA, N.A., as a Lender, Swing Line Lender and an L/C Issuer

By:	/s/ Thomas R. Durham
Name:	Thomas R. Durham
Title:	Senior Vice President

THE BANK OF NEW YORK, as a Lender

By: /s/ Kevin Higgins
Name: Kevin Higgins
Title: Vice President

Signature Page

THE BANK OF TOKYO-MITSUBISHI, LTD., CHICAGO BRANCH, as a Lender

By: /s/ Tsuguyuki Umene
Name: Tsuguyuki Umene
Title: Deputy General Manager

PNC BANK NATIONAL ASSOCIATION, as a Lender

By: /s/ Joseph G. Moran
Name: Joseph G. Moran
Title: Managing Director

By: ______________________
Name: ______________________
Title: ______________________

THE BANK OF NOVA SCOTIA, as a Lender

By: /s/ Vicki Gibson
Name: Vicki Gibson
Title: Assistant Agent

CITIZENS BANK OF PENNSYLVANIA, as a Lender

By: /s/ Debra L. McAllons
Name: Debra L. McAllons
Title: Senior Vice President

Signature Page

CREDIT INDUSTRIEL ET COMMERCIAL, as a Lender

By: /s/ Eric Dulot
Name: Eric Dulot
Title: Vice President

By: /s/ Albert M. Calo
Name: Albert M. Calo
Title: Vice President

CALYON NEW YORK BRANCH, as a Lender

By: /s/ LEE E. GREVE
Name: LEE E. GREVE
Title: MANAGING DIRECTOR DEPUTY MANAGER

By: /s/ Joseph A. Philbin
Name: Joseph A. Philbin
Title: DIRECTOR

FIFTH THIRD BANK, as a Lender

By: /s/ Michael R Miller
Name: Michael R Miller
Title: Executive Vice President

Libbey Glass, Inc. and Libbey Europe BV
Amendment No. 2 — Signature Page

JPMORGAN CHASE BANK, N.A., as a Lender

By: /s/ Steven P. Sullivan
Name: Steven P. Sullivan
Title: Vice President

Libbey Glass, Inc. and Libbey Europe BV
Amendment No. 2 — Signature Page

NATIONAL CITY BANK, as a Lender

By: /s/ Thomas E. Redmond
Name Thomas E. Redmond
Title: Senior Vice President

Signature Page

THE NORTHERN TRUST COMPANY, as a Lender

By: /s/ Preeti Jain
Name Preeti Jain
Title: Vice President

Libbey Glass, Inc. and Libbey Europe BV
Amendment No. 2 — Signature Page

LASALLE BANK MIDWEST NATIONAL ASSOCIATION, as a Lender

By:	/s/ Ronald R. Valentine
Name	Ronald R. Valentine
Title:	FVP

Libbey Glass, Inc. and Libbey Europe BV
Amendment No. 2 — Signature Page

BANK LEUMI USA, as a Lender

By: /s/ Joung Hee Hong
Name Joung Hee Hong
Title: Vice President

Libbey Glass, Inc. and Libbey Europe BV
Amendment No. 2 — Signature Page

LIBBEY INC.

WAIVER AND SECOND AMENDMENT TO PARENT GUARANTY AGREEMENT

Dated as of September 30, 2005

Re: Parent Guaranty Agreement dated as of March 31, 2003,
Note Purchase Agreement dated as of March 31, 2003
and
$25,000,000 3.69% Senior Notes, Series 2003A-1, due March 31, 2008
$55,000,000 5.08% Senior Notes, Series 2003A-2, due March 31, 2013
$20,000,000 Floating Rate Senior Notes, Series 2003B, due March 31, 2010

LIBBEY INC.

