LIBBEY INC
Form 10-Q/A
May 15, 2006

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549
FORM 10-Q/A
Amendment No. 2

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

For the quarterly period ended March 31, 2006

OR

o 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 X No __

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Large Accelerated Filer __ Accelerated Filer X Non-Accelerated Filer __

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

Yes __ No X

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

Common Stock, $.01 par value 14,084,826 shares at April 28, 2006.

TABLE OF CONTENTS

Item 1. Financial Statements
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
CONDENSED CONSOLIDATED BALANCE SHEETS
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
6. Special Charges
7. Pension
8. Nonpension Postretirement Benefits
PART II OTHER INFORMATION
EXHIBIT INDEX
SIGNATURES
Certification of Chief Executive Officer
Certification of Chief Financial Officer
906 Certification of Chief Executive Officer
906 Certification of Chief Financial Officer

Table of Contents

Explanatory Note

Due to a transmission error, this Amendment No. 2 on Form 10-Q/A (this "Amendment") to the Quarterly Report on Form 10-Q is being filed to include all of Part I, Item 1. Financial Statements, as required by Rule 12b-15 of the Securities Exchange Act of 1934, inadvertently excluded from Amendment No. 1 on Form 10-Q/A (Amendment No. 1), which was filed to correct certain financial information included in Part I, Item 1. Financial Statements in Note 4. Investments In Unconsolidated Affiliates. Amendment No. 1 amends only Note 4 of the Form 10-Q as originally filed on May 10, 2006. Also, attached to this Amendment is an Exhibit Index disclosing the filing of the certifications required to be filed as exhibits to this Amendment, as well as such certifications.

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

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

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

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

Table of Contents

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

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

See accompanying notes

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

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

Table of Contents

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

	March 31, 2006 (unaudited)	December 31, 2005
ASSETS		
Current assets:		
Cash	$ 6,502	$ 3,242
Accounts receivable net	72,244	79,042
Inventories net	121,388	122,572
Deferred taxes	8,744	8,270
Prepaid and other current assets	5,494	10,787
Total current assets	214,372	223,913
Other assets:		
Repair parts inventories	8,457	6,322
Intangible pension asset	17,251	17,251
Software net	4,536	4,561
Deferred taxes		952
Other assets	5,483	4,397
Investments	77,489	76,657
Purchased intangible assets net	10,440	10,778
Goodwill net	51,068	50,825
Total other assets	174,724	171,743
Property, plant and equipment net	215,118	200,128
Total assets	$ 604,214	$ 595,784
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Notes payable	$ 11,167	$ 11,475
Accounts payable	40,070	47,020
Salaries and wages	14,344	16,043
Accrued liabilities	40,746	36,968
Special charges reserve	1,138	2,002
Accrued Income taxes		7,131
Long-term debt due within one year	825	825
Total current liabilities	108,290	121,464
Long-term debt	272,343	249,379
Pension liability	56,097	54,760
Nonpension postretirement benefits	45,330	45,081
Other long-term liabilities	5,204	5,461
Total liabilities	487,264	476,145

Minority interest	130	34
Total liabilities including minority interest	487,394	476,179
Shareholders equity:		
Common stock, par value $.01 per share, 50,000,000 shares authorized, 18,689,710 shares issued (18,689,710 shares issued in 2005)	187	187
Capital in excess of par value	301,165	301,025
Treasury stock, at cost, 4,624,497 shares (4,681,721 shares issued in 2005)	(131,960)	(132,520)
Retained deficit	(17,805)	(17,966)
Accumulated other comprehensive loss	(34,767)	(31,121)
Total shareholders equity	116,820	119,605
Total liabilities and shareholders equity	$ 604,214	$ 595,784

See accompanying notes

Table of Contents

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

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

Supplemental disclosure of cash flows information:

Cash paid during the quarter for interest	$ 1,981	$ 1,817
Cash paid (net of refunds received) during the quarter for income taxes	$ 6,269	$ 5,106

See accompanying notes

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

1. Description of the Business

Libbey is the leading supplier of tableware products in the U.S. and Canada, in addition to supplying to other key export markets. We operate in one business segment: tableware products. Established in 1818, we have the largest manufacturing, distribution and service network among North American glass tableware manufacturers. We design and market an extensive line of high-quality glass tableware, ceramic dinnerware, metal flatware, holloware and serveware, and plastic items to a broad group of customers in the foodservice, retail and industrial markets. We also import and distribute various products and have a 49% interest in Vitrocrisa Holding, S. de R.L. de C.V. and related companies (Crisa), one of the largest glass tableware manufacturers in Latin America, based in Monterrey, Mexico. We own and operate two glass tableware manufacturing plants in the United States; glass tableware manufacturing plants in the Netherlands and in Portugal; and during the third quarter of 2005, we began construction of our new green-meadow production facility in China that is expected to begin production in 2007. We also own and operate a ceramic dinnerware plant in New York and a plastics plant in Wisconsin. In addition, we import products from overseas in order to complement our line of manufactured items. The combination of manufacturing and procurement, and our investment in Crisa allows us to compete in the tableware market by offering an extensive product line at competitive prices.

