

LIBBEY INC
Form 10-Q
November 09, 2009

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q**

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

For the quarterly period ended September 30, 2009

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller reporting company

(Do not check if a smaller reporting company)

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 16,088,705 shares at October 30, 2009.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

The accompanying unaudited Condensed Consolidated Financial Statements of Libbey Inc. and all majority-owned subsidiaries (collectively, Libbey or the Company) have been prepared in accordance with U.S. Generally Accepted Accounting Principles (U.S. GAAP) 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. GAAP 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, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009.

The balance sheet at December 31, 2008 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. GAAP 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, 2008.

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

	Three months ended September	
	30,	
	2009	2008
Net sales	\$ 186,878	\$ 211,536
Freight billed to customers	419	664
Total revenues	187,297	212,200
Cost of sales	144,337	174,266
Gross profit	42,960	37,934
Selling, general and administrative expenses	24,811	23,377
Special charges	300	
Income from operations	17,849	14,557
Other income (expense)	2,703	(1,000)
Earnings before interest and income taxes	20,552	13,557
Interest expense	17,451	17,509
Income (loss) before income taxes	3,101	(3,952)
(Benefit from) provision for income taxes	(432)	2,006
Net income (loss)	\$ 3,533	\$ (5,958)
Net income (loss) per share:		
Basic	\$ 0.23	\$ (0.40)
Diluted	\$ 0.23	\$ (0.40)
Dividends per share	\$	\$ 0.025

See accompanying notes

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

	Nine months ended September 30,	
	2009	2008
Net sales	\$ 540,557	\$ 623,640
Freight billed to customers	1,163	1,947
Total revenues	541,720	625,587
Cost of sales	453,761	515,148
Gross profit	87,959	110,439
Selling, general and administrative expenses	69,699	67,687
Special charges	974	
Income from operations	17,286	42,752
Other income	5,424	339
Earnings before interest and income taxes	22,710	43,091
Interest expense	52,162	52,280
Loss before income taxes	(29,452)	(9,189)
(Benefit from) provision for income taxes	(7,756)	2,365
Net loss	\$ (21,696)	\$ (11,554)
Net loss per share:		
Basic	\$ (1.45)	\$ (0.79)
Diluted	\$ (1.45)	\$ (0.79)
Dividends per share	\$	\$ 0.075

See accompanying notes

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

	September 30, 2009 (unaudited)	December 31, 2008
Assets:		
Cash and equivalents	\$ 30,648	\$ 13,304
Accounts receivable net	91,119	76,072
Inventories net	153,523	185,242
Prepaid and other current assets	14,116	17,167
Total current assets	289,406	291,785
Pension asset	10,560	9,351
Purchased intangible assets net	25,293	26,121
Goodwill	165,023	166,736
Other assets	12,033	12,714
Total other assets	212,909	214,922
Property, plant and equipment net	296,862	314,847
Total assets	\$ 799,177	\$ 821,554
Liabilities and Shareholders Deficit:		
Notes payable	\$ 1,517	\$ 3,284
Accounts payable	52,087	54,428
Salaries and wages	31,703	22,597
Accrued liabilities	60,033	39,675
Accrued special charges	908	4,248
Pension liability (current portion)	1,579	1,778
Non-pension postretirement benefits (current portion)	4,684	4,684
Derivative liability	10,720	17,936
Deferred income taxes	1,791	1,279
Long-term debt due within one year	9,152	1,117
Total current liabilities	174,174	151,026
Long-term debt	516,030	545,856
Pension liability	99,328	109,505
Non-pension postretirement benefits	59,612	57,197
Deferred income taxes	3,726	3,648
Other long-term liabilities	8,299	12,211
Total liabilities	861,169	879,443

Shareholders deficit:

Common stock, par value \$.01 per share, 50,000,000 shares authorized, 18,697,630 shares issued at September 30, 2009 and at December 31, 2008		187		187
Capital in excess of par value (includes warrants of \$1,034 based on 485,309 shares at September 30, 2009 and at December 31, 2008)		310,792		309,275
Treasury stock, at cost, 3,542,070 shares (3,967,486 shares in 2008)		(95,184)		(106,411)
Retained deficit		(177,339)		(145,154)
Accumulated other comprehensive loss		(100,448)		(115,786)
Total shareholders deficit		(61,992)		(57,889)
Total liabilities and shareholders deficit	\$	799,177	\$	821,554

See accompanying notes

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

	Three months ended September 30,	
	2009	2008
Operating activities:		
Net income (loss)	\$ 3,533	\$ (5,958)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	10,629	10,899
Loss on asset sales	77	159
Change in accounts receivable	864	7,109
Change in inventories	(6,196)	(5,712)
Change in accounts payable	(3,191)	(9,695)
Accrued interest and amortization of discounts, warrants and finance fees	13,447	14,749
Pension & non-pension postretirement benefits	(453)	(13,252)
Restructuring charges	(1,086)	
Accrued liabilities & prepaid expenses	8,344	5,842
Accrued income taxes	(862)	2,900
Other operating activities	1,533	6,268
Net cash provided by operating activities	26,639	13,309
Investing activities:		
Additions to property, plant and equipment	(2,737)	(12,390)
Proceeds from asset sales and other	172	71
Net cash used in investing activities	(2,565)	(12,319)
Financing activities:		
Net repayments on ABL credit facility	(16,799)	(8,669)
Other repayments	(662)	(587)
Dividends		(369)
Net cash used in financing activities	(17,461)	(9,625)
Effect of exchange rate fluctuations on cash	(47)	(529)
Increase (decrease) in cash	6,566	(9,164)
Cash at beginning of period	24,082	17,883
Cash at end of period	\$ 30,648	\$ 8,719
Supplemental disclosure of cash flows information:		
Cash paid during the period for interest	\$ 894	\$ 1,721

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Cash refunded during the period for income taxes	\$	(546)	\$	(167)
See accompanying notes				
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LIBBEY INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)
(unaudited)

	Nine months ended September	
	30,	
	2009	2008
Operating activities:		
Net loss	\$ (21,696)	\$ (11,554)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	32,875	33,433
Loss on asset sales	109	35
Change in accounts receivable	(14,733)	(10,351)
Change in inventories	32,050	(10,756)
Change in accounts payable	(3,078)	(15,607)
Accrued interest and amortization of discounts, warrants and finance fees	14,998	16,709
Pay-in-kind note interest	11,916	10,216
Pension & non-pension postretirement benefits	2,712	(13,982)
Restructuring charges	(1,837)	
Payable to Vitro		(19,575)
Accrued liabilities & prepaid expenses	21,128	3,277
Accrued income taxes	(9,499)	3,661
Other operating activities	784	4,744
Net cash provided by (used in) operating activities	65,729	(9,750)
Investing activities:		
Additions to property, plant and equipment	(12,287)	(30,002)
Proceeds from asset sales and other	260	117
Net cash used in investing activities	(12,027)	(29,885)
Financing activities:		
Net (repayments) borrowings on ABL credit facility	(33,488)	14,713
Other repayments	(2,785)	(1,460)
Dividends		(1,098)
Net cash (used in) provided by financing activities	(36,273)	12,155
Effect of exchange rate fluctuations on cash	(85)	(340)
Increase (decrease) in cash	17,344	(27,820)
Cash at beginning of period	13,304	36,539
Cash at end of period	\$ 30,648	\$ 8,719

Supplemental disclosure of cash flows information:

Cash paid during the period for interest	\$	20,897	\$	23,011
Cash paid (refunded) during the period for income taxes	\$	761	\$	(562)

See accompanying notes

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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 producer of glass tableware products in the Western Hemisphere, in addition to supplying key markets throughout the world. We produce glass tableware in five countries and sell to customers in over 100 countries. We have the largest manufacturing, distribution and service network among glass tableware manufacturers in the Western Hemisphere and are one of the largest glass tableware manufacturers in the world. We design and market an extensive line of high-quality glass tableware, ceramic dinnerware, metal flatware, hollowware and serveware, and plastic items to a broad group of customers in the foodservice, retail and business-to-business markets. We own and operate two glass tableware manufacturing plants in the United States as well as glass tableware manufacturing plants in the Netherlands, Portugal, China and Mexico. We also own and operate a plastics plant in Wisconsin. Until April 9, 2009, we operated a ceramic dinnerware manufacturing facility in Syracuse, New York. In addition, we import products from overseas in order to complement our line of manufactured items. The combination of manufacturing and procurement allows us to compete in the global 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 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 our website as soon as reasonably practicable after their filing with, or furnishing to, the Securities and Exchange Commission and can also be found at www.sec.gov.

Our shares are traded on the Over the Counter Bulletin Board (OTC BB) under the ticker symbol LYBI.OB.

2. Significant Accounting Policies

See our Form 10-K for the year ended December 31, 2008 for a description of significant accounting policies not listed below.

Basis of Presentation

The Condensed Consolidated Financial Statements include Libbey Inc. and its majority-owned subsidiaries (collectively, Libbey or the Company). Our fiscal year end is December 31st. All material intercompany accounts and transactions have been eliminated. The preparation of financial statements and related disclosures in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the Condensed Consolidated Financial Statements and accompanying notes. Actual results could differ materially from management's estimates.

Condensed Consolidated Statements of Operations

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

Foreign Currency Translation

Assets and liabilities of non-U.S. subsidiaries that operate in a local currency environment, where that local currency is the functional currency, are translated to U.S. dollars at exchange rates in effect at the balance sheet date, with the resulting translation adjustments directly recorded to a separate component of accumulated other comprehensive loss. Income and expense accounts are translated at average exchange rates during the year. The effect of exchange rate changes on transactions denominated in currencies other than the functional currency is recorded in other (expense) income.

Table of Contents***Income Taxes***

Income taxes are accounted for under the asset and liability method. Deferred income tax assets and liabilities are recognized for estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and tax attribute carry-forwards. Deferred income tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) Topic 740, Income Taxes (formerly FAS No. 109, Accounting for Income Taxes,) requires that a valuation allowance be recorded when it is more likely than not that some portion or all of the deferred income tax assets will not be realized. Deferred income tax assets and liabilities are determined separately for each tax jurisdiction in which we conduct our operations or otherwise incur taxable income or losses. In the United States and China, we have recorded a full valuation allowance against our deferred income tax assets. In addition, partial valuation allowances have been recorded in the Netherlands, Portugal and Mexico.

Stock-Based Compensation Expense

We account for stock-based compensation in accordance with Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) Topic 718, Compensation Stock Compensation and in FASB ASC 505-50, Equity Equity-Based Payments to Non-Employees (formerly SFAS No. 123-R, Accounting for Stock-Based Compensation). Stock-based compensation cost is measured based on the fair value of the equity instruments issued. SFAS No. 123-R applies to all of our outstanding unvested stock-based payment awards as of January 1, 2006, and all prospective awards using the modified prospective transition method without restatement of prior periods. Stock-based compensation expense charged to the Condensed Consolidated Statement of Operations for the three months and nine months ended September 30, 2009 was \$0.5 million and \$1.6 million, respectively. The stock-based compensation expense charged to the Condensed Consolidated Statement of Operations for the three months and nine months ended September 30, 2008 was \$0.7 million and \$2.8 million, respectively.

New Accounting Standards

On July 1, 2009 the FASB Accounting Standards Codification became the single source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. The Codification is not intended to change U.S. GAAP; instead, it reorganized the various U.S. GAAP pronouncements into approximately 90 accounting Topics, and displays all Topics using a consistent structure. The Codification is effective for financial statements issued for interim and annual periods ending after September 15, 2009. Accordingly, in our discussion of New Accounting Standards below, we have incorporated references to the Codification Topics. For further discussion of the Codification, see the discussion of SFAS No. 168 below.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosure about fair value measurements. This statement clarifies how to measure fair value as permitted under other accounting pronouncements but does not require any new fair value measurements. In February 2008, the FASB issued FASB Staff Position 157-2, Effective Date of FASB Statement No. 157 (FSP157-2), which delayed until January 1, 2009 the effective date of SFAS 157 for nonfinancial assets and liabilities, except for those that are recognized or disclosed at fair value in the financial statements on a recurring basis. In October 2008, the FASB issued FASB Staff Position 157-3, Determining the Fair Value of a Financial Asset when the Market for That Asset is Not Active (FSP 157-3), which clarifies the application of SFAS 157 as it relates to the valuation of financial assets in a market that is not active for those financial assets. FSP 157-3 was effective upon issuance. In April 2009, the FASB issued FASB Staff Position 157-4 Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions that are not Orderly (FSP 157-4). This FSP provides additional guidance for estimating fair value in accordance with SFAS 157 when the volume and level of activity for the asset or liability have significantly decreased. This FSP also includes guidance on identifying circumstances that indicate a transaction is not orderly. FSP 157-4 was effective for financial periods ending after June 15, 2009. We adopted SFAS 157 as of January 1, 2008, but had not applied it to non-recurring, nonfinancial assets and liabilities. The adoption of SFAS 157 and its related FSPs (FSP 157-2, FSP 157-3 and FSP 157-4) had no impact on our consolidated results of operations and financial

condition. We adopted SFAS 157 for nonfinancial assets and liabilities as of January 1, 2009. The adoption of SFAS 157 for nonfinancial assets and liabilities did not have a material impact on our consolidated financial statements. See notes 4, 9 and 13 of the Condensed Consolidated Financial Statements for additional information. The requirements of SFAS No. 157 and its related FSPs have been incorporated primarily into FASB ASC 820, Fair Value Measurements and Disclosures and FASB ASC 250, Accounting Changes and Error Corrections.

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In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements (SFAS 160), which changes the accounting and reporting standards for the noncontrolling interests in a subsidiary in consolidated financial statements. SFAS 160 re-characterizes minority interests as noncontrolling interests and requires noncontrolling interests to be classified as a component of shareholders equity. We adopted SFAS 160 as of January 1, 2009. The adoption of SFAS 160 did not have any impact on our consolidated financial statements as we currently do not have any noncontrolling interests. The requirements of SFAS No. 160 have been incorporated primarily into FASB ASC 810, Consolidation.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133 (SFAS 161), which requires additional disclosures about the objectives of the derivative instruments and hedging activities, the method of accounting for such instruments under SFAS No. 133 and its related interpretations, and a tabular disclosure of the effects of such instruments and related hedged items on our financial position, financial performance, and cash flows. SFAS 161 encourages, but does not require, comparative disclosures for earlier periods at initial adoption. SFAS 161 was effective for Libbey on January 1, 2009. Since SFAS 161 only requires additional disclosures, adoption of this statement did not have a material impact on our consolidated financial statements. See note 9 of the Condensed Consolidated Financial Statements for additional information. The requirements of SFAS No. 161 have been incorporated primarily into FASB ASC 815, Derivatives and Hedging .

In April 2008, the FASB issued Staff Position No. FAS 142-3, Determination of the Useful Life of Intangible Assets (FSP 142-3), which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, Goodwill and Other Intangible Assets. FSP 142-3 was effective for Libbey on January 1, 2009. The adoption of FSP 142-3 did not have a material impact on our consolidated financial statements. The requirements of FSP 142-3 have been incorporated primarily into FASB ASC 350-30, Intangibles Goodwill and Other General Intangibles Other than Goodwill and FASB ASC 275, Risks and Uncertainties.

In June 2008, the FASB ratified EITF Issue No. 07-5, Determining Whether an Instrument (or an Embedded Feature) Is Indexed to an Entity's Own Stock (EITF 07-5). EITF 07-5 provides that an entity should use a two-step approach to evaluate whether an equity-linked financial instrument (or embedded feature) is indexed to its own stock, including evaluating the instrument's contingent exercise and settlement provisions. It also clarifies the impact of foreign currency denominated strike prices and market-based employee stock option valuation instruments on the evaluation. EITF 07-5 was effective for Libbey on January 1, 2009. The adoption of EITF 07-5 did not have any impact on our consolidated financial statements. The requirements of EITF 07-5 have been incorporated primarily into FASB ASC 815-40, Derivatives and Hedging Contracts in Entity's Own Equity.

In June 2008, the FASB issued FASB Staff Position No. EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities (FSP 03-6-1). FSP 03-6-1 addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting, and therefore need to be included in the earnings allocation in computing earnings per share (EPS) under the two-class method described in paragraphs 60 and 61 of SFAS No. 128, Earnings per Share. FSP 03-6-1 was effective for Libbey on January 1, 2009, and requires that all prior period EPS data is adjusted retrospectively. The adoption of FSP 03-6-1 did not have a material impact on our consolidated financial statements. The requirements of FSP 03-6-1 have been incorporated primarily into FASB ASC 260, Earnings Per Share.

In December 2008, the FASB issued FASB Staff Position 132(R)-1, Employers' Disclosures about Postretirement Benefit Plan Assets (FSP 132(R)-1). FSP 132(R)-1 amends FASB Statement No. 132 (revised 2003), Employers' Disclosures about Pensions and Other Postretirement Benefits, to provide guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. FSP 132(R)-1 is effective for financial statements issued for fiscal years ending after December 15, 2009. We are currently evaluating the potential impact of the adoption of FSP 132(R)-1. The requirements of FSP 132(R)-1 have been incorporated primarily into FASB ASC 715-20, Compensation Retirement Benefits.

In April 2009, the FASB issued FASB Staff Position FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments (FSP 107-1). FSP 107-1 amends FASB statement 107, Disclosures about Fair Value of Financial Instruments, to require disclosures about fair value of financial instruments for interim reporting periods of

publicly traded companies as well as in annual financial statements. This FSP also amends APB Opinion No. 28, *Interim Financial Reporting*, to require those disclosures in summarized financial information at interim reporting periods. FSP 107-1 was effective for interim reporting periods ending after June 15, 2009. Since FSP 107-1 required only additional disclosures, adoption of this statement did not have a material impact on our consolidated financial statements. See note 4 of the Condensed Consolidated Financial Statements for additional information. The requirements of FSP 107-1 have been incorporated primarily into FASB ASC 825, *Financial Instruments*.

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In May 2009, the FASB issued SFAS No. 165, *Subsequent Events* (SFAS 165). SFAS 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. SFAS 165 is effective for interim or annual financial periods ending after June 15, 2009. In accordance with SFAS 165, we have evaluated and, as necessary, made changes to these unaudited condensed financial statements for the events through November 9, 2009, the date that the financial statements were issued. As documented in our filing on Form 8-K on October 29, 2009, we announced a debt exchange wherein \$160.9 million of PIK notes were exchanged for a combination of debt and equity. This is considered a nonrecognized subsequent event, meaning that we have provided disclosure of the event, but have not recognized the transaction in the financial statements. Please see note 14 for further discussion of this subsequent event. The requirements of SFAS 165 have been incorporated primarily into FASB ASC 855, *Subsequent Events*. In June 2009 the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* a replacement of FASB Statement No. 162 (SFAS 168). The objective of SFAS 168 is to replace SFAS No. 162 *The Hierarchy of Generally Accepted Accounting Principles* (SFAS 162) and to establish the FASB Accounting Standards Codification (Codification) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. All previous existing accounting standards are superseded by the Codification as described in SFAS 168. All other accounting literature not included in the Codification is non-authoritative. SFAS 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The adoption of SFAS 168 did not have a material impact on our consolidated financial statements. The first update of the Codification was Accounting Standards Update (ASU) 2009-01, issued in June, 2009. ASU 2009-01 amended the Codification to include the guidance of SFAS 168 in its entirety.