WAIVER AND SECOND AMENDMENT TO PARENT GUARANTY AGREEMENT

Dated as of September 30, 2005

Re: Parent Guaranty Agreement dated as of March 31, 2003,
Note Purchase Agreement dated as of March 31, 2003
and
$25,000,000 3.69% Senior Notes, Series 2003A-1, due March 31, 2008
$55,000,000 5.08% Senior Notes, Series 2003A-2, due March 31, 2013
$20,000,000 Floating Rate Senior Notes, Series 2003B, due March 31, 2010

To the institutional investors (the *"Noteholders"*)
Named in Schedule I attached hereto

Ladies and Gentlemen:

Reference is made to the Parent Guaranty Agreement dated as of March 31, 2003, as amended to date (the *"Guaranty Agreement"*) between Libbey Inc., a Delaware corporation (the *"Guarantor"*), and each of the institutional investors party thereto, pursuant to which the Guarantor has guaranteed the obligations of Libbey Glass Inc., a Delaware corporation (the *"Company"*), under the Note Purchase Agreement dated as of March 31, 2003 (the *"Note Purchase Agreement"*) between the Company and the institutional investors party thereto, under and pursuant to which the Company originally issued and sold its 3.69% Senior Notes, Series 2003A-1, due March 31, 2008 in an aggregate principal amount of $25,000,000 (the *"Series A-1 Notes"*), 5.08% Senior Notes, Series 2003A-2, due March 31, 2013 in an aggregate principal amount of $55,000,000 (the *"Series A-2 Notes"*), and Floating Rate Senior Notes, Series 2003B, due March 31, 2010 in an aggregate principal amount of $20,000,000 (the *"Series 2003B Notes,"* and together with the Series A-1 Notes and the Series A-2 Notes, the *"Notes"*). Terms used but not otherwise defined herein shall have the same meaning as ascribed to such terms in the Guaranty Agreement.

The Guarantor hereby agrees with you in this Waiver and Second Amendment to Parent Guaranty Agreement (this or the *"Second Amendment"*) as follows:

ARTICLE 1.

WAIVER .

Section 1.1. Waiver of Section 5. 1(a) (Limitation on Debt). Compliance by the Guarantor with Section 5.1(a) of the Guaranty Agreement is hereby waived for the period beginning September 30, 2005 and ending December 31, 2005, provided that (i) the Consolidated Leverage Ratio for the period ending September 30, 2005 shall not exceed 4.25 to 1.00, and (ii) the Guarantor and its Restricted Subsidiaries shall not incur any Debt during such period from the date of this Second Amendment through December 31, 2005, other than (A) Debt incurred under the Bank Credit Agreement not to exceed at any time $195,000,000 in an aggregate principal amount outstanding, (B) Debt incurred pursuant to a Euro working capital facility not to exceed at any time 10,000,000 Euros in an aggregate principal amount outstanding, (C) Debt incurred pursuant to a working capital facility not to exceed at any time $10,000,000 in an aggregate principal amount outstanding, (D) a Guaranty of Debt of Libbey Glassware (China) Co., Ltd. relating to a construction facility not to exceed at any time $30,000,000 (or the equivalent amount in foreign currency) in an aggregate principal amount outstanding and (E) other Debt not to exceed at any time $1,000,000 in an aggregate amount outstanding.

Section 1.2. Limited Waiver; Reservation of Rights. The Guarantor acknowledges and agrees that the waiver granted in Section 1.1 is valid only for the specific purpose for which it is being given and shall not in any way obligate any Noteholder to agree to any additional waivers of the provisions of the Guaranty Agreement or the Note Purchase Agreement, and shall not constitute or operate as a waiver of any Noteholder's rights under the Note Purchase Agreement to exercise remedies resulting from any Default or Event of Default which may now exist or which may occur in the future.

Section 1.3. Amendment to Section 5.3 of Guaranty Agreement. Section 5.3 of the Guaranty Agreement shall be amended by adding the following proviso at the end of subparagraph (m) thereof:

> *"provided, further,* that (i) no Liens shall be created, incurred or assumed under this Section 5.3(m) if, at such time or after giving effect thereto, any Default or Event of Default shall have occurred and be continuing, and (ii) from the date of September___, 2005 through December 31, 2005, the Guarantor will not and will not permit any of its Restricted Subsidiaries to create, incur or assume any Liens under this subsection (m) securing Debt in excess of $1,000,000".

Section 1.4. Amendment to Section 5 of Guaranty Agreement. Section 5 of the Guaranty Agreement shall be the addition of a new Section 5.8 that shall read as follows:

> *Section 5.8. Notes and Guaranty Agreement to Rank Pari Passu.* The Notes and all other obligations under the Note Purchase Agreement and this Guaranty Agreement are and at all times shall remain direct and unsecured obligations of the Company and the Guarantor, respectively, ranking *pari passu* with all Debt outstanding under the Bank Credit Agreement and all other present and future unsecured Debt (actual or contingent) of the Company and the Guarantor which is not expressed to be

subordinate or junior in rank to any other unsecured Debt of the Company or the Guarantor.

ARTICLE 2.

REPRESENTATIONS AND WARRANTIES.

The Guarantor represents and warrants that as of the date hereof and after giving effect hereto:

(a) The execution and delivery of the Waiver by the Guarantor and compliance by the Guarantor with all of the provisions of the Guaranty Agreement as amended by this Second Amendment —

(i) are within the corporate power and authority of the Guarantor; and

(ii) will not violate any provisions of any law or any order of any court or governmental authority or agency and will not conflict with or result in any breach of any of the terms, conditions or provisions of, or constitute a default under the certificate of incorporation or by-laws of the Guarantor, or any indenture or other agreement or instrument to which the Guarantor is party or by which the Guarantor may be bound or result in the imposition of any Liens or encumbrances on any property of the Guarantor.

(b) The execution and delivery of the Waiver has been duly authorized by all necessary corporate action on the part of the Guarantor; and the Waiver has been duly executed and delivered by the Guarantor, and the Guaranty Agreement, constitutes the legal, valid and binding obligation, contract and agreement of the Guarantor enforceable in accordance with its terms, subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and similar laws affecting creditors' rights generally, and general principles of equity (regardless of whether the application of such principles is considered in a proceeding in equity or at law).

(c) Upon the effectiveness of this Second Amendment and that certain Amendment No. 2 and Waiver to Credit Agreement, dated as of September 30, 2005 (the *"Credit Agreement Waiver"*), in respect of the Credit Agreement dated as of June 24, 2004 (as amended, modified or waived as of the date hereof, the *"Bank Credit Agreement"*) by and among the Company, Libbey Europe B.V. and the banks and financial institutions named therein, no Default or Event of Default exists or shall be continuing under the Guaranty Agreement or the Note Purchase Agreement.

(d) Neither the Guarantor nor any Subsidiary has paid any fee or other consideration or remuneration to any Lender (as defined in the Bank Credit Agreement), in its capacity as such, or to any Noteholder, in its capacity as such, in connection with the execution and delivery of the Credit Agreement Waiver or this Second Amendment except (i) a Waiver fee equal to .05% of the commitment amount of each Lender party to the Credit Agreement Waiver, (ii) the fee referenced in Section 3.4 of this Second Amendment, and (iii) routine fees of counsel.

ARTICLE 3.

MISCELLANEOUS.

Section 3.1. References to Guaranty Agreement. References in the Guaranty Agreement or the Note Purchase Agreement or in any Note, certificate, instrument or other document delivered in connection with or in respect of the Guaranty Agreement or the Note Purchase Agreement shall be deemed to be references to the Guaranty Agreement as heretofore amended without making specific reference to this Second Amendment.

Section 3.2. Effect of Waiver; Reaffirmation of Guaranty Agreement. Except as expressly set forth herein, the Guarantor agrees that the Guaranty Agreement and all other documents and agreements executed by the Guarantor in connection with the Guaranty Agreement in favor of the Noteholders are ratified and confirmed in all respects and continue unimpaired and shall remain in full force and effect.

Section 3.3. Successors and Assigns. This Waiver shall be binding upon the Guarantor and its successors and assigns and shall inure to the benefit of the Noteholders and to the benefit of the Noteholders' successors and assigns, including each successive holder or holders of any Notes.