In August 2009, the FASB issued Accounting Standards Update 2009-5 *Fair Value Measurements and Disclosures* (Topic 820) *Measuring Liabilities at Fair Value* (ASU 2009-5.) The objective of ASU 2009-5 is to provide clarification for the determination of fair value of liabilities in circumstances in which a quoted price in an active market for the identical liability is not available. The amendments in this update apply to all entities that measure liabilities at fair value within the scope of Topic 820. ASU 2009-5 is effective for the first reporting period (including interim periods) beginning after issuance, which for Libbey would be the fourth quarter of 2009. We do not expect the adoption of ASU 2009-5 to have a material impact on our consolidated financial statements.

Reclassifications

Certain amounts in the prior year's financial statements may have been reclassified to conform to the presentation used in the current year financial statements.

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The following table provides detail of selected balance sheet items:

(Dollars in thousands)	September 30, 2009	December 31, 2008
Accounts receivable:		
Trade receivables	\$ 90,570	\$ 74,393
Other receivables	549	1,679
Total accounts receivable, less allowances of \$7,362 and \$10,479	\$ 91,119	\$ 76,072
Inventories:		
Finished goods	\$ 135,594	\$ 163,817
Work in process	1,403	2,805
Raw materials	4,745	5,748
Repair parts	9,942	10,271
Operating supplies	1,839	2,601
Total inventories, less allowances of \$4,358 and \$6,582	\$ 153,523	\$ 185,242
Prepaid and other current assets:		
Prepaid expenses	\$ 11,796	\$ 14,865
Refundable and prepaid income taxes	2,320	2,302
Total prepaid and other current assets	\$ 14,116	\$ 17,167
Other assets:		
Finance fees net of amortization	\$ 7,251	\$ 8,183
Other	4,782	4,531
Total other assets	\$ 12,033	\$ 12,714
Accrued liabilities:		
Accrued incentives	\$ 21,678	\$ 12,760
Workers compensation	9,900	9,384
Medical liabilities	2,730	2,736
Interest	17,311	4,575
Commissions payable	1,209	1,135
Other	7,205	9,085
Total accrued liabilities	\$ 60,033	\$ 39,675
Other long-term liabilities:		
Derivative liability (long term portion)	\$ 1,840	\$ 3,693
Deferred liability	1,306	1,566
Other	5,153	6,952
Total other long-term liabilities	\$ 8,299	\$ 12,211

Table of Contents**4. Borrowings**

On June 16, 2006, Libbey Glass Inc. issued \$306.0 million aggregate principal amount of floating rate senior secured notes (Senior Notes) due June 1, 2011, and \$102.0 million aggregate principal amount of senior subordinated secured pay-in-kind notes (PIK Notes) due December 1, 2011. Concurrently, Libbey Glass Inc. entered into a \$150.0 million Asset Based Loan facility (ABL Facility) expiring December 16, 2010.

On October 28, 2009, we announced a debt exchange with respect to the PIK Notes. Please see note 14 for a further discussion of this subsequent event.

Borrowings consist of the following:

(Dollars in thousands)	Interest Rate	Maturity Date	September 30, 2009	December 31, 2008
Borrowings under ABL facility	floating	December 16, 2010	\$	\$ 34,538
Senior notes	floating(1)	June 1, 2011	306,000	306,000
PIK notes (2)	16.00%	December 1, 2011	160,862	148,946
Promissory note	6.00%	September, 2016	1,537	1,666
Notes payable	floating	October, 2009	1,517	3,284
RMB loan contract	floating	July, 2012 to January, 2014	36,675	36,675
RMB working capital loan	floating	March, 2010	7,335	7,335
Obligations under capital leases	floating	May, 2009		302
BES Euro line	floating	December, 2009 to December, 2013	16,051	15,507
Other debt	floating	September, 2009		630
Total borrowings			529,977	554,883
Less unamortized discounts and warrants			3,278	4,626
Total borrowings net			526,699	550,257
Less long term debt due within one year and notes payable			10,669	4,401
Total long-term portion of borrowings net			\$ 516,030	\$ 545,856

(1) See Interest Rate Protection Agreements below.

(2) Additional PIK Notes were issued each June 1 and December 1, commencing on

December 1, 2006, to pay semi-annual interest. During the first three years, interest was payable by the issuance of additional PIK Notes.

ABL Facility

The ABL Facility is with a group of six banks and provides for a revolving credit and swing line facility permitting borrowings for Libbey Glass and Libbey Europe up to an aggregate of \$150.0 million, with Libbey Europe's borrowings being limited to \$75.0 million. Borrowings under the ABL Facility mature December 16, 2010. Swing line borrowings are limited to \$15.0 million, with swing line borrowings for Libbey Europe being limited to \$7.5 million. Loans comprising each CBFR (CB Floating Rate) Borrowing, including each Swingline Loan, bear interest at the CB Floating Rate plus the Applicable Rate, and euro-denominated swing line borrowings (Eurocurrency Loans) bear interest calculated at the Netherlands swing line rate, as defined in the ABL Facility. The Applicable Rates for CBFR Loans and Eurocurrency Loans vary depending on our aggregate remaining availability. The Applicable Rates for CBFR Loans and Eurocurrency Loans were 0.0 percent and 1.75 percent, respectively, at September 30, 2009. There were no Libbey Glass or Libbey Europe borrowings under the facility at September 30, 2009. Interest is payable on the last day of the interest period, which can range from one month to six months.

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

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Additionally, borrowings by Libbey Europe under the ABL Facility are secured by a first priority security interest in (i) substantially all of the assets of Libbey Europe, the parent of Libbey Europe and certain of its subsidiaries, (ii) 100 percent of the stock of Libbey Europe and certain subsidiaries of Libbey Europe, and (iii) substantially all proceeds and products of the property and assets described in clauses (i) and (ii) of this sentence.

Libbey pays a quarterly Commitment Fee, as defined by the ABL Facility, on the total credit provided under the Facility. The Commitment Fee varies depending on our aggregate availability. The Commitment Fee was 0.25 percent at September 30, 2009. No compensating balances are required by the Agreement. The Agreement does not require compliance with a fixed charge coverage ratio covenant, unless aggregate unused availability falls below \$15.0 million. If our aggregate unused ABL availability were to fall below \$15.0 million, the fixed charge coverage ratio requirement would be 1:10 to 1:00. The fixed charge coverage ratio is defined as the ratio of earnings before interest, taxes, depreciation, amortization and minority interest (EBITDA) minus capital expenditures to fixed charges (EBITDA minus capital expenditures / fixed charges). Among the items included in the calculation of fixed charges are cash interest expense, scheduled principal payments on outstanding debt and capital lease obligations, taxes paid in cash, dividends paid in cash and required cash contributions to our pension plans in excess of expense.

The borrowing base under the ABL Facility is determined by a monthly analysis of the eligible accounts receivable, inventory and fixed assets. The borrowing base is the sum of (a) 85 percent of eligible accounts receivable, (b) the lesser of (i) 85 percent of the net orderly liquidation value (NOLV) of eligible inventory, (ii) 65 percent of eligible inventory, or (iii) \$75.0 million, and (c) the lesser of \$25.0 million and the aggregate of (i) 75 percent of the NOLV of eligible equipment and (ii) 50 percent of the fair market value of eligible real property.

The available total borrowing base is offset by real estate and ERISA reserves totaling \$8.2 million and mark-to-market reserves for natural gas and interest rate swaps of \$9.1 million. The ABL Facility also provides for the issuance of up to \$30.0 million of letters of credit, which are applied against the \$150.0 million limit. At September 30, 2009, we had \$9.9 million in letters of credit outstanding under the ABL Facility. Remaining unused availability on the ABL Facility was \$81.3 million at September 30, 2009 and \$44.6 million at December 31, 2008.

Senior Notes

Libbey Glass and Libbey Inc. entered into a purchase agreement pursuant to which Libbey Glass agreed to sell \$306.0 million aggregate principal amount of floating rate senior secured notes due June 1, 2011 to the initial purchasers named in a private placement. The net proceeds of these notes, after deducting a discount and the estimated expenses and fees, were approximately \$289.8 million. On February 15, 2007, we exchanged \$306.0 million aggregate principal amount of our floating rate senior secured notes due June 1, 2011, which have been registered under the Securities Act of 1933, as amended (Senior Notes), for the notes sold in the private placement. The Senior Notes bear interest at a rate equal to six-month LIBOR plus 7.0 percent and were offered at a discount of 2 percent of face value. Interest with respect to the Senior Notes is payable semiannually on June 1 and December 1. The interest rate was 8.26 percent at September 30, 2009. Neither the Senior Notes nor the indenture governing them contain financial covenants.

We have Interest Rate Protection Agreements (Rate Agreements) with respect to \$200.0 million of debt as a means to manage our exposure to fluctuating interest rates. The Rate Agreements effectively convert this portion 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 fixed interest rate for our borrowings related to the Rate Agreements at September 30, 2009, excluding applicable fees, is 5.24 percent per year and the total interest rate, including applicable fees, is 12.24 percent per year. These Rate Agreements expire on December 1, 2009. Total remaining Senior Notes not covered by the Rate Agreements have fluctuating interest rates with a weighted average rate of 8.26 percent per year at September 30, 2009. 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. All interest rate swap counterparties were rated A+ or better, as of September 30, 2009, by Standard and Poor's.

The fair market value for the Rate Agreements at September 30, 2009 was a \$4.0 million liability. The fair values of the Rate Agreements are 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 and expect them to expire as originally contracted.

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The Senior Notes are guaranteed by Libbey Inc. and all of Libbey Glass's existing and future domestic subsidiaries that guarantee any of Libbey Glass's debt or debt of any subsidiary guarantor (see Note 11). The Senior Notes and related guarantees have the benefit of a second-priority lien, subject to permitted liens, on collateral consisting of substantially all the tangible and intangible assets of Libbey Glass and its domestic subsidiary guarantors that secure all of the indebtedness under Libbey Glass's ABL Facility. The Collateral does not include the assets of non-guarantor subsidiaries that secure the ABL Facility.

PIK Notes

Concurrently with the execution of the purchase agreement with respect to the Senior Notes, Libbey Glass and Libbey Inc. entered into a purchase agreement (Unit Purchase Agreement) pursuant to which Libbey Glass agreed to sell, to a purchaser named in the private placement, units consisting of \$102.0 million aggregate principal amount 16 percent senior subordinated secured pay-in-kind notes due December 1, 2011 (PIK Notes) and detachable warrants to purchase 485,309 shares of Libbey Inc. common stock (Warrants) exercisable on or after June 16, 2006 and expiring on December 1, 2011. The warrant holders do not have voting rights. The net proceeds, after deducting a discount and estimated expenses and fees, were approximately \$97.0 million. The proceeds were allocated between the Warrants and the underlying debt based on their respective fair values at the time of issuance. The amount allocated to the Warrants has been recorded in equity, with the offset recorded as a discount on the underlying debt. Each Warrant is exercisable at \$11.25. The PIK Notes were offered at a discount of 2 percent of face value. Interest is payable semiannually on June 1 and December 1, but during the first three years interest was payable by issuance of additional PIK Notes. Under the terms and conditions in place at September 30, 2009, interest on our PIK Notes would have been payable in cash beginning December 1, 2009. At September 30, 2009, the total principal amount of PIK Notes was \$160.9 million. Neither the PIK Notes nor the indenture governing them contain financial covenants.

The obligations of Libbey Glass under the PIK Notes are guaranteed by Libbey Inc. and all of Libbey Glass's existing and future domestic subsidiaries that guarantee any of Libbey Glass's debt or debt of any subsidiary guarantor (see Note 11). The PIK Notes and related guarantees are senior subordinated obligations of Libbey Glass and the guarantors of the PIK Notes and are entitled to the benefit of a third-priority lien, subject to permitted liens, on the collateral that secures the Senior Notes.

On October 28, 2009, we announced a debt exchange with respect to the PIK Notes. Please see note 14 for a further discussion of this subsequent event.

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, 2009, we had \$1.5 million outstanding on the promissory note. Interest with respect to the promissory note is paid monthly.

Notes Payable

We have overdraft lines of credit for a maximum of \$1.1 million. The \$1.5 million outstanding at September 30, 2009 was the U.S. dollar equivalent under the euro-based overdraft line, and the interest rate was 5.44 percent. Interest with respect to the note payable is paid monthly.

RMB Loan Contract

On January 23, 2006, Libbey Glassware (China) Co., Ltd. (Libbey China), an indirect wholly owned subsidiary of Libbey Inc., entered into an RMB Loan Contract (RMB Loan Contract) with China Construction Bank Corporation Langfang Economic Development Area Sub-Branch (CCB). Pursuant to the RMB Loan Contract, CCB agreed to lend to Libbey China RMB 250.0 million, or the current equivalent of approximately \$36.7 million, for the construction of our production facility in China and the purchase of related equipment, materials and services. The loan has a term of eight years and bears interest at a variable rate as announced by the People's Bank of China. As of the date of the initial advance under the Loan Contract, the annual interest rate was 5.51 percent, and as of September 30, 2009, the annual interest rate was 5.51 percent. As of September 30, 2009, the outstanding balance was RMB 250.0 million (approximately \$36.7 million). Interest is payable quarterly. Payments of principal in the amount of RMB 30.0 million (approximately \$4.4 million) and RMB 40.0 million (approximately \$5.9 million) must be made on July 20, 2012, and December 20, 2012, respectively, and three payments of principal in the amount of RMB 60.0 million (approximately \$8.8 million) each must be made on July 20, 2013, December 20, 2013, and January 20, 2014, respectively. The

obligations of Libbey China are secured by a guarantee executed by Libbey Inc. for the benefit of CCB and a mortgage lien on the Libbey China facility.

Table of Contents***RMB Working Capital Loan***

In March 2007, Libbey China entered into a RMB 50.0 million working capital loan with China Construction Bank. The 3-year term loan has a principal payment at maturity on March 14, 2010, has a current interest rate of 5.40 percent, and is secured by a Libbey Inc. guarantee. At September 30, 2009, the U.S. dollar equivalent on the line was \$7.3 million. Interest is payable quarterly.

BES Euro Line

In January 2007, Crisal entered into a seven year, 11.0 million line of credit (approximately \$16.1 million) with BANCO ESPÍRITO SANTO, S.A. (BES). The \$16.1 million outstanding at September 30, 2009 was the U.S. dollar equivalent under the line at an interest rate of 3.77 percent. Payment of principal in the amount of 1.1 million (approximately \$1.6 million) is due in December 2009, payment of 1.6 million (approximately \$2.3 million) is due in December 2010, payment of 2.2 million (approximately \$3.2 million) is due in December 2011, payment of 2.8 million (approximately \$4.1 million) is due in December 2012 and payment of 3.3 million (approximately \$4.9 million) is due in December 2013. Interest with respect to the line is paid every six months.

Other Debt

The other debt primarily consisted of government-subsidized loans for equipment purchases at Crisal. At September 30, 2009, other debt was \$0.

Fair Value of Borrowings

The fair value of the Company's debt has been calculated based on quoted market prices for the same or similar issues. Our floating rate \$306.0 million Senior Notes due June, 2011 had an estimated fair value of \$273.9 million at September 30, 2009. The \$160.9 million PIK Notes have been held by a single holder since inception, and there is no active market from which a fair value could be derived. On October 28, 2009, we announced a debt exchange with respect to the PIK Notes. Please see note 14 for a further discussion of this subsequent event. The value of the remainder of our debt approximates carrying value at September 30, 2009.

Capital Resources and Liquidity

Historically, cash flows generated from operations and our borrowing capacity under our ABL facility have allowed us to meet our cash requirements, including capital expenditures and working capital needs. Remaining unused availability on the ABL Facility was \$81.3 million at September 30, 2009 and \$44.6 million at December 31, 2008. In addition, our cash and cash equivalents balance of \$30.6 million at September 30, 2009 is available for our short-term operating needs. We were impacted by recessionary pressures in 2008, especially during the fourth quarter of the year, and the first nine months of 2009, and we anticipate that the global economic recession will continue for the fourth quarter of 2009 and perhaps beyond. Under the terms and conditions in place at September 30, 2009, interest on our PIK Notes would have been payable in cash beginning December 1, 2009. We began taking a number of steps to enhance our liquidity in 2008, have continued with further steps in 2009 (including those announced in February, 2009), and have begun to see the benefits of these measures in our positive cash flow from operations for the first nine months of 2009. Additionally, as further discussed in Note 14, Subsequent Events, on October 28, 2009, we announced that we had entered into a transaction to exchange the PIK Notes for a combination of debt and equity which will have the impact of reducing cash paid for interest. The original requirement for a cash interest payment of \$12.9 million on December 1, 2009 has been canceled. However, if cash generated from operations is insufficient to satisfy our liquidity requirements, we may seek to sell additional equity or arrange additional debt financing. Global financial markets and economic conditions have been, and continue to be, volatile. The credit and capital markets remain challenging. These issues, along with significant write-offs in the financial services sector, the re-pricing of credit risk and the current weak economic conditions, have made it difficult, and will likely continue to make it difficult, to obtain funding in future periods. If cash generated from operations and cash available from our ABL Facility are not sufficient to meet our needs, we cannot provide assurance that we will be able to obtain additional financing in sufficient amounts and/or on acceptable terms in the near future or when our debt obligations reach maturity. Our ABL Facility expires in December 2010, the Senior Notes expire in June 2011, and the PIK Notes originally were scheduled to expire in December 2011. As mentioned above, please see note 14 for a discussion of a debt exchange which occurred subsequent to the end of the third quarter. Based upon our operating plans and current forecast expectations (including expectations that the global economy will not deteriorate further) and in light of our

debt exchange which occurred subsequent to the quarter's end, we anticipate that we will generate positive cash flow from operations and, if necessary, have sufficient cash availability from our ABL Facility to meet our ongoing liquidity needs.