Section 3.4. Requisite Approval; Expenses. This Waiver shall be effective as of the date first written above upon the satisfaction of the following conditions precedent: (a) the Guarantor and the Required Holders shall have executed this Second Amendment, (b) the Company shall have executed and delivered the Acknowledgment and Consent in respect of the Note Purchase Agreement and this Second Amendment in the form attached hereto as Exhibit A, (c) each of the Subsidiary Guarantors shall have executed and delivered the Acknowledgment and Consent in respect of the Subsidiary Guaranty Agreement and this Second Amendment in the form attached hereto as Exhibit B, (d) a copy of the executed Credit Agreement Waiver shall have been delivered to the Noteholders, (e) the Guarantor and the Company shall have paid a fee to each Noteholder in an amount equal to 0.05% of the principal amount of the Notes held by such Noteholder, and (f) the Guarantor and the Company shall have paid all reasonable fees and disbursements of Chapman and Cutler LLP which are reflected in statements of such counsel rendered on or prior to the date of this Second Amendment.

Section 3.5. Counterparts. This Waiver to Guaranty Agreement may be executed in any number of counterparts, each executed counterpart constituting an original but all together only one agreement.

Section 3.6. Governing Law. This Waiver shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the law of the State of New York excluding choice-of-law principles of the law of such State that would require the application of the laws of a jurisdiction other than such State.

Remainder of Page Intentionally Left Blank

IN WITNESS WHEREOF , the Guarantor has executed this Waiver and Second Amendment to Parent Guaranty Agreement as of the day and year first above written.

LIBBEY INC.

By: /s/ Kenneth A. Boerger
Kenneth A. Boerger
Its: VP and Treasurer

This Waiver and Second Amendment to Parent Guaranty is accepted and agreed to as of the day and year first above written.