Table of Contents**5. Restructuring Charges**

In December 2008, we announced that our Syracuse China manufacturing facility and our Mira Loma, California distribution center would be shut down in early to mid-2009 in order to reduce costs. See Form 10-K for the year ended December 31, 2008 for further discussion. We incurred additional charges of approximately \$0.5 million and \$3.2 million in the three months and nine months ended September 30, 2009, respectively, related to these planned closures. The Syracuse China facility was closed on April 9, 2009 and the Mira Loma distribution center was closed on May 31, 2009.

A charge of \$1.1 million was incurred in the first quarter of 2009 to write down certain raw materials and work in process inventory that could not be converted to finished product. Approximately \$0.1 million of this inventory was subsequently sold in the third quarter of 2009, resulting in a reversal of this portion of the write-down. A pension settlement charge of approximately \$0.2 million was recorded in the third quarter related to lump sum distributions which resulted from the plant closing. These amounts were included in cost of sales on the Condensed Consolidated Statement of Operations in the North American Other segment.

Additional depreciation expense of \$0.7 million was recorded in the first quarter of 2009 to reflect the shorter remaining useful life of the assets. These amounts were included in cost of sales on the Condensed Consolidated Statement of Operations in the North American Other segment.

Special charges of \$1.0 million and \$1.6 million in the three months and nine months ended September 30, 2009, respectively, included various legal, consulting and employee related costs. In addition, during the three months ended September 30, 2009, we recorded a charge of \$0.1 million to write down certain fixed assets at our Mira Loma facility, and received cash proceeds of \$0.8 million for the sale of certain fixed assets which previously had been written off at our Syracuse China facility. This resulted in a net charge of \$0.6 million related to the write-down of fixed assets for the nine months ended September 30, 2009. These amounts were included in special charges on the Condensed Consolidated Statement of Operations in the North American Other and North American Glass segments. Other income (expense) on the Condensed Consolidated Statement of Operations included expenses of an immaterial amount in the third quarter and \$0.2 million in the nine months ended September 30, 2009 for the change in fair value of ineffective natural gas hedges related to our Syracuse China operation. These amounts were included in the North American Other segment.

The following table summarizes the facility closure charges in the third quarter and first nine months of 2009:

	Three months ended September 30, 2009			Nine months ended September 30, 2009		
	North American Glass	North American Other	Total	North American Glass	North American Other	Total
(Dollars in thousands)						
Inventory write-down	\$ (1)	\$ (76)	\$ (77)	\$	\$ 1,039	\$ 1,039
Pension Settlement charges		239	239		239	239
Fixed asset depreciation					705	705
Included in cost of sales	(1)	163	162		1,983	1,983
Employee termination cost & other	(4)	954	950	(31)	1,612	1,581
Fixed asset write-down	112	(762)	(650)	112	(719)	(607)
Included in special charges	108	192	300	81	893	974
Ineffectiveness of natural gas hedge		(27)	(27)		(213)	(213)
Included in other income (expense)		(27)	(27)		(213)	(213)

Total pretax expense	\$ 107	\$ 382	\$ 489	\$ 81	\$ 3,089	\$ 3,170
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The following reflects the balance sheet activity related to the facility closure charge for the nine months ended September 30, 2009:

	Reserve			Inventory & Fixed asset Write Downs		Reserve
	Balances at December 31, 2008	Total Charge to Earnings	Cash Receipts (Payments)	Non-cash Utilization		Balances at September 30, 2009
(Dollars in thousands)						
Inventory write-down	\$	\$ 1,039	\$ 79	\$ (1,118)	\$	\$
Pension Settlement charges		239			(239)	
Fixed asset depreciation		705			(705)	
Fixed asset write-down		(607)	761	(154)		
Employee termination cost & other	4,248	1,581	(4,921)			908
Ineffectiveness of natural gas hedges		213			(213)	
Total	\$ 4,248	\$ 3,170	\$ (4,081)	\$ (1,272)	\$ (1,157)	\$ 908

The ending balance of \$0.9 million at September 30, 2009 was included in accrued special charges on the Condensed Consolidated Balance Sheets and we expect this to result in cash payments in 2009 and early 2010. The carrying value of this balance approximates its fair value.

The following reflects the total cumulative expenses to date (incurred from the fourth quarter of 2008 through the Balance Sheet date) related to the facility closure activity:

	North American Glass	North American Other	Total Charges To Date
(Dollars in thousands)			
Inventory write-down	\$ 192	\$ 10,615	\$ 10,807
Pension & postretirement welfare		4,409	4,409
Fixed asset depreciation		966	966
Included in cost of sales	192	15,990	16,182
Employee termination cost & other	587	5,814	6,401
Fixed asset write-down	177	8,941	9,118
Included in special charges	764	14,755	15,519
Ineffectiveness of natural gas hedge		(596)	(596)
Included in other (expense) income		(596)	(596)
Total pretax expenses to date	\$ 956	\$ 31,341	\$ 32,297

We expect the total expenses for each of these activities to approximate the expenses incurred to date.

6. Income Taxes

The Company's effective tax rate differs from the United States statutory tax rate primarily due to changes in the mix of earnings in countries with differing statutory tax rates, changes in accruals related to uncertain tax positions, tax planning structures and changes in tax laws. At September 30, 2009 and December 31, 2008 we had \$1.2 million and \$2.3 million, respectively, of gross unrecognized tax benefits, exclusive of interest and penalties. The decrease of \$1.1 million was primarily attributable to an income tax settlement during the second quarter, offset by additions based on tax positions related to the current year.

In addition, guidance in FASB ASC 740, *Income Taxes* (previously SFAS No. 109, *Accounting for Income Taxes*) requires that the provision for (benefit from) income taxes be allocated between continuing operations and other categories of earnings (such as discontinued operations or other comprehensive income) for each tax jurisdiction. In periods in which there is a year-to-date pre-tax loss from continuing operations and pre-tax income in other categories of earnings, the tax provision is first allocated to the other

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categories of earnings. A related tax benefit is then recorded in continuing operations. Included in our income tax provision are tax benefits of \$1.4 million for the third quarter of 2009 and \$5.3 million for the first nine months of 2009 related to these intra-period allocations. Depending upon the level of our future earnings and losses and their impact on other comprehensive income, it is possible that these tax adjustments may change or even reverse in future periods.

Further, our current and future provision for (benefit from) income taxes for 2009 is significantly impacted by valuation allowances. In the United States and China, we have recorded a full valuation allowance against our deferred income tax assets. In addition, partial valuation allowances have been recorded in the Netherlands, Portugal and Mexico. In assessing the need for recording a valuation allowance we weigh all available positive and negative evidence. Examples of the evidence we consider are cumulative losses in recent years, losses expected in early future years, a history of potential tax benefits expiring unused, whether there was an unusual, infrequent, or extraordinary item to be considered. We intend to maintain these allowances until it is more likely than not that the deferred income tax assets will be realized.

7. Pension and Non-pension Postretirement Benefits

We have pension plans covering the majority of our employees. Benefits generally are based on compensation 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 an unfunded supplemental employee retirement plan (SERP) that covers salaried U.S.-based employees of Libbey hired before January 1, 2006. The U.S. pension plans cover the salaried U.S.-based employees of Libbey hired before January 1, 2006 and most hourly U.S.-based employees. The non-U.S. pension plans cover the employees of our wholly owned subsidiaries Royal Leerdam and Crisa. The Crisa plan is not funded.

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

Three months ended September 30,	U.S. Plans		Non-U.S. Plans		Total	
	2009	2008	2009	2008	2009	2008
Service cost	\$ 1,271	\$ 1,348	\$ 339	\$ 438	\$ 1,610	\$ 1,786
Interest cost	3,878	3,908	1,037	1,182	4,915	5,090
Expected return on plan assets	(4,383)	(4,393)	(632)	(813)	(5,015)	(5,206)
Amortization of unrecognized:						
Prior service cost (gain)	560	597	(23)	(18)	537	579
Loss	227	330	93	73	320	403
Settlement charge	687				687	
Pension expense	\$ 2,240	\$ 1,790	\$ 814	\$ 862	\$ 3,054	\$ 2,652

Nine months ended September 30,	U.S. Plans		Non-U.S. Plans		Total	
	2009	2008	2009	2008	2009	2008
Service cost	\$ 3,761	\$ 4,044	\$ 1,015	\$ 1,314	\$ 4,776	\$ 5,358
Interest cost	11,774	11,723	3,111	3,547	14,885	15,270
Expected return on plan assets	(13,184)	(13,180)	(1,897)	(2,441)	(15,081)	(15,621)
Amortization of unrecognized:						
Prior service cost (gain)	1,681	1,792	(70)	(53)	1,611	1,739
Loss	662	989	281	220	943	1,209
Settlement charge	3,387				3,387	
Pension expense	\$ 8,081	\$ 5,368	\$ 2,440	\$ 2,587	\$ 10,521	\$ 7,955

We incurred pension settlement charges of \$0.7 million and \$3.4 million during the three months and nine months ended September 30, 2009, respectively. The pension settlement charges were triggered by excess lump sum distributions to retirees.

We provide certain retiree health care and life insurance benefits covering our U.S and Canadian salaried and non-union hourly employees hired before January 1, 2004 and a majority of our union hourly employees. Employees are generally eligible for benefits

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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. non-pension postretirement plans cover the hourly and salaried U.S.-based employees of Libbey. During the second quarter of 2008, we amended our U.S. non-pension postretirement plans to cover employees and retirees of Syracuse China previously covered under a multi-employer plan. This plan amendment was effective September 1, 2008. The non-U.S. non-pension postretirement plans cover the retirees and active employees of Libbey who are located in Canada. The postretirement benefit plans are not funded.

The provision for our non-pension postretirement benefit expense consists of the following:

Three months ended September 30,	U.S. Plans		Non-U.S. Plans		Total	
	2009	2008	2009	2008	2009	2008
Service cost	\$ 333	\$ 274	\$	\$	\$ 333	\$ 274
Interest cost	946	788	29	32	975	820
Amortization of unrecognized:						
Prior service gain	(104)	115			(104)	115
Loss / (Gain)	191	60	(9)	(8)	182	52
Curtailement credit	(94)				(94)	
Non-pension postretirement benefit expense	\$1,272	\$1,237	\$20	\$24	\$1,292	\$1,261

Nine months ended September 30,	U.S. Plans		Non-U.S. Plans		Total	
	2009	2008	2009	2008	2009	2008
Service cost	\$ 999	\$ 824	\$ 1	\$ 1	\$1,000	\$ 825
Interest cost	2,838	2,215	84	96	2,922	2,311
Amortization of unrecognized:						
Prior service cost (gain)	(313)	(116)			(313)	(116)
Loss / (Gain)	573	179	(26)	(24)	547	155
Curtailement credit	(94)				(94)	
Non-pension postretirement benefit expense	\$4,003	\$3,102	\$ 59	\$ 73	\$4,062	\$3,175

In 2009, we expect to utilize approximately \$18.0 million to fund our pension plans and pay for non-pension postretirement benefits. Of that amount, \$3.6 million and \$11.7 million was utilized in the three months and nine months ended September 30, 2009.

8. Net Income (Loss) per Share of Common Stock

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

	Three Months Ended September 30,		Nine months Ended September 30,	
	2009	2008	2009	2008
Numerator for earnings per share net income (loss) that is available to common shareholders	\$ 3,533	\$ (5,958)	\$ (21,696)	\$ (11,554)
	15,152,337	14,729,958	14,926,422	14,651,810

Denominator for basic earnings per
share weighted average shares
outstanding

Effect of dilutive securities (1) 435,212

Denominator for diluted earnings per
share adjusted weighted average
shares and assumed conversions

15,587,549 14,729,958 14,926,422 14,651,810

Basic earnings (loss) per share \$ 0.23 \$ (0.40) \$ (1.45) \$ (0.79)

Diluted earnings (loss) per share \$ 0.23 \$ (0.40) \$ (1.45) \$ (0.79)

(1) *The effect of
employee stock
options,
warrants,
restricted stock
units and the
employee stock
purchase plan
(ESPP)
(236,265 shares
for the nine
months ended
September 30,
2009, and
107,984 and
331,671 shares
for the three
months and nine
months*

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*ended
September 30,
2008,
respectively),
was anti-dilutive
and thus not
included in the
earnings per
share
calculation.
These amounts
would have
been dilutive if
not for the net
loss.*

When applicable, diluted shares outstanding include the dilutive impact of in-the-money employee stock 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-effected proceeds that hypothetically would be received from the exercise of all in-the-money options are assumed to be used to repurchase shares.

9. Derivatives

We utilize derivative financial instruments to hedge certain interest rate risks associated with our long-term debt, commodity price risks associated with forecasted future natural gas requirements, and foreign exchange rate risks associated with transactions denominated in a currency other than the U.S. dollar. Most of these derivatives, except for certain natural gas contracts originally designated to expected purchases at Syracuse China and the foreign currency contracts, qualify for hedge accounting since the hedges are highly effective, and we have designated and documented contemporaneously the hedging relationships involving these derivative instruments. Changes in the effective portion of the fair value of these hedges are recorded in Other Comprehensive Income (OCI). While we intend to continue to meet the conditions for hedge accounting, if hedges do not qualify as highly effective or if we do not believe that the forecasted transactions will occur, the changes in the fair value of the derivatives used as hedges will be reflected in our earnings. All of these contracts were accounted for under FASB ASC 815 Derivatives and Hedging (formerly FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities).

We use Interest Rate Protection Agreements (Rate Agreements) to manage our exposure to variable interest rates. These Rate Agreements effectively convert a portion of our borrowings from variable rate debt to fixed-rate debt, thus reducing the impact of interest rate changes on future results. These instruments are valued using 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 also use commodity futures contracts related to forecasted future North American natural gas requirements. The objective of these futures contracts and other derivatives is to limit the fluctuations in prices paid due to adverse price movements in the underlying commodity. We consider our forecasted natural gas requirements in determining the quantity of natural gas to hedge. We combine the forecasts with historical observations to establish the percentage of forecast eligible to be hedged, typically ranging from 40 percent to 70 percent of our anticipated requirements, up to eighteen months in the future. The fair values of these instruments are determined from market quotes. Certain of our natural gas futures contracts are now classified as ineffective, as the forecasted transactions are not probable of occurring due to the closure of our Syracuse China facility in April 2009.

Our foreign currency exposure arises from transactions denominated in a currency other than the U.S. dollar, primarily associated with anticipated purchases of new equipment or net investment in a foreign operation. The fair values of these instruments are determined from market quotes. The values of these derivatives will change over time as cash receipts and payments are made and as market conditions change.

Notional Amounts

As of September 30, 2009, we had commodity contracts for 3,220,000 million British Thermal Units (BTUs) of natural gas. We also had Interest Rate Protection Agreements for \$200.0 million of our variable rate debt, as discussed in Note 4. At December 31, 2008, we had Interest Rate Protection Agreements for \$200.0 million of variable rate debt and commodity contracts for 5,280,000 million BTUs of natural gas. In January 2008, we entered into a series of foreign currency contracts to sell Canadian dollars. As of September 30, 2008, we had contracts for 2.5 million Canadian dollars. During April 2007, we entered into a foreign currency contract for 212.0 million pesos for a contractual payment due to Vitro in January 2008. As of December 31, 2008, all of these currency contracts had expired.

Table of Contents**Fair Values**

The following table provides the fair values of our derivative financial instruments for the periods presented:

	Liability Derivatives:			
	September 30, 2009		December 31, 2008	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments under SFAS 133:				
Interest rate contracts	Derivative liability	\$ 4,029	Derivative liability	\$ 6,761
Natural gas contracts	Derivative liability	6,354	Derivative liability	10,908
Natural gas contracts	Other long term liability	1,778	Other long term liability	3,500
Total designated		12,161		21,169
Derivatives undesignated as hedging instruments under SFAS 133:				
Natural gas contracts	Derivative liability	337	Derivative liability	267
Natural gas contracts	Other long term liability	62	Other long term liability	193
Total undesignated		399		460
Total		\$ 12,560		\$ 21,629

Change in value of derivatives

Most of our derivatives qualify and are designated as cash flow hedges (except certain natural gas contracts originally designated to expected purchases at Syracuse China) at September 30, 2009. Hedge accounting is applied only when the derivative is deemed to be highly effective at offsetting changes in fair values or anticipated cash flows of the hedged item or transaction. For hedged forecasted transactions, hedge accounting is discontinued if the forecasted transaction is no longer probable to occur, and any previously deferred gains or losses would be recorded to earnings immediately. The ineffective portion of the change in the fair value of a derivative designated as a cash flow hedge is recognized in current earnings.

	Amount of derivative gain/(loss) recognized in OCI (effective portion)			
	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Derivatives in Cash Flow Hedging relationships:				
Interest rate contracts	\$ 2,023	\$ 114	\$ 4,952	\$ (60)
Natural gas contracts	285	(12,476)	(6,476)	(4,490)
Total	\$ 2,308	\$ (12,362)	\$ (1,524)	\$ (4,550)

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		Gain / (loss) reclassified from Accumulated Other Comprehensive Income (loss) to income (effective portion)			
		Three months ended September 30,		Nine months ended September 30,	
		2009	2008	2009	2008
Derivative:	Location:				
Interest rate contracts	Interest expense	\$ 2,021	\$ 1,183	\$ 4,924	\$ 2,134
Natural gas contracts	Cost of sales	(4,006)	2,401	(12,750)	2,854
Total impact on net income (loss)		\$ (1,985)	\$ 3,584	\$ (7,826)	\$ 4,988

Certain of our natural gas futures contracts are now classified as ineffective, as the forecasted transactions are not probable of occurring due to the closure of our Syracuse China facility in April 2009 as well as decreased production at some of our plants. As a result, we recorded an immaterial expense in the three months ended September 30, 2009 and expense of \$0.1 million in the nine months ended September 30, 2009. Expenses reclassified from Accumulated Other Comprehensive Income to earnings as a result of contracts becoming ineffective during the three and nine months ended September 30, 2009 were immaterial.

The following table provides the impact on the Condensed Consolidated Statement of Operations from derivatives no longer designated as cash flow hedges:

		Gain (loss) recognized in income (ineffective portion)			
		Three months ended September 30,		Nine months ended September 30,	
		2009	2008	2009	2008
Derivative:	Location:				
Natural gas contracts	Other (expense) income	\$ (27)	\$	\$ (136)	\$
Total		\$ (27)	\$	\$ (136)	\$

As the natural gas contracts mature, the accumulated gains (losses) for the respective contracts are reclassified from accumulated other comprehensive income to current expense in cost of sales in our Condensed Consolidated Statement of Operations. Similarly, as fixed interest payments are made pursuant to the interest rate protection agreements, they are recorded together with the related receipt of variable interest receipts, the payment of contractual interest expense to the banks and the reclassification of accumulated gains (losses) from accumulated other comprehensive income related to the interest rate agreements. We paid additional cash interest of \$2.7 million and \$0.3 million in the nine months ended September 30, 2009 and 2008, respectively, due to the difference between the contractual fixed interest rates in our interest rate protection agreements and the variable interest rates associated with our long-term debt. Based on our current valuation, we estimate that accumulated losses currently carried in accumulated other comprehensive income that will be reclassified into earnings over the next twelve months will result in \$10.7 million of expense in our Condensed Consolidated Statement of Operations.