METROPOLITAN LIFE INSURANCE COMPANY

By: /s/ Judith A. Gulotta
Name: Judith A. Gulotta
Title: Director

GENERAL AMERICAN LIFE INSURANCE COMPANY

By: Metropolitan Life Insurance Company, as Investment Manager

By: /s/ Judith A. Gulotta
Name: Judith A. Gulotta
Title: Director

THE VARIABLE ANNUITY LIFE INSURANCE COMPANY
AIG LIFE INSURANCE COMPANY
SUNAMERICA LIFE INSURANCE COMPANY

By: AIG Global Investment Corp., investment adviser

By /s/ Gerald F. Herman
Name: Gerald F. Herman
Title: Vice President

BANC OF AMERICA SECURITIES LLC

By: /s/ John J. DeCoursey
Name: John J. DeCoursey
Title: Principal

MONUMENTAL LIFE INSURANCE COMPANY

By: /s/ Mary T. Pech
Name: Mary T. Pech
Title: Vice President

MASSACHUSETTS MUTUAL LIFE INSURANCE COMPANY

By: Babson Capital Management LLC, as Investment Adviser

By: /s/ Mark A. Ahmed
Name: Mark A. Ahmed
Title: Managing Director

C.M. LIFE INSURANCE COMPANY

By: Babson Capital Management LLC, as Investment Sub-Adviser

By /s/ Mark A. Ahmed
Name: Mark A. Ahmed
Title: Managing Director

MASSMUTUAL ASIA LIMITED

By: Babson Capital Management LLC, as Investment Adviser

By /s/ Mark A. Ahmed
Name: Mark A. Ahmed
Title: Managing Director

NOTEHOLDERS

NAMES OF NOTEHOLDERS	SERIES OF NOTES	OUTSTANDING PRINCIPAL AMOUNT
METROPOLITAN LIFE INSURANCE COMPANY	A-1	$ 25,000,000
GENERAL AMERICAN LIFE INSURANCE COMPANY	A-2	$ 4,000,000
THE VARIABLE ANNUITY LIFE INSURANCE COMPANY	A-2	$ 7,000,000
AIG LIFE INSURANCE COMPANY	A-2	$ 6,000,000
HARE & CO. (as Nominee for Banc of America Securities LLC)	A-2	$ 5,000,000
		$ 5,000,000
		$ 5,000,000
MASSACHUSETTS MUTUAL LIFE INSURANCE COMPANY	A-2	$ 3,550,000
		$ 2,200,000
		$ 1,250,000
		$ 750,000
		$ 350,000
C.M. LIFE INSURANCE COMPANY	A-2	$ 1,450,000
MASSMUTUAL ASIA LIMITED	A-2	$ 450,000
NATIONWIDE LIFE INSURANCE COMPANY	A-2	$ 4,000,000
NATIONWIDE LIFE AND ANNUITY INSURANCE COMPANY	A-2	$ 3,000,000
NATIONWIDE MUTUAL FIRE INSURANCE COMPANY	A-2	$ 2,000,000
THE CANADA LIFE ASSURANCE COMPANY	A-2	$ 4,000,000
SUNAMERICA LIFE INSURANCE COMPANY	B	$ 7,000,000
MONUMENTAL LIFE INSURANCE COMPANY	B	$ 13,000,000
	TOTAL	**$100,000,000**

SCHEDULE I
(to Second Amendment to Parent Guaranty Agreement)

ACKNOWLEDGMENT AND CONSENT

To the institutional investors named in
Schedule I to the Waiver (as hereinafter described)

This Acknowledgment and Consent (this *"Acknowledgment and Consent"*), dated as of September 30, 2005, is being delivered by the undersigned, Libbey Glass Inc., a Delaware corporation (the *"Company"*), in respect of that certain Note Purchase Agreement dated as of March 31, 2003 (the *"Note Purchase Agreement"*) between the Company and the institutional investors party thereto and in connection with the transactions contemplated by the Waiver and Second Amendment to Parent Guaranty Agreement, effective as of even date herewith (the *"Waiver"*), between Libbey Inc., a Delaware corporation (the *"Guarantor"*), and the institutional investors party thereto, in respect of the original Parent Guaranty Agreement dated as of March 31, 2003 (as amended, modified or waived prior to the date hereof, the *"Guaranty Agreement"*) between the Guarantor and the institutional investors party thereto relating to the Note Purchase Agreement. Capitalized terms used but not otherwise defined herein shall have the meanings ascribed to such terms in the Waiver.

By executing this Acknowledgment and Consent as of the date hereof, the Company:

(i) acknowledges receipt of a copy of, and hereby consents to the terms of, the Waiver;

(ii) ratifies and confirms the Note Purchase Agreement and the Notes thereunder; and

(iii) confirms that the Note Purchase Agreement and the Notes thereunder continue unimpaired and in full force effect.

[Signature Pages for Acknowledgment and Consent Follow]

This Acknowledgment and Consent may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. Signatures to this Acknowledgment and Consent may be given by facsimile or other electronic transmission, and such signatures shall be fully binding on the party sending the same.

IN WITNESS WHEREOF , the Company has caused this Acknowledgment and Consent to be executed as of the day and year first above written.

LIBBEY GLASS INC.

By: /s/ Kenneth A. Boerger
Kenneth A. Boerger
Its: VP and Treasurer

Acknowledgment and Consent

To the institutional investors named in
Schedule I to the Waiver (as hereinafter described)

This Acknowledgment and Consent (this *"Acknowledgment and Consent"*), dated as of September 30, 2005, is being delivered by each of the undersigned (each, a *"Subsidiary Guarantor"*), in respect of that certain Subsidiary Guaranty dated as of March 31, 2003 (the *"Subsidiary Guaranty"*), given in favor of the institutional investors referred to therein, and in connection with the transactions contemplated by the Waiver and Second Amendment to Parent Guaranty Agreement, effective as of even date herewith (the *"Waiver"*), between Libbey Inc., a Delaware corporation (the *"Guarantor"*), and the institutional investors party thereto, in respect of the original Parent Guaranty Agreement dated as of March 31, 2003 (as amended, modified or waived prior to the date hereof, the *"Guaranty Agreement"*) between the Guarantor and the institutional investors party thereto relating to the original Note Purchase Agreement, dated as of March 31, 2003 between Libbey Glass Inc. and the institutional investors party thereto. Capitalized terms used but not otherwise defined herein shall have the meanings ascribed to such terms in the Waiver.