Gains and losses for derivatives that were not designated as hedging instruments are recorded in current earnings as follows:

Three months ended September 30,	Nine months ended September 30,
-------------------------------------	------------------------------------

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Derivative:	Location:	2009	2008	2009	2008
Currency contracts	Other (expense) income	\$	\$ 65	\$	\$ (218)
Total		\$	\$ 65	\$	\$ (218)

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. The counterparties are rated A+ or better for the Interest Rate Protection Agreements and BBB+ or better for the other derivative agreements as of September 30, 2009, by Standard and Poor's.

Table of Contents**10. Comprehensive Income (Loss)**

Components of comprehensive income (loss) (net of tax) are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Net income (loss)	\$ 3,533	\$ (5,958)	\$ (21,696)	\$ (11,554)
Change in pension and nonpension postretirement liability (1)	1,090	2,403	5,571	(728)
Change in fair value of derivatives (2)	4,687	(11,311)	7,329	(6,368)
Exchange rate fluctuations	2,608	(7,999)	2,438	(1,067)
Total comprehensive income (loss)	\$ 11,918	\$ (22,865)	\$ (6,358)	\$ (19,717)
(1) Net of the following tax amounts for the respective periods	\$ 378	\$ (1,639)	\$ (5,938)	\$ (78)
(2) Net of the following tax amounts for the respective periods	\$ (1,626)	\$ 3,453	\$ (3,897)	\$ 1,037

Accumulated other comprehensive loss (net of tax) is as follows:

	September 30, 2009	December 31, 2008
Minimum pension liability and intangible pension asset	\$ (97,836)	\$ (103,407)
Derivatives	(9,281)	(16,610)
Exchange rate fluctuations	6,669	4,231
Balance at end of period	\$ (100,448)	\$ (115,786)

11. Condensed Consolidated Guarantor Financial Statements

Libbey Glass is a direct, 100 percent owned subsidiary of Libbey Inc. and the issuer of the Senior Notes and the PIK Notes. The obligations of Libbey Glass under the Senior Notes and the PIK Notes are fully and unconditionally and jointly and severally guaranteed by Libbey Inc. and by certain indirect, 100 percent owned domestic subsidiaries of Libbey Inc., as described below. All are related parties that are included in the Condensed Consolidated Financial Statements for the three month and nine months periods ended September 30, 2009 and September 30, 2008.

At September 30, 2009, December 31, 2008 and September 30, 2008, Libbey Inc.'s indirect, 100 percent owned domestic subsidiaries were Syracuse China Company, World Tableware Inc., LGA4 Corp., LGA3 Corp., The Drummond Glass Company, LGC Corp., Traex Company, Libbey.com LLC, LGFS Inc., LGAC LLC and Crisa Industrial LLC (collectively, the **Subsidiary Guarantors**). The following tables contain Condensed Consolidating Financial Statements of (a) the parent, Libbey Inc., (b) the issuer, Libbey Glass, (c) the Subsidiary Guarantors, (d) the indirect subsidiaries of Libbey Inc. that are not Subsidiary Guarantors (collectively, **Non-Guarantor Subsidiaries**), (e) the consolidating elimination entries, and (f) the consolidated totals.

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Libbey Inc.
Condensed Consolidating Statement of Operations
(dollars in thousands)
(unaudited)

	Three months ended September 30, 2009					
	Libbey Inc. (Parent)	Libbey Glass (Issuer)	Subsidiary Guarantors	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$	\$92,450	\$20,462	\$88,058	\$(14,092)	\$186,878
Freight billed to customers		181	204	34		419
Total revenues		92,631	20,666	88,092	(14,092)	187,297
Cost of sales		69,653	15,541	73,235	(14,092)	144,337
Gross profit		22,978	5,125	14,857		42,960
Selling, general and administrative expenses		14,223	2,018	8,570		24,811
Special charges		108	192			300
Income (loss) from operations		8,647	2,915	6,287		17,849
Other income (expense)		1,258	(10)	1,455		2,703
Earnings (loss) before interest and income taxes		9,905	2,905	7,742		20,552
Interest expense		15,782	1	1,668		17,451
Earnings (loss) before income taxes		(5,877)	2,904	6,074		3,101
Provision (benefit) for income taxes		(1,349)	(5)	922		(432)
Net income (loss)		(4,528)	2,909	5,152		3,533
Equity in net income (loss) of subsidiaries	3,533	8,061			(11,594)	
Net income (loss)	\$3,533	\$ 3,533	\$ 2,909	\$ 5,152	\$(11,594)	\$ 3,533

The following represents the total special charges included in the above Condensed Consolidated Statement of Operations (see note 5):

	Three months ended September 30, 2009					
	Libbey Inc. (Parent)	Libbey Glass (Issuer)	Subsidiary Guarantors	Non- Guarantor Subsidiaries	Eliminations	Consolidated

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Cost of sales	\$	\$ (1)	\$ 163	\$	\$	\$ 162
Special charges		108	192			300
Other income (expense)			(27)			(27)
Total pretax special charges	\$	\$107	\$ 382	\$	\$	\$ 489
Special charges net of tax	\$	\$107	\$ 382	\$	\$	\$ 489

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Libbey Inc.
Condensed Consolidating Statement of Operations
(dollars in thousands)
(unaudited)

Three months ended September 30, 2008

	Libbey Inc. (Parent)	Libbey Glass (Issuer)	Subsidiary Guarantor	Non- Guarantor Subsidiaries	Elimination	Consolidated
Net sales	\$	\$ 100,499	\$ 28,339	\$ 97,354	\$(14,656)	\$ 211,536
Freight billed to customers		230	336	98		664
Total revenues		100,729	28,675	97,452	(14,656)	212,200
Cost of sales		83,241	23,569	82,112	(14,656)	174,266
Gross profit		17,488	5,106	15,340		37,934
Selling, general and administrative expenses		10,670	2,998	9,709		23,377
Income (loss) from operations		6,818	2,108	5,631		14,557
Other income (expense)		(862)	(52)	(86)		(1,000)
Earnings (loss) before interest and income taxes		5,956	2,056	5,545		13,557
Interest expense		15,560		1,949		17,509
Earnings (loss) before income taxes		(9,604)	2,056	3,596		(3,952)
Provision (benefit) for income taxes		1,231		775		2,006
Net income (loss)		(10,835)	2,056	2,821		(5,958)
Equity in net income (loss) of subsidiaries	(5,958)	4,877			1,081	
Net income (loss)	\$(5,958)	\$ (5,958)	\$ 2,056	\$ 2,821	\$ 1,081	\$ (5,958)

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Libbey Inc.
Condensed Consolidating Statement of Operations
(dollars in thousands)
(unaudited)

	Nine months ended September 30, 2009					
	Libbey Inc. (Parent)	Libbey Glass (Issuer)	Subsidiary Guarantors	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$	\$277,396	\$66,180	\$228,874	\$(31,893)	\$540,557
Freight billed to customers		433	631	99		1,163
Total revenues		277,829	66,811	228,973	(31,893)	541,720
Cost of sales		224,217	54,260	207,177	(31,893)	453,761
Gross profit		53,612	12,551	21,796		87,959
Selling, general and administrative expenses		39,076	6,352	24,271		69,699
Special charges		81	893			974
Income (loss) from operations		14,455	5,306	(2,475)		17,286
Other income (expense)		3,452	(143)	2,115		5,424
Earnings (loss) before interest and income taxes		17,907	5,163	(360)		22,710
Interest expense		47,687	1	4,474		52,162
Earnings (loss) before income taxes		(29,780)	5,162	(4,834)		(29,452)
Provision (benefit) for income taxes		(7,059)	249	(946)		(7,756)
Net income (loss)		(22,721)	4,913	(3,888)		(21,696)
Equity in net income (loss) of subsidiaries	(21,696)	1,025			20,671	
Net income (loss)	\$(21,696)	\$ (21,696)	\$ 4,913	\$ (3,888)	\$ 20,671	\$ (21,696)

The following represents the total special charges included in the above Condensed Consolidated Statement of Operations (see note 5):

Nine months ended September 30, 2009
Libbey Libbey Non-

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	Inc. (Parent)	Glass (Issuer)	Subsidiary Guarantors	Guarantor Subsidiaries	Eliminations	Consolidated
Cost of sales	\$	\$	\$1,983	\$	\$	\$ 1,983
Special charges		81	893			974
Other income (expense)			(213)			(213)
Total pretax special charges	\$	\$81	\$3,089	\$	\$	\$ 3,170
Special charges net of tax	\$	\$81	\$3,089	\$	\$	\$ 3,170

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Libbey Inc.
Condensed Consolidating Statement of Operations
(dollars in thousands)
(unaudited)

	Nine months ended September 30, 2008					
	Libbey Inc. (Parent)	Libbey Glass (Issuer)	Subsidiary Guarantors	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$	\$297,814	\$85,042	\$282,137	\$(41,353)	\$623,640
Freight billed to customers		597	947	403		1,947
Total revenues		298,411	85,989	282,540	(41,353)	625,587
Cost of sales		248,329	67,988	240,184	(41,353)	515,148
Gross profit		50,082	18,001	42,356		110,439
Selling, general and administrative expenses		33,979	8,706	25,002		67,687
Income (loss) from operations		16,103	9,295	17,354		42,752
Other income (expense)		(620)	(11)	970		339
Earnings (loss) before interest and income taxes		15,483	9,284	18,324		43,091
Interest expense		47,087	1	5,192		52,280
Earnings (loss) before income taxes		(31,604)	9,283	13,132		(9,189)
Provision (benefit) for income taxes		885	563	917		2,365
Net income (loss)		(32,489)	8,720	12,215		(11,554)
Equity in net income (loss) of subsidiaries	(11,554)	20,935			(9,381)	
Net income (loss)	\$(11,554)	\$ (11,554)	\$ 8,720	\$ 12,215	\$ (9,381)	\$ (11,554)

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Libbey Inc.
Condensed Consolidating Balance Sheet
(dollars in thousands)

	September 30, 2009 (unaudited)					
	Libbey Inc. (Parent)	Libbey Glass (Issuer)	Subsidiary Guarantors	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Cash and equivalents	\$	\$ 19,846	\$ 306	\$ 10,496	\$	\$ 30,648
Accounts receivable net		35,094	5,756	50,269		91,119
Inventories net		51,039	19,362	83,122		153,523
Other current assets		12,392	9,026	12,760	(20,062)	14,116
Total current assets		118,371	34,450	156,647	(20,062)	289,406
Other non-current assets		11,317		11,276		22,593
Investments in and advances to subsidiaries	(61,992)	428,435	269,628	122,455	(758,526)	
Goodwill and purchased intangible assets net		26,832	15,773	147,711		190,316
Total other assets	(61,992)	466,584	285,401	281,442	(758,526)	212,909
Property, plant and equipment net		81,224	6,138	209,500		296,862
Total assets	\$(61,992)	\$666,179	\$325,989	\$647,589	\$(778,588)	\$799,177
Accounts payable	\$	\$ 9,508	\$ 1,700	\$ 40,879	\$	\$ 52,087
Accrued and other current liabilities		90,776	17,606	23,098	(20,062)	111,418
Notes payable and long-term debt due within one year		216		10,453		10,669
Total current liabilities		100,500	19,306	74,430	(20,062)	174,174
Long-term debt		464,905		51,125		516,030
Other long-term liabilities		129,990	10,578	30,397		170,965
Total liabilities		695,395	29,884	155,952	(20,062)	861,169
Total shareholders equity	(61,992)	(29,216)	296,105	491,637	(758,526)	(61,992)
	\$(61,992)	\$666,179	\$325,989	\$647,589	\$(778,588)	\$799,177

Total liabilities and
shareholders' equity

	December 31, 2008					
	Libbey Inc. (Parent)	Libbey Glass (Issuer)	Subsidiary Guarantors	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Cash and equivalents	\$	\$ 6,453	\$ 413	\$ 6,438	\$	\$ 13,304
Accounts receivable net		32,789	6,076	37,207		76,072
Inventories - net		58,924	26,892	99,426		185,242
Other current assets		4,731	316	12,120		17,167
Total current assets		102,897	33,697	155,191		291,785
Other non-current assets		9,462	43	12,560		22,065
Investments in and advances to subsidiaries	(57,889)	406,812	272,761	143,459	(765,143)	
Goodwill and purchased intangible assets - net		28,216	15,780	148,861		192,857
Total other assets	(57,889)	444,490	288,584	304,880	(765,143)	214,922
Property, plant and equipment - net		88,628	7,697	218,522		314,847
Total assets	\$(57,889)	\$636,015	\$329,978	\$678,593	\$(765,143)	\$821,554
Accounts payable	\$	\$ 9,370	\$ 2,794	\$ 42,264	\$	\$ 54,428
Accrued and other current liabilities		36,589	19,700	35,908		92,197
Notes payable and long-term debt due within one year		215		4,186		4,401
Total current liabilities		46,174	22,494	82,358		151,026
Long-term debt		451,772		94,084		545,856
Other long-term liabilities		140,936	14,185	27,440		182,561
Total liabilities		638,882	36,679	203,882		879,443
Total shareholders equity (deficit)	(57,889)	(2,867)	293,299	474,711	(765,143)	(57,889)
Total liabilities and shareholders' equity (deficit)	\$(57,889)	\$636,015	\$329,978	\$678,593	\$(765,143)	\$821,554

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Libbey Inc.
Condensed Consolidating Statement of Cash Flows
(dollars in thousands)
(unaudited)

	Three months ended September 30, 2009					
	Libbey Inc. (Parent)	Libbey Glass (Issuer)	Subsidiary Guarantors	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Net income (loss)	\$ 3,533	\$ 3,533	\$ 2,909	\$ 5,152	\$(11,594)	\$ 3,533
Depreciation and amortization		3,447	244	6,938		10,629
Other operating activities	(3,533)	1,996	(3,060)	5,480	11,594	12,477
Net cash provided by (used in) operating activities		8,976	93	17,570		26,639
Additions to property, plant & equipment		(833)	(53)	(1,851)		(2,737)
Other investing activities		(33)	5	200		172
Net cash (used in) investing activities		(866)	(48)	(1,651)		(2,565)
Net borrowings		(48)		(17,413)		(17,461)
Other financing activities						
Net cash provided by (used in) financing activities		(48)		(17,413)		(17,461)
Exchange effect on cash				(47)		(47)
Increase (decrease) in cash		8,062	45	(1,541)		6,566
Cash at beginning of period		11,784	261	12,037		24,082
Cash at end of period	\$	\$19,846	\$ 306	\$ 10,496	\$	\$ 30,648

	Three months ended September 30, 2008					
	Libbey Inc. (Parent)	Libbey Glass (Issuer)	Subsidiary Guarantors	Non- Guarantor Subsidiaries	Eliminations	Consolidated

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Net income (loss)	\$ (5,958)	\$ (5,958)	\$ 2,056	\$ 2,821	\$ 1,081	\$ (5,958)
Depreciation and amortization		3,782	700	6,417		10,899
Other operating activities	5,958	1,150	(2,593)	4,934	(1,081)	8,368
Net cash provided by (used in) operating activities		(1,026)	163	14,172		13,309
Additions to property, plant & equipment		(3,381)	(246)	(8,763)		(12,390)
Other investing activities		72	(1)			71
Net cash (used in) investing activities		(3,309)	(247)	(8,763)		(12,319)
Net borrowings		(4,299)		(4,957)		(9,256)
Other financing activities		(369)				(369)
Net cash provided by (used in) financing activities		(4,668)		(4,957)		(9,625)
Exchange effect on cash				(529)		(529)
Increase (decrease) in cash		(9,003)	(84)	(77)		(9,164)
Cash at beginning of period		9,420	1,316	7,147		17,883
Cash at end of period	\$	\$ 417	\$ 1,232	\$ 7,070	\$	\$ 8,719

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Libbey Inc.
Condensed Consolidating Statement of Cash Flows
(dollars in thousands)
(unaudited)

	Nine months ended September 30, 2009					
	Libbey Inc. (Parent)	Libbey Glass (Issuer)	Subsidiary Guarantors	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Net income (loss)	\$(21,696)	\$(21,696)	\$ 4,913	\$ (3,888)	\$ 20,671	\$(21,696)
Depreciation and amortization		11,223	1,830	19,822		32,875
Other operating activities	21,696	28,135	(6,588)	31,978	(20,671)	54,550
Net cash provided by (used in) operating activities		17,662	155	47,912		65,729
Additions to property, plant & equipment		(4,194)	(267)	(7,826)		(12,287)
Other investing activities		55	5	200		260
Net cash (used in) investing activities		(4,139)	(262)	(7,626)		(12,027)
Net borrowings		(130)		(36,143)		(36,273)
Other financing activities						
Net cash provided by (used in) financing activities		(130)		(36,143)		(36,273)
Exchange effect on cash				(85)		(85)
Increase (decrease) in cash		13,393	(107)	4,058		17,344
Cash at beginning of period		6,453	413	6,438		13,304
Cash at end of period	\$	\$ 19,846	\$ 306	\$ 10,496	\$	\$ 30,648

	Nine months ended September 30, 2008					
	Libbey Inc. (Parent)	Libbey Glass (Issuer)	Subsidiary Guarantors	Non- Guarantor Subsidiaries	Eliminations	Consolidated

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Net income (loss)	\$(11,554)	\$(11,554)	\$ 8,720	\$ 12,215	\$(9,381)	\$(11,554)
Depreciation and amortization		11,301	2,211	19,921		33,433
Other operating activities	11,554	(9,649)	(9,629)	(33,286)	9,381	(31,629)
Net cash provided by (used in) operating activities		(9,902)	1,302	(1,150)		(9,750)
Additions to property, plant & equipment		(9,370)	(602)	(20,030)		(30,002)
Other investing activities		117				117
Net cash (used in) investing activities		(9,253)	(602)	(20,030)		(29,885)
Net borrowings		(164)		13,417		13,253
Other financing activities		(1,098)				(1,098)
Net cash provided by (used in) financing activities		(1,262)		13,417		12,155
Exchange effect on cash				(340)		(340)
Increase (decrease) in cash		(20,417)	700	(8,103)		(27,820)
Cash at beginning of period		20,834	532	15,173		36,539
Cash at end of period	\$	\$ 417	\$ 1,232	\$ 7,070	\$	\$ 8,719

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Our segments are described as follows:

North American Glass includes sales of glass tableware from subsidiaries throughout the United States, Canada and Mexico.

North American Other includes sales of ceramic dinnerware; metal tableware, hollowware and serveware; and plastic items from subsidiaries in the United States.

International includes worldwide sales of glass tableware from subsidiaries outside the United States, Canada and Mexico.

Some operating segments were aggregated to arrive at the disclosed reportable segments. The accounting policies of the segments are the same as those described in Note 2 of the Notes to Condensed Consolidated Financial Statements. We do not have any customers who represent 10 percent or more of total net sales. We evaluate the performance of our segments based upon net sales and Earnings Before Interest and Taxes (EBIT). Intersegment sales are consummated at arm's length and are reflected in eliminations in the table below.

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2009	2008	2009	2008
Net Sales:				
North American Glass	\$ 128,316	\$ 143,630	\$ 374,803	\$ 426,120
North American Other	20,462	28,339	66,180	85,042
International	40,279	42,014	103,663	120,166
Eliminations	(2,179)	(2,447)	(4,089)	(7,688)
Consolidated	\$ 186,878	\$ 211,536	\$ 540,557	\$ 623,640
EBIT:				
North American Glass	\$ 16,594	\$ 9,695	\$ 19,727	\$ 31,704
North American Other	2,953	2,130	5,263	9,590
International	1,005	1,732	(2,280)	1,797
Consolidated	\$ 20,552	\$ 13,557	\$ 22,710	\$ 43,091
Special Charges:				
North American Glass	\$ 107	\$	\$ 81	\$
North American Other	382		3,089	
International				
Consolidated	\$ 489	\$	\$ 3,170	\$
Depreciation & Amortization:				
North American Glass	\$ 6,074	\$ 6,627	\$ 18,857	\$ 19,605
North American Other	244	700	1,830	2,211
International	4,311	3,572	12,188	11,617
Consolidated	\$ 10,629	\$ 10,899	\$ 32,875	\$ 33,433

Capital Expenditures:

North American Glass	\$ 1,714	\$ 5,125	\$ 6,855	\$ 15,817
North American Other	53	246	267	602
International	970	7,019	5,165	13,583
Consolidated	\$ 2,737	\$ 12,390	\$ 12,287	\$ 30,002

Reconciliation of EBIT to Net Income**(Loss):**

Segment EBIT	\$ 20,552	\$ 13,557	\$ 22,710	\$ 43,091
Interest Expense	(17,451)	(17,509)	(52,162)	(52,280)
Benefit from (provision for) Income Taxes	432	(2,006)	7,756	(2,365)
Net Income (Loss)	\$ 3,533	\$ (5,958)	\$ (21,696)	\$ (11,554)

Table of Contents**13. Fair Value**

Current accounting rules for Fair Value Accounting under U.S GAAP were issued by the FASB in 2006 under SFAS 157, Fair Value Measurements. These rules have been incorporated primarily into FASB ASC 820, Fair Value Measurements and Disclosures, FASB ASC 815, Derivatives and Hedging, FASB ASC 270, Interim Reporting and FASB ASC 250, Accounting Changes and Error Corrections. We adopted these rules for Fair Value Accounting as of January 1, 2008, but we had not applied them to non-recurring, nonfinancial assets and liabilities. We adopted Fair Value Accounting rules for nonrecurring, nonfinancial assets and liabilities as of January 1, 2009. The adoption of these rules had no impact on our fair value measurements. FASB ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. FASB ASC 820 establishes a fair value hierarchy, which prioritizes the inputs used in measuring fair value into three broad levels as follows:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly.

Level 3 Unobservable inputs based on our own assumptions.

Asset / (Liability)	Fair Value at September 30, 2009				Fair Value at December 31, 2008			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Commodity futures								
natural gas contracts	\$	\$ (8,531)	\$	\$ (8,531)	\$	\$ (14,868)	\$	\$ (14,868)
Interest rate protection agreements		(4,029)		(4,029)		(6,761)		(6,761)
Total derivative liability	\$	\$ (12,560)	\$	\$ (12,560)	\$	\$ (21,629)	\$	\$ (21,629)

The fair values of our interest rate protection agreements are 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. The fair values of our commodity futures natural gas contracts are determined using observable market inputs. Since these inputs are observable in active markets over the terms that the instruments are held, the derivatives are classified as Level 2 in the hierarchy. We also evaluate Company and counterparty risk in determining fair values. The total derivative liability is recorded on the Condensed Consolidated Balance Sheets with \$10.7 million in derivative liability and \$1.8 million in other long-term liabilities as of September 30, 2009. As of December 31, 2008 \$17.9 million was recorded in derivative liability and \$3.7 million in other long-term liabilities.

The commodity futures natural gas contracts and interest rate protection agreements are hedges of either recorded assets or liabilities or anticipated transactions. Changes in values of the underlying hedged assets and liabilities or anticipated transactions are not reflected in the above table.

14. Subsequent Event

We announced on October 28, 2009 that Libbey had entered into a transaction with Merrill Lynch PCG, Inc. (the Investor) to exchange the existing 16 percent Senior Subordinated Secured Payment-in-Kind Notes (Old PIK Notes) due in December 2011 of the Company's subsidiary, Libbey Glass Inc. (Libbey Glass), for a combination of debt and equity securities (Exchange Transaction). Pursuant to the Exchange Transaction, Old PIK Notes having an outstanding principal balance of approximately \$160.9 million have been exchanged for new Senior Subordinated

Secured Notes due in 2021 (the New Notes) having a principal amount of approximately \$80.4 million, together with common stock and warrants in the Company.

New Notes

Pursuant to the Exchange Transaction, Libbey Glass has issued a New Note payable to the Investor in the principal amount of approximately \$80.4 million. Interest under the New Note accrues at zero percent until the date (FRN Redemption Date) that is the first to occur of (a) December 10, 2010 or (b) the date on which the Floating Rate Senior Secured Notes due 2011 (FRNs) of Libbey Glass are redeemed or paid in full. If the New Notes have not been repaid in full on or before the FRN Redemption Date, interest under the New Notes will accrue at the rate of 16 percent per annum and be payable semi-annually in cash or in additional New Notes, at the option of Libbey Glass.

The New Notes mature on the earlier to occur of (a) June 1, 2021 or (b) the date that is 180 days after the maturity date of any part of any debt that refinances the FRNs. In no event, however, will the New Notes mature prior to September 1, 2011. The New Notes are

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subordinated to the FRNs and secured by a third-priority lien on collateral in the same manner as the Old PIK Notes and contain covenants that are substantially similar to the Old PIK Notes.

New Equity

The Company has also issued to the Investor 933,145 shares of Libbey Inc. common stock. In addition, the Company has issued to the Investor warrants (Series I Warrants) conveying the right to purchase, for \$0.01 per share, an additional 3,466,856 shares of the Company's common stock. Collectively this represents approximately 22.5 percent of the Company's common stock outstanding following the Exchange Transaction.

The Company will issue additional warrants to the Investor if:

The New Notes remain outstanding on the FRN Redemption Date, in which case the Company will issue to the Investor warrants (Series II Warrants) conveying the right to purchase, for \$0.01 per share, an additional 10 percent of the Company's common stock then outstanding (on a fully diluted basis, subject to certain exceptions).

The New Notes remain outstanding on the 180th day, 210th day and/or 240th day after the date of issuance of the Series II Warrant (Series II Date), in which case the Company will issue to the Investor on the 180th, 210th and/or 240th day after the Series II Date, as applicable, additional warrants (Series III Warrants) conveying the right to purchase, for \$0.01 per share, an additional 3.33 percent of the Company's common stock outstanding (on a fully diluted basis, subject to certain exceptions) on the Series II Date.

The percentage of the Company's outstanding common stock that is represented by Series II and Series III Warrants issuable to the Investor will be reduced on a pro rata basis to the extent the principal balance of the New Notes has been reduced as of the date of issuance of the warrants. All warrants issued to the Investor will expire ten years from the date of issuance. Issuance to the Investor of the Series II Warrants and Series III Warrants will be deferred if and to the extent that issuance of the Series II Warrants or Series III Warrants would cause the Investor's beneficial ownership of the Company's common stock to exceed 29.5 percent of the Company's then outstanding common stock (Cap). The Investor would be required to sell down its common stock in order to receive the remaining portion of the warrants. The Investor is prohibited from attaining beneficial ownership of the Company's common stock in excess of the Cap. These provisions are designed so that in no event will the Investor's ownership of common stock or warrants trigger a change of control under Libbey's existing debt and management change in control agreements.

The accounting treatment of this exchange involves complex issues, is subject to valuation calculations for certain components and is dependent on certain details which were not available until the closing of the transaction. The recording of this transaction along with a complete discussion of the accounting treatment will be included in our filing on Form 10-K for the year ended December 31, 2009.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our Condensed Consolidated Financial Statements and the related notes thereto appearing elsewhere in this report and in our Annual Report filed with the Securities and Exchange Commission. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results may differ from those anticipated in these forward-looking statements as a result of many factors. These factors are discussed in Risk Factors under Item 1A of Part II Other Information .

Overview

Market conditions continue to be challenging. While comparisons to the sales performance of the third quarter and first nine months of 2008 show dramatic differences, we continue to see the results of our cash flow enhancements outlined on February 11, 2009. We have reduced capital spending, reduced production levels in response to the reduced demand in our markets, reduced our overall costs and reduced our investment in inventories during the first nine months of the year, a period which normally would see a buildup of inventories in anticipation of normally higher sales in the fourth quarter. The decreased production levels have caused pressure on our margins for most of the year as certain fixed costs could not be reduced to the same extent as sales, but we have placed a higher priority on liquidity in the near term. Our third quarter results reflect significant improvements in liquidity, and we have also been able to increase utilization of our production capacity, resulting in increased margins. Our retail business has continued its strong performance; however, at this time we still expect that the eventual recovery of our other markets will occur slowly. We will continue to monitor our customer markets, and as the economy improves we are prepared to adjust production levels further, which should lead to continued improvements in profitability as the margin pressures described above should continue to reverse. On October 28, 2009, we announced a debt exchange with respect to the PIK Notes. Please see note 14 for a further discussion of this subsequent event.

Results of Operations – Third Quarter 2009 Compared with Third Quarter 2008

(Dollars in thousands, except percentages and per-share amounts)	Three months ended		Variance	
	September 30, 2009 (2)	2008	In dollars	In percent
Net sales	\$ 186,878	\$ 211,536	\$ (24,658)	(11.7)%
Gross profit	\$ 42,960	\$ 37,934	\$ 5,026	13.2%
<i>Gross profit margin</i>	23.0%	17.9%		
Income from operations (IFO)	\$ 17,849	\$ 14,557	\$ 3,292	22.6%
<i>IFO margin</i>	9.6%	6.9%		
Earnings before interest and income taxes (EBIT)(1)	\$ 20,552	\$ 13,557	\$ 6,995	51.6%
<i>EBIT margin</i>	11.0%	6.4%		
Earnings before interest, taxes, depreciation and amortization (EBITDA)(1)	\$ 31,181	\$ 24,456	\$ 6,725	27.5%
<i>EBITDA margin</i>	16.7%	11.6%		
Net income (loss)	\$ 3,533	\$ (5,958)	\$ 9,491	159.3%
<i>Net income (loss) margin</i>	1.9%	(2.8)%		
Diluted net income (loss) per share	\$ 0.23	\$ (0.40)	\$ 0.63	157.5%

(1) We believe that EBIT and EBITDA, non-GAAP

financial measures, are useful metrics for evaluating our financial performance, as they are measures that we use internally to assess our performance. See Table 1 for a reconciliation of net income (loss) to EBIT and EBITDA and a further discussion as to the reasons we believe these non-GAAP financial measures are useful.

- (2) *Includes pre-tax restructuring charges of \$0.5 million related to the closing of our Syracuse China manufacturing facility and our Mira Loma distribution center. (See note 5 to the Condensed Consolidated Financial Statements).*

Net Sales

For the quarter ended September 30, 2009, net sales decreased 11.7 percent to \$186.9 million from third quarter sales of \$211.5 million in the year-ago quarter. North American Glass net shipments decreased 10.7 percent to \$128.3 million from \$143.6 million in the year-ago quarter. The decrease in sales was primarily attributable to a 13.7 percent decrease in sales to Crisa customers, resulting principally from the currency impact of the Mexican peso. Crisa shipments decreased 0.6 percent excluding the currency impact. In

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addition, an 18.4 percent decline in shipments to U.S. and Canada foodservice glassware customers was offset by a 9.4 percent increase in shipments to U.S. and Canada retail glassware customers. North American Other net sales decreased 27.8 percent due to a decline in shipments of World Tableware, Syracuse China and Traex products. International net sales decreased 4.1 percent compared to the year-ago quarter, as a 20.0 percent increase in shipments to Libbey China customers was offset by unfavorable currency impact of the weaker euro when compared to the U.S. dollar. Excluding the currency impact, International sales decreased 0.4 percent, as shipments to Royal Leerdam customers increased 1.1 percent and shipments to Crisal glassware customers declined 2.4 percent when compared to the prior-year period.

Gross Profit

For the quarter ended September 30, 2009, gross profit increased by \$5.0 million, or 13.2 percent, to \$43.0 million, compared to \$37.9 million in the year-ago quarter. Gross profit as a percentage of net sales increased to 23.0 percent, compared to 17.9 percent in the year-ago quarter. Reductions in manufacturing costs offset by lower production activity primarily in our International segment resulted in a \$11.7 million improvement in gross profit, as reductions in natural gas, labor and packaging expenses more than offset the impact of decreased production. Decreases in distribution costs contributed another \$4.3 million of improvement. These improvements were offset by a \$10.8 million impact from unfavorable mix and the lower level of net sales.

Income From Operations

Income from operations for the quarter ended September 30, 2009 increased \$3.3 million, or 22.6 percent, to \$17.8 million, compared to \$14.6 million in the year-ago quarter. Income from operations as a percentage of net sales increased to 9.6 percent in the third quarter 2009, compared to 6.9 percent in the year-ago quarter. The improvement in income from operations is a result of higher gross profit and gross profit margin (discussed above), offset by a \$0.3 million special charge related primarily to the shutdowns of the Syracuse China manufacturing facility and Mira Loma distribution center (see Note 5 for more discussion about these charges) and an increase of \$1.4 million in selling, general and administrative expenses. The \$1.4 million increase in selling, general and administrative expenses is mainly due to an increase in expense related to our annual incentive plan.

Earnings Before Interest and Income Taxes (EBIT)

Earnings before Interest and Income Taxes (EBIT) for the quarter ended September 30, 2009 increased by \$7.0 million, from \$13.6 million in 2008, to \$20.6 million in 2009. EBIT as a percentage of net sales increased to 11.0 percent in the third quarter 2009, compared to 6.4 percent in the year-ago quarter. Key contributors to the increase in EBIT compared to the year-ago quarter are the same as those discussed above under Income From Operations. In addition, other income increased by \$3.7 million primarily related to a favorable swing in foreign currency translation gains versus the prior year quarter.

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

EBITDA increased by 27.5 percent to \$31.2 million in the third quarter of 2009 from \$24.5 million in the year-ago quarter. As a percentage of net sales, EBITDA was 16.7 percent for the third quarter 2009, compared to 11.6 percent in the year-ago quarter. The key contributors to the increase in EBITDA were those factors discussed above under Earnings before Interest and Income Taxes (EBIT). These improvements were slightly offset as EBITDA does not include the benefit of a \$0.3 million decrease in depreciation and amortization expenses which is primarily due to the shutdown of our Syracuse China operations.

Net Income (Loss) and Diluted Net Income (Loss) Per Share

We recorded net income of \$3.5 million, or \$0.23 per diluted share, in the third quarter 2009, compared to a net loss of \$(6.0) million, or \$(0.40) per diluted share, in the year-ago quarter. Net income (loss) as a percentage of net sales was 1.9 percent in the third quarter 2009, compared to (2.8) percent in the year-ago quarter. The improvement in Net Income (Loss) and Diluted Net Income (Loss) Per Share is generally due to the factors discussed in EBIT above. Furthermore, the effective tax rate provided a 13.9 percent benefit for the quarter compared to a 50.8 percent expense in the year-ago quarter, due primarily to a \$1.4 million tax benefit related to the required intra-period tax allocation between income from operations and other comprehensive income in the U.S. in the current quarter. The Company's effective tax rate also changed from the year-ago quarter as a result of changes in valuation allowances in the United States, the Netherlands, and Portugal. Further, changes in the mix of earnings in countries with differing statutory tax

rates, changes in accruals related to uncertain tax positions, tax planning structures and changes in tax laws have also impacted the effective tax rate, and could cause more volatility in the future.

Table of Contents**Results of Operations First Nine Months 2009 Compared with First Nine Months 2008**

(Dollars in thousands, except percentages and per-share amounts)	Nine months ended September 30,		Variance	
	2009 (2)	2008	In dollars	In percent
Net sales	\$540,557	\$623,640	\$(83,083)	(13.3)%
Gross profit	\$ 87,959	\$110,439	\$(22,480)	(20.4)%
<i>Gross profit margin</i>	<i>16.3%</i>	<i>17.7%</i>		
Income from operations (IFO)	\$ 17,286	\$ 42,752	\$(25,466)	(59.6)%
<i>IFO margin</i>	<i>3.2%</i>	<i>6.9%</i>		
Earnings before interest and income taxes (EBIT)(1)	\$ 22,710	\$ 43,091	\$(20,381)	(47.3)%
<i>EBIT margin</i>	<i>4.2%</i>	<i>6.9%</i>		
Earnings before interest, taxes, depreciation and amortization (EBITDA)(1)	\$ 55,585	\$ 76,524	\$(20,939)	(27.4)%
<i>EBITDA margin</i>	<i>10.3%</i>	<i>12.3%</i>		
Net loss	\$ (21,696)	\$ (11,554)	\$(10,142)	(87.8)%
<i>Net loss margin</i>	<i>(4.0)%</i>	<i>(1.9)%</i>		
Diluted net loss per share	\$ (1.45)	\$ (0.79)	\$ (0.66)	(83.5)%

(1) We believe that EBIT and EBITDA, non-GAAP financial measures, are useful metrics for evaluating our financial performance, as they are measures that we use internally to assess our performance. See Table 1 for a reconciliation of net loss to EBIT and EBITDA and a further discussion as to the reasons we believe these non-GAAP

*financial
measures are
useful.*

- (2) *Includes pre-tax restructuring charges of \$3.2 million related to the closing of our Syracuse China manufacturing facility and our Mira Loma distribution center. (See note 5 to the Condensed Consolidated Financial Statements).*

Net Sales

For the nine months ended September 30, 2009, net sales decreased 13.3 percent to \$540.6 million from sales of \$623.6 million in the year-ago period. North American Glass net sales decreased 12.0 percent to \$374.8 million from sales of \$426.1 million in the year-ago period, due primarily to a decrease of 23.4 percent in shipments to Crisa customers and a decline of 9.9 percent in shipments to U.S. and Canadian foodservice glassware customers. The devaluation of the Mexican peso caused a sales decline of approximately 13.0 percent at Crisa, representing more than half of the overall 23.4 percent reduction in Crisa sales. Due to continued strength in the third quarter, our U.S. retail sales were 3.2 percent ahead of last year's sales level through the first nine months of the year, representing a new record for the nine month period. North American Other net sales decreased 22.2 percent to \$66.2 million from sales of \$85.0 million in the year-ago period due to a decline in shipments of World Tableware, Syracuse China and Traex products. International net sales decreased 13.7 percent to \$103.7 million from sales of \$120.2 million in the year-ago period, including 7.5 percent due to unfavorable currency impact resulting primarily from the declining strength of the euro when compared to the U.S. dollar. Libbey China sales increased 10.5 percent compared to the year-ago period. Excluding the currency impact, International sales decreased approximately 6.2 percent, as shipments to Royal Leerdam and Crisal glassware customers declined when compared to the prior year period.