By executing this Acknowledgment and Consent as of the date hereof, each Subsidiary Guarantor:

(i) acknowledges receipt of a copy of, and hereby consents to the terms of, the Waiver;

(ii) ratifies and confirms the Subsidiary Guaranty; and

(iii) confirms that the Subsidiary Guaranty continues unimpaired and in full force effect.

[Signature Pages for Acknowledgment and Consent Follow]

This Acknowledgment and Consent may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. Signatures to this Acknowledgment and Consent may be given by facsimile or other electronic transmission, and such signatures shall be fully binding on the party sending the same.

IN WITNESS WHEREOF , each Subsidiary Guarantor has caused this Acknowledgment and Consent to be executed as of the day and year first above written.

THE DRUMMOND GLASS COMPANY
SYRACUSE CHINA COMPANY
WORLD TABLEWARE INC.
LGA3 CORP.
LGA4 CORP.
LGFS INC.
LGAC LLC
LGC CORP.
TRAEX COMPANY

By: /s/ Kenneth A. Boerger
Kenneth A. Boerger
Its: Vice President

EXHIBIT 10.3

WAIVER AGREEMENT

THIS WAIVER AGREEMENT (this " Agreement "), dated as of September 30, 2005, makes reference to (i) the Credit Agreement dated as of April 2, 2004 (as amended, the " Credit Agreement ") among VITROCRISA COMERCIAL, S. de R.L. de C.V., a corporation *(sociedad de responsabilidad limitada de capital variable)* organized and existing under the laws of the United Mexican States, VITROCRISA, S. de R.L. de C.V., a corporation *(sociedad de responsabilidad limitada de capital variable)* organized and existing under the laws of the United Mexican States, various financial institutions and BANK OF MONTREAL, as administrative agent; and (ii) the Libbey and Libbey Glass Guaranty dated as of April 2, 2004 (the " Libbey Guaranty ") executed by each of LIBBEY INC., a Delaware corporation (" Libbey "), and LIBBEY GLASS INC., a Delaware corporation (" Libbey Glass ") (each, a " Guarantor " and together, the " Guarantors "). Unless otherwise defined herein, terms used in this Agreement that are defined in the Credit Agreement or the Libbey Guaranty shall have the same meanings herein as in the Credit Agreement or the Libbey Guaranty, as applicable.

WHEREAS, pursuant to the Libbey Guaranty, the Guarantors have guaranteed certain of the Obligations of Vitrocrisa and/or Comercial to each of the Tranche B Lenders and the Administrative Agent; and

WHEREAS, the Guarantors have requested a waiver by the Tranche B Lenders and the Administrative Agent of the requirements of Section 4.4(b) of the Libbey Guaranty; and

WHEREAS, the parties hereto are willing to provide such waiver as specifically set forth herein.

NOW, THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

1. Waiver . Upon satisfaction of the conditions precedent set forth in Section 3 below, each of the parties hereto waives any Event of Default and any rights to take action, in each case, arising from the failure of the Guarantors to maintain a Consolidated Leverage Ratio (as defined in Note Purchase Guaranty Agreement) of less than or equal to 3.75 to 1.0 at any time from September 30, 2005 through (but not including) December 31, 2005; provided that the Consolidated Leverage Ratio (as defined in Note Purchase Guaranty Agreement) of the Guarantors shall not exceed 4.25 to 1.0 as of September 30, 2005.