Gross Profit

For the nine months ended September 30, 2009, gross profit decreased by \$22.5 million, or 20.4 percent, to \$88.0 million, compared to \$110.4 million in the year-ago period. Gross profit as a percentage of net sales decreased to 16.3 percent, compared to 17.7 percent in the year-ago period. An unfavorable mix and lower level of net sales, particularly in the U.S., resulted in \$20.0 million of the decline in gross profit, and lower production activity offset by reduced manufacturing costs contributed another \$2.3 million to the decrease, as a significant portion of these expenses are fixed and could not be reduced to the same extent as net sales. Also, an unfavorable currency impact resulted in \$11.9 million of the decline in gross profit. In addition, the current year included special charges of \$1.9 million related to the Syracuse China manufacturing facility and Mira Loma distribution center shutdowns. These unfavorable items were offset by a reduction of \$12.2 million in our distribution costs.

Table of Contents**Income From Operations**

Income from operations for the nine months ended September 30, 2009 decreased \$25.5 million, to \$17.3 million, compared to \$42.8 million in the year-ago period. Income from operations as a percentage of net sales decreased to 3.2 percent in the first nine months of 2009, compared to 6.9 percent in the year-ago period. The decline in income from operations is a result of lower gross profit (discussed above), combined with a \$2.0 million increase in selling, general and administrative expenses and a \$1.0 million special charge primarily related to the Syracuse China shutdown. The \$2.0 million increase in selling, general and administrative expenses was caused by a \$7.6 million increase in expense for our annual incentive plan, a \$3.0 million pension settlement charge arising from lump sum payments to retirees during the first nine months of 2009 and the one-time 2008 accrual reversal of \$1.3 million related to favorable rulings in connection with an outstanding dispute regarding a warehouse lease in Mexico. These increases in selling general and administrative expenses were offset by favorable currency impact of \$1.7 million and decreases of \$5.9 million and \$4.6 million in labor and benefit costs and selling, marketing and other expenses, respectively.

Earnings Before Interest and Income Taxes (EBIT)

Earnings before Interest and Income Taxes (EBIT) decreased by \$20.4 million, from \$43.1 million in 2008 to \$22.7 million in 2009. EBIT as a percentage of net sales decreased to 4.2 percent in the first nine months of 2009, compared to 6.9 percent in the year-ago period. Key contributors to the decrease in EBIT compared to the year-ago period are the same as those discussed above under Income From Operations, offset by a \$5.1 million increase in other income primarily related to a favorable swing in foreign currency translation gains versus the prior year quarter.

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

EBITDA decreased by 27.4 percent to \$55.6 million in the first nine months of 2009 from income of \$76.5 million in the year-ago period. As a percentage of net sales, EBITDA was 10.3 percent for the first nine months of 2009, compared to 12.3 percent in the year-ago period. The key contributors to the decrease in EBITDA were those factors discussed above under Earnings before Interest and Income Taxes (EBIT). In addition, EBITDA does not include the comparative benefit of a \$0.6 million decrease in depreciation and amortization expenses.

Net Loss and Diluted Net Loss Per Share

We recorded a net loss of \$(21.7) million, or \$(1.45) per diluted share, in the first nine months of 2009, compared to a net loss of \$(11.6) million, or \$(0.79) per diluted share, in the year-ago period. Net loss as a percentage of net sales was (4.0) percent in the first nine months of 2009, compared to (1.9) percent in the year-ago period. The improvement in Net Income (Loss) and Diluted Net Income (Loss) Per Share is generally due to the factors discussed in EBIT above. In addition, the effective tax rate was 26.3 percent for the period compared to negative 25.7 percent in the year-ago period, due primarily to a \$5.3 million tax benefit related to the required intra-period tax allocation between income from operations and other comprehensive income in the U.S. in the first nine months of 2009 and a \$1.5 million benefit related to adjustments in tax reserves due to the completion of a U.S. federal income tax examination. The Company's effective tax rate changed from the year-ago quarter also as a result of changes in valuation allowances in the United States, the Netherlands, and Portugal. Further, changes in the mix of earnings in countries with differing statutory tax rates, changes in accruals related to uncertain tax positions, tax planning structures and changes in tax laws have also impacted the effective tax rate.

Segment Results of Operations

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(Dollars in thousands)	Three months ended September 30,		Variance		Nine months ended September 30,		Variance	
	2009	2008	In dollars	In percent	2009	2008	In dollars	In percent
Net Sales:								
North American Glass	\$ 128,316	\$ 143,630	\$(15,314)	(10.7)%	\$ 374,803	\$ 426,120	\$(51,317)	(12.0)%
North American Other	20,462	28,339	(7,877)	(27.8)%	66,180	85,042	(18,862)	(22.2)%
International	40,279	42,014	(1,735)	(4.1)%	103,663	120,166	(16,503)	(13.7)%
Eliminations	(2,179)	(2,447)			(4,089)	(7,688)		
Consolidated	\$ 186,878	\$ 211,536	\$(24,658)	(11.7)%	\$ 540,557	\$ 623,640	\$(83,083)	(13.3)%
EBIT:								
North American Glass	\$ 16,594	\$ 9,695	\$ 6,899	71.2%	\$ 19,727	\$ 31,704	\$(11,977)	(37.8)%
North American Other	2,953	2,130	823	38.6%	5,263	9,590	(4,327)	(45.1)%
International	1,005	1,732	(727)	(42.0)%	(2,280)	1,797	(4,077)	(226.9)%
Consolidated	\$ 20,552	\$ 13,557	\$ 6,995	51.6%	\$ 22,710	\$ 43,091	\$(20,381)	(47.3)%
EBIT Margin:								
North American Glass	12.9%	6.7%			5.3%	7.4%		
North American Other	14.4%	7.5%			8.0%	11.3%		
International	2.5%	4.1%			(2.2)%	1.5%		
Consolidated	11.0%	6.4%			4.2%	6.9%		
Special charges:								
North American Glass	\$ 107	\$	\$ 107	100.0%	\$ 81	\$	\$ 81	100.0%
North American Other	382		382	100.0%	3,089		3,089	100.0%
International				NM				NM
Consolidated	\$ 489	\$	\$ 489	100.0%	\$ 3,170	\$	\$ 3,170	100.0%

Segment Results of Operations Third Quarter 2009 Compared to Third Quarter 2008**North American Glass**

For the quarter ended September 30, 2009, net sales decreased 10.7 percent to \$128.3 million from \$143.6 million in the year-ago quarter. Of the decrease in net sales, approximately 5.4 percent was attributable to decreased shipments to Crisa's customers and 7.0 percent was attributable to decreased shipments to U.S. and Canadian foodservice glassware customers offset by a 2.2 percent increase in sales to U.S. and Canadian retail glassware customers. Of the 5.4 percent attributable to decreased shipments of Crisa product, 5.2 percent is related to an unfavorable currency impact.

EBIT increased to \$16.6 million for the third quarter 2009, compared to \$9.7 million for the year-ago quarter. EBIT as a percentage of net sales increased to 12.9 percent in the third quarter 2009, compared to 6.7 percent in the year-ago quarter. The key factors in the increase in EBIT compared to the year-ago quarter were \$9.0 million due to lower manufacturing costs offset by decreased production activity, a \$3.3 million decrease in distribution costs and an improvement of \$3.6 million primarily due to favorable foreign currency translation gains. The factors contributing to the increase in EBIT were partially offset by \$7.5 million due to an unfavorable sales mix, a \$1.6 million increase in SG&A costs and an unfavorable currency impact from the devaluation of the Mexican peso of \$0.2 million. The

\$1.6 million increase in SG&A costs was caused by a \$5.7 million increase in expense for our annual incentive plan offset by a decrease of \$4.2 million in labor and benefit expenses.

North American Other

For the quarter ended September 30, 2009, net sales declined 27.8 percent to \$20.5 million from \$28.3 million in the year-ago quarter. Components of the total decrease in net sales were declines of approximately 16.1 percent in shipments of Syracuse China products related to the closure of the Syracuse China facility earlier this year and the decision to reduce the Syracuse China product offering, approximately 5.4 percent in shipments of Traex products and approximately 6.2 percent in shipments of World Tableware products.

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EBIT increased by \$0.8 million for the third quarter of 2009, compared to the year-ago quarter. EBIT as a percentage of net sales increased to 14.4 percent in the third quarter of 2009, compared to 7.5 percent in the year-ago quarter due to lower production and purchasing levels in the segment. The key contributors to the increased EBIT were decreases of \$2.9 million in manufacturing and purchased product costs, \$0.2 million in distribution costs and \$1.0 million in SG&A expenses. These reductions in costs were primarily the result of the April 2009 closure of our Syracuse China facility, as EBIT for the Syracuse China operations contributed a \$1.0 million improvement compared to the prior year period. This was offset by decreased sales volume and mix, which caused an unfavorable \$3.5 million impact.

International

For the quarter ended September 30, 2009, net sales decreased 4.1 percent to \$40.3 million from \$42.0 million in the year-ago quarter. The decrease was primarily the result of a weaker euro, which caused a 4.4 percent decline. This currency impact was offset by an increase in shipments to customers of Libbey China, as shipments to Royal Leerdam and Crisal customers were essentially flat as a component of the total International segment variance.

EBIT declined by \$0.7 million for the third quarter of 2009, to \$1.0 million from \$1.7 million in the year-ago quarter. EBIT as a percentage of net sales decreased to 2.5 percent in the third quarter 2009, compared to 4.1 percent in the year-ago quarter. Decreased production activity offset by lower manufacturing costs were responsible for \$0.8 million of the EBIT decline. In addition, EBIT was negatively affected by an unfavorable currency impact from the euro of \$0.2 million and additional depreciation and amortization of \$0.7 million. These factors were offset by a \$0.9 million decrease in distribution costs.

Segment Results of Operations First Nine Months 2009 Compared to First Nine Months 2008***North American Glass***

For the nine months ended September 30, 2009, net sales decreased 12.0 percent to \$374.8 million from \$426.1 million in the year-ago period. Of the total decrease in net sales, approximately 9.1 percent was attributable to decreased shipments to Crisa's customers and 4.9 percent was attributable to decreased shipments to U.S. and Canadian foodservice glassware customers. The primary offset to these declines was a 0.7 percent increase from the U.S. and Canadian retail channel, which delivered sales above the performance of the first nine months of 2008. Of the 9.1 percent attributable to decreased shipments of Crisa product, 5.1 percent is related to an unfavorable currency impact.

EBIT decreased to \$19.7 million for the first nine months of 2009, compared to \$31.7 million for the year-ago period. EBIT as a percentage of net sales decreased to 5.3 percent in the first nine months of 2009, compared to 7.4 percent in the year-ago period. The key factors in the decline in EBIT compared to the year-ago period were \$13.2 million due to an unfavorable sales mix and an unfavorable currency impact from the devaluation of the Mexican peso of \$9.3 million. In addition, EBIT was negatively impacted by a \$4.9 million increase in selling, general and administrative expense, which resulted primarily from a \$3.0 million pension settlement charge arising from lump sum payments to retirees during the first nine months of 2009 and a one-time reversal of a \$1.3 million accrual in the first quarter of 2008 related to favorable rulings in connection with an outstanding dispute regarding a warehouse lease in Mexico. The factors contributing to the decrease in EBIT were partially offset by decreases of \$9.8 million in distribution costs and favorable currency translation gains of \$4.4 million in other income when compared to the prior year period.

North American Other

For the nine months ended September 30, 2009, net sales declined 22.2 percent to \$66.2 million from \$85.0 million in the year-ago period. Components of the total decrease in net sales were declines of approximately 10.8 percent in shipments of Syracuse China products due to closure of the manufacturing facility and reduction in the product offering, approximately 6.7 percent in shipments of World Tableware products and approximately 5.0 percent in shipments of Traex products.

EBIT declined by \$4.3 million for the first nine months of 2009, compared to the year-ago period. EBIT as a percentage of net sales decreased to 8.0 percent in the first nine months of 2009, compared to 11.3 percent in the year-ago period. The key contributor to the decreased EBIT was decreased sales, which had an unfavorable \$11.6 million impact. Production costs included a \$0.7 million special charge due to additional depreciation expenses recorded to reflect the shorter remaining useful life of the assets at our Syracuse China facility and a \$1.0 million

write-down of raw materials and work in process inventory also related to the shutdown of our Syracuse China facility. This was offset by decreases of \$5.1 million in other production costs and purchased product, \$1.6 million in distribution costs, and a decrease of \$2.2 million in SG&A expenses driven by lower selling and marketing expenses. These reductions in costs were primarily the result of the April 2009 closure of our Syracuse China manufacturing facility.

Table of Contents**International**

For the nine months ended September 30, 2009, net sales decreased 13.7 percent to \$103.7 million from \$120.2 million in the year-ago period. Of the total decrease in net sales, 8.5 percent was related to the currency impact of a weaker euro. The majority of the remaining decrease in net sales was related to decreased shipments to Royal Leerdam and Crisal customers, offset by an increase of 1.4 percent attributable to sales to customers of Libbey China. EBIT declined by \$4.1 million for the first nine months of 2009 to \$(2.3) million, compared to \$1.8 million in the year-ago period. EBIT as a percentage of net sales decreased to (2.2) percent in the first nine months of 2009, compared to 1.5 percent in the year-ago period. Decreased net sales and production activity offset by lower manufacturing costs were responsible for \$0.1 million and \$3.1 million of the EBIT decline, respectively, as we lowered production levels in response to lower sales and to manage inventory levels. In addition, EBIT was negatively impacted by an unfavorable currency impact from the euro of \$0.9 million.

Capital Resources and Liquidity**Balance Sheet and Cash Flows****Cash and Equivalents**

At September 30, 2009, our cash balance was \$30.6 million, an increase of \$17.3 million from \$13.3 million at December 31, 2008. The increase was primarily due to an increase in our free cash flow offset by payments on our ABL facility.

Working Capital

The following table presents our working capital components:

(Dollars in thousands, except percentages and DSO, DIO, DPO and DWC)	September 30, 2009	December 31, 2008	Variance	
			In dollars	In percent
Accounts receivable net	\$ 91,119	\$ 76,072	\$ 15,047	19.8%
<i>DSO (1)</i>	45.7	34.3		
Inventories net	\$ 153,523	\$ 185,242	\$(31,719)	(17.1)%
<i>DIO (2)</i>	77.1	83.5		
Accounts payable	\$ 52,087	\$ 54,428	\$ (2,341)	(4.3)%
<i>DPO (3)</i>	26.1	24.5		
Working capital (4)	\$ 192,555	\$ 206,886	\$(14,331)	(6.9)%
<i>DWC (5)</i>	96.7	93.3		
<i>Percentage of net sales</i>	26.5%	25.5%		

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

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

- (2) *Days inventory outstanding (DIO) measures the number of days it takes to turn inventory into cash.*
- (3) *Days payable outstanding (DPO) measures the number of days it takes to pay the balances of our accounts payable.*
- (4) *Working capital is defined as net accounts receivable plus net inventories less accounts payable. See Table 3 for the calculation of this non-GAAP financial measure and for further discussion as to the reasons we believe this non-GAAP financial measure is useful.*
- (5) *Days working capital (DWC) measures the number of days it takes to turn our working capital into cash.*

Working capital (as defined above) was \$192.6 million at September 30, 2009, a decrease of \$14.3 million from December 31, 2008.

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This decrease is due primarily to lower inventories, which resulted from our continued focus on our cash management efforts to increase cash flow through reductions in working capital, and lower production activity. Partially offsetting our lower inventories is an increase in accounts receivable. Our DSO also increased compared to the end of the year as sales in the third quarter of 2009 were heavily weighted towards the end of the quarter, driving up the quarter-end receivables balance. During the final quarter of 2008, sales declined throughout the quarter, so the majority of collections for sales in the quarter had occurred before the end of December. Working capital as a percentage of net sales increased from 25.5 percent from December 31, 2008 to 26.5 percent at September 30, 2009.

Table of Contents**Borrowings**

The following table presents our total borrowings:

(Dollars in thousands)	Interest Rate	Maturity Date	September 30, 2009	December 31, 2008
Borrowings under ABL facility	floating	December 16, 2010	\$	\$ 34,538
Senior notes	floating			
	(1)	June 1, 2011	306,000	306,000
PIK notes (2)	16.00%	December 1, 2011	160,862	148,946
Promissory note	6.00%	October, 2009 to September, 2016	1,537	1,666
Notes payable	floating	October, 2009	1,517	3,284
RMB loan contract	floating	July, 2012 to January, 2014	36,675	36,675
RMB working capital loan	floating	March, 2010	7,335	7,335
Obligations under capital leases	floating	May, 2009		302
BES Euro line	floating	December, 2009 to December, 2013	16,051	15,507
Other debt	floating	September, 2009		630
Total borrowings			529,977	554,883
Less unamortized discounts and warrants			3,278	4,626
Total borrowings net (3)			\$526,699	\$550,257

(1) See
Derivatives
below and note
9 to the
Condensed
Consolidated
Financial
Statements.

(2) Additional PIK
Notes were
issued each
June 1 and
December 1,
commencing on
December 1,
2006, to pay
semi-annual
interest. During
the first three
years, interest

was payable by the issuance of additional PIK Notes.

- (3) *The total borrowings net include notes payable, long-term debt due within one year and long-term debt as stated in our Condensed Consolidated Balance Sheets.*

We had total borrowings of \$530.0 million at September 30, 2009, compared to total borrowings of \$554.9 million at December 31, 2008. The \$24.9 million decrease in borrowings was primarily the result of the repayment of borrowings under our ABL facility, offset by an increase in our PIK Notes.