2. Limited Waiver . Except as set forth in Section 1 above, the execution of this Agreement and acceptance of any other documents related hereto shall not be deemed to be a waiver of any Event of Default under the Credit Agreement, any Guarantor Event of Default under the Libbey Guaranty or any breach, default or event of default under any other Transaction Document, whether or not known to the Administrative Agent, any Collateral Agent or any Lender and whether or not existing on the date of this Agreement.

3. Conditions Precedent . This Agreement shall be effective upon satisfaction of the following conditions precedent:

(a) the Administrative Agent shall have received this Agreement, duly executed by the Administrative Agent and the Required Lenders; and

(b) the Guarantors shall have paid to the Administrative Agent for the account of each Tranche B Lender that has delivered (by facsimile or otherwise) an executed counterpart of this Agreement to the Administrative Agent on or prior to noon (Eastern time) on September 29, 2005, a non-refundable fee in an amount equal to *5* basis points (0.05%) of the Tranche B Loans of such Tranche B Lender as of the date hereof.

4. Governing Law . This Agreement shall be construed in accordance with and be governed by the law of the State of New York without giving effect to the principles thereof relating to conflicts of law (except Section 5-1401 of the New York General Obligations Law).

5. Severability . Whenever possible, each provision of this Agreement shall be interpreted in a manner as to be effective and valid under applicable law, but if any provision of this Agreement shall be prohibited by or invalid under applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity without invalidating the remainder of such provision or the remaining provisions of this Agreement.

6. Captions and Headings . The captions or section headings at various places in this Agreement are intended for convenience only and do not constitute and shall not be interpreted as part of this Agreement.

7. Counterparts; Telecopied Signatures . This Agreement may be executed in any number of separate counterparts, each of which shall collectively and separately constitute one and the same agreement. This Agreement may be authenticated by manual signature, facsimile or, if approved in writing by the Administrative Agent, electronic means, all of which shall be equally valid. A facsimile copy of any such executed counterpart shall be deemed valid as an original.

8. No Other Changes . Except as explicitly set forth herein, all of the terms and conditions of the Credit Agreement and the Libbey Guaranty shall remain in full force and effect.

[Signatures Follow]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered as of the date first above written.

BANK OF MONTREAL,
as Administrative Agent

By: /s/ Aaron Lanski
Name: Aaron Lanski
Title: Vice President

THE BANK OF NOVA SCOTIA,
as a Tranche B Lender

By: ______________________
Name:
Title:

STANDARD FEDERAL BANK, N.A.,
as a Tranche B Lender

By: ______________________
Name:
Title:

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered as of the date first above written.

BANK OF MONTREAL,
as Administrative Agent

By: ________________________
Name:
Title:

THE BANK OF NOVA SCOTIA,
as a Tranche B Lender

By: /s/ K. C. Clark
Name: K. C. Clark
Title: Managing Director

LASALLE BANK MIDWEST NATIONAL ASSOCIATION (formerly known as Standard Federal Bank, N.A.), as a Tranche B Lender

By: ________________________
Name:
Title:

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered as of the date first above written.

BANK OF MONTREAL,
as Administrative Agent

By: ______________________________
Name:
Title:

THE BANK OF NOVA SCOTIA,
as a Tranche B Lender

By: ______________________________
Name:
Title:

LASALLE BANK MIDWEST NATIONAL ASSOCIATION (formerly known as Standard Federal Bank, N.A.), as a Tranche B Lender

By: /s/ Ronald R. Valentine
Name: Ronald R. Valentine
Title: FVP

EXHIBIT 31.1

Certification of Chief Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, John F. Meier, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date November 9, 2005

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

EXHIBIT 31.2

Certification of Chief Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Scott M. Sellick, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date November 9, 2005

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

EXHIBIT 32.1

Certification of Chief Executive Officer

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

(i) the accompanying Quarterly Report on Form 10-Q of the Company for the quarterly period ended September 30, 2005 (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: November 9, 2005

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

EXHIBIT 32.2

Certification of Chief Financial Officer

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

(i) the accompanying Quarterly Report on Form 10-Q of the Company for the quarterly period ended September 30, 2005 (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: November 9, 2005

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

End of Filing

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