Of our total indebtedness, \$167.6 million, or approximately 31.6 percent, is subject to variable interest rates at September 30, 2009. A change of one percentage point in such rates would result in a change in interest expense of approximately \$1.7 million on an annual basis.

Included in interest expense is the amortization of discounts, warrants and financing fees. These items amounted to \$1.3 million and \$3.8 million for the three months and nine months ended September 30, 2009, respectively, and \$1.2 million and \$3.7 million for the three months and nine months ended September 30, 2008, respectively.

Cash Flow

The following table presents key drivers to our free cash flow for the third quarter.

(Dollars in thousands, except percentages)	Three months ended September 30,		Variance	
	2009	2008	In dollars	In percent
Net cash provided by operating activities	\$ 26,639	\$ 13,309	\$13,330	100.2%
Capital expenditures	(2,737)	(12,390)	9,653	77.9%
Proceeds from asset sales and other	172	71	101	142.3%
Free cash flow (1)	\$ 24,074	\$ 990	\$23,084	NM

- (1) *We believe that Free Cash Flow [net cash provided by (used in) operating activities, less capital expenditures, plus proceeds from assets*

*sales and other]
is a useful
metric for
evaluating our
financial
performance, as
it is a measure
we use
internally to
assess*

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performance.
See Table 2 for
a reconciliation
of net cash
provided by
(used in)
operating
activities to free
cash flow and a
further
discussion as to
the reasons we
believe this
non-GAAP
financial
measure is
useful.

Our net cash provided by operating activities was \$26.6 million in the third quarter of 2009, compared to net cash provided by operating activities of \$13.3 million in the year-ago quarter, or an improvement of \$13.3 million. The major factors impacting cash flow from operations were the \$9.5 million improvement in net income and a \$12.8 million decrease in cash utilized for pension and postretirement benefits. The cash generated from these cash flow improvements was utilized to pay down debt and increase our cash balance.

Our net cash used in investing activities decreased to \$2.6 million in the third quarter of 2009, compared to \$12.3 million in the year-ago period, primarily as a result of decreased capital expenditures in our North American Glass and International segments.

Net cash used in financing activities was \$17.5 million in the third quarter of 2009, compared to \$9.6 million in the year-ago quarter. During the third quarter of 2009, we utilized an additional \$8.3 million to pay down the ABL Facility, offset by a decrease in dividends and other payments.

Our free cash flow was \$24.1 million during the third quarter 2009, compared to \$1.0 million in the year-ago quarter, an improvement of \$23.1 million. The primary contributors to this change were the improvement in cash flow from operating activities and reduced capital expenditures in the current period, as discussed above.

The following table presents key drivers to our free cash flow for the first nine months.

(Dollars in thousands, except percentages)	Nine months ended		Variance	
	2009	September 30, 2008	In dollars	In percent
Net cash provided by (used in) operating activities	\$ 65,729	\$ (9,750)	\$75,479	774.1%
Capital expenditures	(12,287)	(30,002)	17,715	59.0%
Proceeds from asset sales and other	260	117	143	122.2%
Free cash flow (1)	\$ 53,702	\$ (39,635)	\$93,337	235.5%

(1) We believe that
Free Cash Flow
[net cash
provided by
(used in)

operating activities, less capital expenditures, plus proceeds from assets sales and other] is a useful metric for evaluating our financial performance, as it is a measure we use internally to assess performance. See Table 2 for a reconciliation of net cash provided by (used in) operating activities to free cash flow and a further discussion as to the reasons we believe this non-GAAP financial measure is useful.

Our net cash provided by operating activities was \$65.7 million in the first nine months of 2009, compared to net cash used by operating activities of \$9.8 million in the year-ago period, or an improvement of \$75.5 million. The major factors impacting cash flow from operations were a \$51.0 million improvement in working capital performance compared to the prior year period, as cash flow improvements of \$42.8 million from inventory and \$12.5 million from accounts payable, partially offset by a \$4.3 million increase in accounts receivable, reflected our efforts to improve liquidity during the current economic downturn. Further improvement in net cash provided by operating activities is the result of the final \$19.6 million payment to Vitro made in 2008 related to the 2006 Crisa acquisition and a \$16.7 million decrease in cash outlay for pension and postretirement benefits. These improvements were offset by an increase of \$10.1 million in our net loss. The cash generated by these cash flow improvements was utilized to pay down debt and increase our cash balance.

Our net cash used in investing activities decreased to \$12.0 million in the first nine months of 2009, compared to \$29.9 million in the year-ago period, primarily as a result of decreased capital expenditures in our North American Glass and International segments.

Net cash used in (provided by) financing activities was a use of \$36.3 million in the first nine months of 2009, compared to net cash provided by financing activities of \$12.1 million in the year-ago period, or a swing of \$48.4 million. During the first nine months of 2008, we utilized \$14.5 million more of our capacity on the ABL Facility to fund our operating needs, while we made \$33.5 million of repayments on that facility in the first nine months of 2009.

Our free cash flow was \$53.7 million during the first nine months 2009, compared to a use of cash of \$39.6 million in the year-ago period, an improvement of \$93.3 million. The primary contributor to this change was the improvement in cash flow from operating activities and reduced capital expenditures in the current period.

Table of Contents***Derivatives***

We have Interest Rate Protection Agreements (Rate Agreements) with respect to \$200.0 million of debt as a means to manage our exposure to fluctuating interest rates. The Rate Agreements effectively convert this portion 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 fixed interest rate for our borrowings related to the Rate Agreements at September 30, 2009, excluding applicable fees, is 5.24 percent per year and the total interest rate, including applicable fees, is 12.24 percent per year. These Rate Agreements expire on December 1, 2009. Total remaining Senior Notes not covered by the Rate Agreements have fluctuating interest rates with a weighted average rate of 8.26 percent per year at September 30, 2009. 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. All counterparties were rated A+ or better as of September 30, 2009, by Standard and Poor's.

The fair market value for the Rate Agreements at September 30, 2009, was a \$(4.0) million liability. At December 31, 2008, the fair market value of these Rate Agreements was a \$(6.8) million liability. 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 and expect them to mature as originally contracted.

We also use commodity futures contracts related to forecasted future North American natural gas requirements. The objective of these futures contracts is to reduce the effects of fluctuations and adverse price movements in the underlying commodity. We consider our forecasted natural gas requirements in determining the quantity of natural gas to hedge. We combine the forecasts with historical observations to establish the percentage of forecast eligible to be hedged, typically ranging from 40 percent to 70 percent of our anticipated requirements up to eighteen months in the future. The fair values of these instruments are determined from market quotes. At September 30, 2009, we had commodity futures contracts for 3,220,000 million British Thermal Units (BTUs) of natural gas with a fair market value of an \$(8.5) million liability. We have hedged approximately 42 percent of forecasted transactions through December 2010. At December 31, 2008, we had commodity futures contracts for 5,280,000 million BTUs of natural gas with a fair market value of a \$(14.9) million liability. The counterparties for these derivatives were rated BBB+ or better as of September 30, 2009, by Standard & Poor's.

Capital Resources and Liquidity

Historically, cash flows generated from operations and our borrowing capacity under our ABL facility have allowed us to meet our cash requirements, including capital expenditures and working capital needs. Remaining unused availability on the ABL Facility was \$81.3 million at September 30, 2009 and \$44.6 million at December 31, 2008. In addition, our cash and cash equivalents balance of \$30.6 million at September 30, 2009 is available for our short term financing needs. We were impacted by recessionary pressures in 2008, especially during the fourth quarter of the year, and the first nine months of 2009, and we anticipate that the global economic recession will continue for the fourth quarter of 2009 and perhaps beyond. Under the terms and conditions in place at September 30, 2009, interest on our PIK Notes would have been payable in cash beginning December 1, 2009. We began taking a number of steps to enhance our liquidity in 2008 and have continued with further steps in 2009 (including those announced in February, 2009). These initiatives were expected to result in cash flow improvements in the range of \$46 million to \$50 million for 2009. These initiatives have been implemented, and we are beginning to see the results in our cash flow. These amounts included a reduction of \$22 million to \$24 million in capital expenditures. We are on course to exceed the higher end of that range, as our capital expenditures are expected to reach \$20 million or less for the year, compared to the \$45.7 million spent in 2008. Additionally, as further discussed in Note 14, Subsequent Events, on October 28, 2009, we announced that we had entered into a transaction to exchange the PIK Notes for a combination of debt and equity which will have the impact of reducing cash paid for interest. The original requirement for a cash interest payment of \$12.9 million on December 1, 2009 has been canceled. However, if cash generated from operations is insufficient to satisfy our liquidity requirements, we may seek to sell additional equity or arrange additional debt financing. Global financial markets and economic conditions as well as the credit and capital markets have been, and continue to be, volatile. These issues, along with significant write-offs in the financial services sector, the re-pricing of

credit risk and the current weak economic conditions, have made it difficult, and will likely continue to make it difficult, to obtain funding in future periods. If cash generated from operations and cash available from our ABL Facility are not sufficient to meet our needs, we cannot provide assurance that we will be able to obtain additional financing in sufficient amounts and/or on acceptable terms in the near future or when our debt obligations reach maturity. Our ABL Facility expires in December 2010, the Senior Notes expire in June 2011, and the PIK Notes

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originally were scheduled to expire in December 2011. As mentioned above, please see note 14 for a discussion of a debt exchange that occurred subsequent to the end of the third quarter. Based upon our operating plans and current forecast expectations (including expectations that the global economy will not deteriorate further) and in light of our debt exchange that occurred subsequent to the quarter's end, we anticipate that we will generate positive cash flow from operations and, if necessary, have sufficient cash availability from our ABL Facility to meet our ongoing liquidity needs.

Reconciliation of Non-GAAP Financial Measures

We sometimes refer to data derived from condensed 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, we use non-GAAP data internally to assess performance. Although we believe that the non-GAAP financial measures presented enhance investors' understanding of our business and performance, these non-GAAP measures should not be considered an alternative to GAAP.

Table 1

Reconciliation of net income (loss) to EBIT and EBITDA (Dollars in thousands)	Three months ended		Nine months ended	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
Net income (loss)	\$ 3,533	\$ (5,958)	\$ (21,696)	\$ (11,554)
Add: Interest expense	17,451	17,509	52,162	52,280
Add: (Benefit from) provision for income taxes	(432)	2,006	(7,756)	2,365
Earnings before interest and income taxes (EBIT)	20,552	13,557	22,710	43,091
Add: Depreciation and amortization	10,629	10,899	32,875	33,433
Earnings before interest, taxes, depreciation and amortization (EBITDA)	\$31,181	\$24,456	\$ 55,585	\$ 76,524

We define EBIT as net income (loss) before interest expense and income taxes. The most directly comparable U.S. GAAP financial measure is net income.

We believe that EBIT is an important supplemental measure for investors in evaluating operating performance in that it provides insight into company profitability. Libbey's senior management uses this measure internally to measure profitability. EBIT also allows for a measure of comparability to other companies with different capital and legal structures, which accordingly may be subject to different interest rates and effective tax rates.

The non-GAAP measure of EBIT does have certain limitations. It does not include interest expense, which is a necessary and ongoing part of our cost structure resulting from debt incurred to expand operations. Because this is a material and recurring item, any measure that excludes it has a material limitation. EBIT may not be comparable to similarly titled measures reported by other companies.

We define EBITDA as net income (loss) before interest expense, income taxes, depreciation and amortization. The most directly comparable U.S. GAAP financial measure is net income.

We believe that EBITDA is an important supplemental measure for investors in evaluating operating performance in that it provides insight into company profitability and cash flow. Libbey's senior management uses this measure internally to measure profitability and to set performance targets for managers. It also has been used regularly as one of the means of publicly providing guidance on possible future results. EBITDA also allows for a measure of comparability to other companies with different capital and legal structures, which accordingly may be subject to different interest rates and effective tax rates, and to companies that may incur different depreciation and amortization expenses or impairment charges.

The non-GAAP measure of EBITDA does have certain limitations. It does not include interest expense, which is a necessary and ongoing part of our cost structure resulting from debt incurred to expand operations. EBITDA also excludes depreciation and amortization expenses. Because these are material and recurring items, any measure that excludes them has a material limitation. EBITDA may not be comparable to similarly titled measures reported by other companies.

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Reconciliation of net cash provided by (used in) operating activities to free cash flow (Dollars in thousands)	Three months ended		Nine months ended	
	September 30, 2009	2008	September 30, 2009	2008
Net cash provided by (used in) operating activities	\$26,639	\$ 13,309	\$ 65,729	\$ (9,750)
Capital expenditures	(2,737)	(12,390)	(12,287)	(30,002)
Proceeds from asset sales and other	172	71	260	117
Free cash flow	\$24,074	\$ 990	\$ 53,702	\$(39,635)

We define free cash flow as net cash provided by (used in) operating activities less capital expenditures adjusted for proceeds from asset sales and other. The most directly comparable U.S. GAAP financial measure is net cash provided by (used in) operating activities.

We believe that free cash flow is important supplemental information for investors in evaluating cash flow performance in that it provides insight into the cash flow available to fund such things as discretionary debt service, acquisitions and other strategic investment opportunities. It is a measure of performance we use to internally evaluate the overall performance of the business.

Free cash flow is used in conjunction with and in addition to results presented in accordance with U.S. GAAP. Free cash flow is neither intended to represent nor be an alternative to the measure of net cash provided by (used in) operating activities recorded under U.S. GAAP. Free cash flow may not be comparable to similarly titled measures reported by other companies.

Table 3

Reconciliation of working capital (Dollars in thousands)	September 30, 2009	December 31, 2008
Accounts receivable (net)	\$ 91,119	\$ 76,072
Plus: Inventories (net)	153,523	185,242
Less: Accounts payable	52,087	54,428
Working capital	\$192,555	\$206,886

We define working capital as net accounts receivable plus net inventories less accounts payable.

We believe that working capital is important supplemental information for investors in evaluating liquidity in that it provides insight into the availability of net current resources to fund our ongoing operations. Working capital is a measure used by management in internal evaluations of cash availability and operational performance.

Working capital is used in conjunction with and in addition to results presented in accordance with U.S. GAAP.

Working capital is neither intended to represent nor be an alternative to any measure of liquidity and operational performance recorded under U.S. GAAP. Working capital may not be comparable to similarly titled measures reported by other companies.

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 U.S. dollars. The currency market risks include devaluations and other major currency fluctuations relative to the U.S. dollar, euro, RMB or Mexican peso that could reduce the cost competitiveness of our products compared to foreign competition.

Interest Rates

We are exposed to market risks associated with changes in interest rates on our floating debt and have entered into Interest Rate Protection Agreements (Rate Agreements) with respect to \$200.0 million of debt as a means to manage our exposure to fluctuating interest rates. The Rate Agreements effectively convert this portion of our long-term borrowings from variable rate debt to fixed-rate

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debt, thus reducing the impact of interest rate changes on future income. We had \$167.6 million of debt subject to fluctuating interest rates at September 30, 2009. A change of one percentage point in such rates would result in a change in interest expense of approximately \$1.7 million on an annual basis. If the counterparties to these Rate Agreements were to fail to perform, we would no longer be protected from interest rate fluctuations by these Rate Agreements. However, we do not anticipate nonperformance by the counterparties. All interest rate swap counterparties were rated A+ or better as of September 30, 2009, by Standard and Poor's.

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 North American natural gas requirements of our 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 the forecasted natural gas requirements of our manufacturing operations in determining the quantity of natural gas to hedge. We combine the forecasts with historical observations to establish the percentage of forecast eligible to be hedged, typically ranging from 40 percent to 70 percent of our anticipated requirements up to eighteen months in the future. For our natural gas requirements that are not hedged, we are subject to changes in the price of natural gas, which affect our earnings. If the counterparties to these futures contracts were to fail to perform, we would no longer be protected from natural gas fluctuations by the futures contracts. However, we do not anticipate nonperformance by these counterparties. All counterparties were rated BBB+ or better by Standard and Poor's as of September 30, 2009.

Retirement Plans

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

A change of 1 percent in the discount rate would change our total annual expense by approximately \$1.9 million.

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

Item 4. Controls and Procedures

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

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

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

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PART II OTHER INFORMATION

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

Item 1A. Risk Factors

The following factors are the most significant factors that can impact period-to-period comparisons and may affect the future performance of our businesses. New risks may emerge, and management cannot predict those risks or estimate the extent to which they may affect our financial performance.

Our cost-reduction projects may not result in anticipated savings in operating costs.

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

If we have a fair value impairment in a business segment, net earnings and net worth could be materially adversely affected by a write down of goodwill or intangible assets.

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

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

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

We may not be able to achieve the international growth contemplated by our strategic plan.

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

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

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

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

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

Unexpected equipment failures may lead to production curtailments or shutdowns.

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

We rely on increasingly complex information systems for management of our manufacturing, distribution, sales and other functions. If our information systems fail to perform these functions adequately or if we experience an interruption in their operation, our business and results of operations could suffer.

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

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

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

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

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

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

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

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

We received notice from the New York Stock Exchange (NYSE) that our stock was delisted before the start of trading on April 20, 2009. Our shares are now traded on the Over the Counter Bulletin Board (OTC BB). There can be no assurance that we may be able to regain our listing on the NYSE or any other exchange.

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

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

Payment of severance or retirement benefits earlier than anticipated could strain our cash flow.

We may face a risk when we return to the market to refinance our debt as a result of the June, 2009 downgrade of the Company's debt by Moody's Investor Service.

Our facilities may be impacted by the outbreak of certain public health issues, including epidemics, pandemics and other contagious diseases such as the H1N1 influenza virus, commonly referred to as the swine flu. If a severe outbreak were to occur where we have facilities, it could adversely impact our results of operations and financial condition.

Our RMB Working Capital Loan is scheduled to mature in March, 2010. If the China Construction Bank does not agree to extend or refinance the loan, or if the loan is called, our liquidity and financial condition may be adversely impacted.

Our high level of debt, as well as incurrence of additional debt, may limit our operating flexibility, which could adversely affect our results of operations and financial condition and prevent us from fulfilling our obligations.

We have a high degree of financial leverage. As of September 30, 2009, we had \$526.7 million of debt outstanding, net of discounts and warrants. Of that amount:

approximately \$0.0 million consisted of debt under our ABL Facility, which is secured by a first-priority lien on our assets;

approximately \$306.0 million consisted of the Senior Secured Notes, which are secured by a second-priority lien on our collateral;

approximately \$160.9 million consisted of the PIK Notes, which are secured by a third-priority lien on our collateral (see note 14 for a discussion of our October 28, 2009 announcement of a debt exchange with respect to the PIK Notes);

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RMB 250 million (approximately \$36.7 million) consisted of a loan made by China Construction Bank Corporation Langfang Economic Development Area Sub-Branch (CCBC), the entire proceeds of which we used to finance the construction of our Greenfield manufacturing facility in China that began operations in early 2007;

RMB 50 million (approximately \$7.3 million) consisted of a loan, which is fully drawn, made by CCBC to finance the working capital needs of our China facility; and

11 million euro (approximately \$16.1 million) consisted of a loan, which is fully drawn, made by Banco Espirito Santo, S.A. (BES Euro Line) to finance operational improvements associated with our Portuguese operations.

Our ABL Facility provides for borrowings up to \$150.0 million by Libbey Glass and Libbey Europe B.V. (a non-guarantor subsidiary). As a result of borrowing base limitations, the remaining unused availability under the ABL Facility at September 30, 2009 was \$81.3 million.

Since we issued the PIK Notes in 2006, interest has been payable semi-annually through the issuance of additional PIK Notes. Commencing December 1, 2009, interest on the PIK Notes will be payable semi-annually in cash. Under the terms and conditions in place at September 30, 2009, the semi-annual cash interest payment that we were obligated to make on the PIK Notes on December 1, 2009 was approximately \$12.9 million. Please see note 14 for a discussion of our October 28, 2009 announcement of a debt exchange with respect to the PIK Notes.

Our loan agreements, including our agreements governing the ABL Facility, the indenture governing the Senior Secured Notes and the indenture governing the PIK Notes, require us to comply with certain covenants. For example, our ABL Facility requires us to maintain a minimum fixed charge coverage ratio if the remaining unused availability under our ABL Facility is less than \$15.0 million.

Although the respective indentures governing the Senior Secured Notes and the PIK Notes do not contain financial covenants, they do contain other covenants that limit our operational and financial flexibility, such as by limiting the additional indebtedness that we may incur, limiting certain business activities, investments and payments, and limiting our ability to dispose of certain assets.

Our agreements governing the ABL Facility, the Senior Secured Notes and the PIK Notes limit the additional indebtedness that we may incur, but we are permitted, subject to certain limitations, to incur additional debt in the future.

Our high degree of leverage, as well as the incurrence of additional debt, could have important consequences for our business, such as:

- making it more difficult for us to satisfy our financial obligations, including with respect to the Senior Secured Notes and the PIK Notes;

- limiting our ability to make capital investments in order to expand our business;

- limiting our ability to obtain additional debt or equity financing for working capital, capital expenditures, product development, debt service requirements, acquisitions or other purposes;

- limiting our ability to invest operating cash flow in our business and future business opportunities, because we use a substantial portion of these funds to service debt and because our covenants restrict the amount of our investments; and

- limiting our ability to withstand business and economic downturns and/or place us at a competitive disadvantage compared to our competitors that have less debt, because of the high percentage of our operating cash flow that is dedicated to servicing our debt.

Although we have taken a number of steps to enhance our liquidity to date in 2009 (including those announced in February 2009), if cash generated from operations is insufficient to satisfy our liquidity requirements, if we cannot

service our debt or if we fail to meet our covenants, we could have substantial liquidity problems. In those circumstances, we might have to sell assets, delay planned investments, obtain additional equity capital or restructure our debt. Global financial markets and economic conditions have been, and continue to be volatile. The credit and capital markets remain challenging. These issues may make it difficult to obtain funding in future periods. If cash from operations and cash available from our ABL Facility are

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not sufficient to meet our needs, which would have included our obligation to pay the cash interest on the PIK Notes that was payable on December 1, 2009, (please see note 14 for a discussion of our October 28, 2009 announcement of a debt exchange with respect to the PIK Notes), we cannot provide assurance that we will be able to obtain additional financing in sufficient amounts and/or on acceptable terms in the future or when our ABL Facility matures in December 2010.

In addition, our failure to comply with the covenants contained in our loan agreements could result in an event of default that, if not cured or waived, could result in the acceleration of all of our indebtedness.

For further information concerning our borrowings, see Management's Discussion and Analysis; Capital Resources and Liquidity Borrowings and Note 4 to our Consolidated Financial Statements.

Table of Contents**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds
Issuers Purchases of Equity Securities**

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (1)
July 1 to July 31, 2009				1,000,000
August 1 to August 31, 2009				1,000,000
September 1 to September 30, 2009				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 negotiated purchases. There is no expiration date for this plan. In 2003, 1,500,000 shares of our common stock were purchased for \$38.9 million. No additional shares were*

*purchased in
2008, 2007,
2006, 2005 or
2004. Our ABL
Facility and the
indentures
governing the
Senior Secured
Notes and the
PIK Notes
significantly
restrict our
ability to
repurchase
additional
shares.*

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.

Table of Contents**Item 6. Exhibits**

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

EXHIBIT INDEX

Exhibit Number	Description
3.1	Restated Certificate of Incorporation of Libbey Inc. (filed as Exhibit 3.1 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1993 and incorporated herein by reference).
3.2	Amended and Restated By-Laws of Libbey Inc. (filed as Exhibit 3.01 to Registrant's Form 8-K filed February 7, 2005 and incorporated herein by reference).
4.1	Credit Agreement, dated June 16, 2006, among Libbey Glass Inc. and Libbey Europe B.V., Libbey Inc., the other loan parties party thereto, the lenders party thereto, JPMorgan Chase Bank, N.A., J.P. Morgan Europe Limited, LaSalle Bank Midwest National Association, Wells Fargo Foothill, LLC, Fifth Third Bank, and J.P. Morgan Securities Inc., as Sole Bookrunner and Sole Lead Arranger. (filed as Exhibit 4.1 to Registrant's Form 8-K filed June 21, 2006 and incorporated herein by reference. The schedules to such Credit Agreement were filed as Exhibit 4.1 to Registrant's Form 10-Q filed August 7, 2009 and incorporated herein by reference. The Exhibits to such Credit Agreement are filed herein.)
4.2	Indenture, dated June 16, 2006, among Libbey Glass Inc., Libbey Inc., the Subsidiary Guarantors party thereto and The Bank of New York Trust Company, N.A., as trustee. (filed as Exhibit 4.5 to Registrant's Form 8-K filed June 21, 2006 and incorporated herein by reference).
4.3	Form of Floating Rate Senior Secured Note due 2011. (filed as Exhibit 4.4 to Libbey Glass Inc.'s Registration Statement on Form S-4; File No. 333-139358).
4.4	Registration Rights Agreement, dated June 16, 2006, among Libbey Glass Inc., Libbey Inc., the Subsidiary Guarantors party thereto and the Initial Purchasers named therein. (filed as Exhibit 4.4 to Registrant's Form 8-K filed June 21, 2006 and incorporated herein by reference).
4.5	Amended and Restated Indenture, dated October 28, 2009, among Libbey Glass Inc., Libbey Inc., the Subsidiary Guarantors party thereto and Merrill Lynch PCG, Inc. (filed as Exhibit 4.1 to Registrant's Form 8-K filed October 29, 2009 and incorporated herein by reference).
4.6	Form of 16% Senior Subordinated Secured Note due 2021. (filed as Exhibit 4.5 to Registrant's Form 8-K filed October 29, 2009 and incorporated herein by reference).
4.7	Warrant, issued June 16, 2006. (filed as Exhibit 4.7 to Registrant's Form 8-K filed June 21, 2006 and incorporated herein by reference).
4.8	Amended and Restated Registration Rights Agreement, dated October 28, 2009, among Libbey Inc. and Merrill Lynch PCG, Inc. (filed as Exhibit 4.4 to Registrant's Form 8-K filed October 29, 2009 and incorporated herein by reference).
4.9	Intercreditor Agreement, dated June 16, 2006, among Libbey Glass Inc., JPMorgan Chase Bank, N.A., The Bank of New York Trust Company, N.A., Merrill Lynch PCG, Inc. and the Loan Parties party thereto. (filed as Exhibit 4.9 to Registrant's Form 8-K filed June 21, 2006 and incorporated

herein by reference).

- 4.10 Amendment and Waiver, dated November 7, 2008, among Libbey Glass Inc. and Libbey Europe B.V., Libbey Inc., the other loan parties thereto, JPMorgan Chase Bank, N.A., J.P. Morgan Europe Limited, Bank of America, N.A. (f/k/a LaSalle Bank Midwest National Association), Wells Fargo Foothill, LLC, Fifth Third Bank, and J.P. Morgan Securities Inc., as Sole Bookrunner and Sole Lead Arranger (filed as Exhibit 4.10 to Libbey Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2008 and incorporated herein by reference).
- 4.11 Series I Warrant, issued October 28, 2009 (filed as Exhibit 4.3 to Registrant's Form 8-K filed October 29, 2009 and incorporated herein by reference).
- 4.12 Reaffirmation Agreement, dated October 28, 2009 (filed as Exhibit 4.2 to Registrant's Form 8-K filed October 29, 2009 and incorporated herein by reference).
- 4.12 Amendment and Waiver No. 2, dated October 27, 2009, among Libbey Glass Inc. and Libbey Europe B.V., J.P. Morgan Chase Bank, N.A., J.P. Morgan Europe Limited, Wells Fargo Foothill, LLC, Fifth Third Bank, Bank of America, N.A. and GE Business Financial Services, Inc. (filed as Exhibit 10.2 to Registrant's Form 8-K filed October 29, 2009 and incorporated herein by reference).
- 10.1 Pension and Savings Plan Agreement dated as of June 17, 1993 between Owens-Illinois, Inc. and Libbey Inc. (filed as Exhibit 10.4 to Libbey Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 1993 and incorporated herein by reference).
- 10.2 Cross-Indemnity Agreement dated as of June 24, 1993 between Owens-Illinois, Inc. and Libbey Inc. (filed as Exhibit 10.5 to Libbey Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 1993 and incorporated herein by reference).
- 10.3 The Amended and Restated Libbey Inc. Stock Option Plan for Key Employees (filed as Exhibit 10.14 to Libbey Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 1995 and incorporated herein by reference).
- 10.4 Libbey Inc. Guarantee dated as of October 10, 1995 in favor of The Pfaltzgraff Co., The Pfaltzgraff Outlet Co. and Syracuse China Company of Canada Ltd. guaranteeing certain obligations of LG Acquisition Corp. and Libbey Canada Inc. under the Asset Purchase Agreement for the Acquisition of Syracuse China (Exhibit 2.0) in the event certain contingencies occur (filed as Exhibit 10.17 to Libbey Inc.'s Current Report on Form 8-K dated October 10, 1995 and incorporated herein by reference).
- 10.5 Susquehanna Pfaltzgraff Co. Guarantee dated as of October 10, 1995 in favor of LG Acquisition Corp. and Libbey Canada Inc. guaranteeing certain obligations of The Pfaltzgraff Co., The Pfaltzgraff Outlet Co. and Syracuse China Company of Canada, Ltd. under the Asset Purchase Agreement for the Acquisition of Syracuse China (Exhibit 2.0) in the event certain

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Exhibit Number	Description
	contingencies occur (filed as Exhibit 10.18 to Libbey Inc. s Current Report on Form 8-K dated October 10, 1995 and incorporated herein by reference).
10.6	First Amended and Restated Libbey Inc. Executive Savings Plan (filed as Exhibit 10.23 to Libbey Inc. s Annual Report on Form 10-K for the year ended December 31, 1996 and incorporated herein by reference).
10.7	Form of Non-Qualified Stock Option Agreement between Libbey Inc. and certain key employees participating in The 1999 Equity Participation Plan of Libbey Inc. (filed as Exhibit 10.69 to Libbey Inc. s Quarterly Report on Form 10-Q for the quarter ended September 30, 1999 and incorporated herein by reference).
10.8	The 1999 Equity Participation Plan of Libbey Inc. (filed as Exhibit 10.67 to Libbey Inc. s Annual Report on Form 10-K for the year ended December 31, 1999 and incorporated herein by reference).
10.9	Stock Promissory Sale and Purchase Agreement between VAA Vista Alegre Atlantis SGPS, SA and Libbey Europe B.V. dated January 10, 2005 (filed as Exhibit 10.76 to Libbey Inc. s Annual Report on Form 10-K for the year ended December 31, 2004 and incorporated herein by reference).
10.10	RMB Loan Contract between Libbey Glassware (China) Company Limited and China Construction Bank Corporation Langfang Economic Development Area Sub-branch entered into January 23, 2006 (filed as exhibit 10.75 to Libbey Inc. s Annual Report on Form 10-K for the year ended December 31, 2005 and incorporated herein by reference).
10.11	Guarantee Contract executed by Libbey Inc. for the benefit of China Construction Bank Corporation Langfang Economic Development Area Sub-branch (filed as exhibit 10.76 to Libbey Inc. s Annual Report on Form 10-K for the year ended December 31, 2005 and incorporated herein by reference).
10.12	Guaranty, dated May 31, 2006, executed by Libbey Inc. in favor of Fondo Stiva S.A. de C.V. (filed as exhibit 10.2 to Libbey Inc. s Quarterly Report on Form 10-Q for the quarter ended June 30, 2006 and incorporated herein by reference).
10.13	Guaranty Agreement, dated June 16, 2006, executed by Libbey Inc. in favor of Vitro, S.A. de C.V. (filed as exhibit 10.3 to Libbey Inc. s Quarterly Report on Form 10-Q for the quarter ended June 30, 2006 and incorporated herein by reference).
10.14	Transition Services Agreement, dated June 16, 2006, among Crisa Libbey S.A. de C.V., Vitrocrisa Holding, S. de R.L. de C.V., Vitrocrisa S. de R.L. de C.V., Vitrocrisa Comercial, S. de R.L. de C.V., Crisa Industrial, L.L.C. and Vitro S.A. de C.V. (filed as exhibit 10.1 to Libbey Inc. s Current Report on Form 8-K filed June 21, 2006 and incorporated herein by reference).
10.15	2006 Omnibus Incentive Plan of Libbey Inc. (filed as Exhibit 10.1 to Registrant s Quarterly Report on Form 10-Q for the quarter ended March 31, 2006 and incorporated herein by reference).
10.16	

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Libbey Inc. Amended and Restated Deferred Compensation Plan for Outside Directors (incorporated by reference to Exhibit 10.61 to Libbey Glass Inc. s Registration Statement on Form S-4; File No. 333-139358).

- 10.17 Form of Registered Global Floating Rate Senior Secured Note, Series B, due 2011 (filed as exhibit 10.55 to Libbey Inc. s Annual Report on Form 10-K for the year ended December 31, 2006 and incorporated herein by reference).
- 10.18 2009 Director Deferred Compensation Plan (filed as Exhibit 10.51 to Libbey Inc s Quarterly Report on Form 10-Q for the quarter ended September 30, 2008 and incorporated herein by reference).
- 10.19 Executive Deferred Compensation Plan (filed as Exhibit 10.52 to Libbey Inc s Quarterly Report on Form 10-Q for the quarter ended September 30, 2008 and incorporated herein by reference).
- 10.20 Amended and Restated Employment Agreement dated as of December 31, 2008 between Libbey Inc. and John F. Meier (filed as exhibit 10.29 to Libbey Inc. s Annual Report on Form 10-K for the year ended December 31, 2008 and incorporated herein by reference).
- 10.21 Amended and Restated Employment Agreement dated as of December 31, 2008 between Libbey Inc. and Richard I. Reynolds (filed as exhibit 10.30 to Libbey Inc. s Annual Report on Form 10-K for the year ended December 31, 2008 and incorporated herein by reference).
- 10.22 Amended and Restated Employment Agreement dated as of December 31, 2008 between Libbey Inc. and Gregory T. Geswein (filed as exhibit 10.31 to Libbey Inc. s Annual Report on Form 10-K for the year ended December 31, 2008 and incorporated herein by reference).
- 10.23 Form of Amended and Restated Employment Agreement dated as of December 31, 2008 between Libbey Inc. and the respective executive officers identified on Appendix 1 thereto (filed as exhibit 10.32 to Libbey Inc. s Annual Report on Form 10-K for the year ended December 31, 2008 and incorporated herein by reference).
- 10.24 Amended and restated change in control agreement dated as of December 31, 2008 between Libbey Inc. and John F. Meier (filed as exhibit 10.33 to Libbey Inc. s Annual Report on Form 10-K for the year ended December 31, 2008 and incorporated herein by reference).
- 10.25 Form of amended and restated change in control agreement dated as of December 31, 2008 between Libbey Inc. and the respective executive officers identified on Appendix 1 thereto (filed as exhibit 10.34 to Libbey Inc. s Annual Report on Form 10-K for the year ended December 31, 2008 and incorporated herein by reference).
- 10.26 Form of amended and restated change in control agreement dated as of December 31, 2008 between Libbey Inc. and the

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Exhibit Number	Description
	respective individuals identified on Appendix 1 thereto (filed as exhibit 10.35 to Libbey Inc. s Annual Report on Form 10-K for the year ended December 31, 2008 and incorporated herein by reference).
10.27	Form of Amended and Restated Indemnity Agreement dated as of December 31, 2008 between Libbey Inc. and the respective officers identified on Appendix 1 thereto (filed as exhibit 10.36 to Libbey Inc. s Annual Report on Form 10-K for the year ended December 31, 2008 and incorporated herein by reference).
10.28	Form of Amended and Restated Indemnity Agreement dated as of December 31, 2008 between Libbey Inc. and the respective outside directors identified on Appendix 1 thereto (filed as exhibit 10.37 to Libbey Inc. s Annual Report on Form 10-K for the year ended December 31, 2008 and incorporated herein by reference).
10.29	Amended and Restated Libbey Inc. Supplemental Retirement Benefit Plan effective December 31, 2008 (filed as exhibit 10.38 to Libbey Inc. s Annual Report on Form 10-K for the year ended December 31, 2008 and incorporated herein by reference).
10.30	Amendment to the First Amended and Restated Libbey Inc. Executive Savings Plan effective December 31, 2008 (filed as exhibit 10.39 to Libbey Inc. s Annual Report on Form 10-K for the year ended December 31, 2008 and incorporated herein by reference).
10.31	Debt Exchange Agreement, dated October 28, 2009, among Libbey Inc., Libbey Glass Inc. and Merrill Lynch PCG, Inc. (filed as Exhibit 10.1 to Registrant s Form 8-K filed October 29, 2009 and incorporated herein by reference).
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) or Rule 15d-14(a) (filed herein).
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) or Rule 15d-14(a) (filed herein).
32.1	Chief Executive Officer Certification Pursuant To 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 Of The Sarbanes-Oxley Act of 2002 (filed herein).
32.2	Chief Financial Officer Certification Pursuant To 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 Of The Sarbanes-Oxley Act of 2002 (filed herein).

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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, 2009

By /s/ Gregory T. Geswein
Gregory T. Geswein,
Vice President, Chief Financial Officer

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