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

2. Significant Accounting Policies

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

Basis of Presentation

The Condensed Consolidated Financial Statements include Libbey Inc. and its majority owned subsidiaries (Libbey or the Company). Our fiscal year end is December 31st. We record our 49% interest in Crisa using the equity method. We own 95% of Crisal-Cristalaria Automatica S.A. (Crisal). Our 95% controlling interest requires that Crisal s operations be included in the Condensed Consolidated Financial Statements. The 5% equity interest of Crisal that is not owned by us is shown as minority interest in the Condensed Consolidated Financial Statements. All material intercompany accounts and transactions have been eliminated. The preparation of financial statements and related disclosures in conformity with United States generally accepted accounting principles (U.S. GAAP) requires management to make estimates and assumptions that affect the amounts reported in the Condensed Consolidated Financial Statements and accompanying notes. Actual results could differ materially from management s estimates.

Condensed Consolidated Statements of Operations

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

New Accounting Standards

In December 2004, the FASB issued SFAS No. 123 (revised 2004), Share-Based Payment (SFAS No. 123-R). This is an amendment to SFAS No. 123, Accounting for Stock-Based Compensation. This new standard replaces SFAS No. 123, Accounting for Stock-Based Compensation (SFAS No. 123) and supersedes APB No. 25 and requires share-based compensation transactions to be accounted for using a fair-value-based method and the resulting cost recognized in our financial statements. This new standard is effective for interim and annual periods beginning January 1, 2006. On January 1, 2006, Libbey adopted Financial Accounting Standards Board (FASB) SFAS No. 123-R. Share based compensation cost is measured based on the fair value of the equity or liability instruments issued. SFAS No. 123-R applies to all of Libbey s outstanding unvested share-based payment awards as of January 1, 2006 and all prospective awards using the modified prospective transition method without restatement of prior periods. The estimated impact of applying the provisions of SFAS No. 123-R is an after-tax charge of $0.4 million for 2006. See Note 10.

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

Table of Contents

3. Balance Sheet Details
The following table provides detail of selected balance sheet items:

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

Other long-term liabilities:		
Deferred liability	846	877
Guarantee of Crisa debt	421	421
Other	3,937	4,163
Total other long-term liabilities	$ 5,204	$ 5,461

8

Table of Contents

4. Investments in Unconsolidated Affiliates

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

Condensed unaudited balance sheet information for Crisa is as follows:

	March 31, 2006	December 31, 2005
Current assets	$ 89,487	$ 80,102
Non-current assets	94,485	99,940
Total assets	183,972	180,042
Current liabilities	97,864	72,550
Other liabilities	73,427	94,865
Total liabilities	171,291	167,415
Net assets	$ 12,681	$ 12,627

Condensed unaudited statements of operations for Crisa are as follows:

Three months ended March 31,	2006	2005
Total revenues	$47,566	$45,471
Cost of sales	38,180	36,700
Gross profit	9,386	8,771
Selling, general and administrative expenses	5,721	5,327
Income (loss) from operations	3,665	3,444
Remeasurement gain (loss)	878	88
Other expense		(530)
Earnings (loss) before interest and taxes	4,543	3,002
Interest expense	2,367	1,869
Earnings (loss) before income taxes	2,176	1,133
Income taxes	479	286
Net income	$ 1,697	$ 847

Table of Contents

5. Borrowings

Borrowings consist of the following:

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

Revolving Credit Facility

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

Libbey Europe B.V. may have euro-denominated swing line or revolving borrowings under the Revolving Credit Agreement in an aggregate amount not to exceed the Offshore Currency Equivalent, as defined in the Revolving

Credit Agreement, of $105 million. Offshore Currency Swing Line borrowings are currently limited to $15 million of the $25 million total Swing Line borrowings permitted under the Agreement. Interest is calculated at the Offshore Currency Swing Line rate plus the Applicable Rate for Swing Line Loans in euros. Revolving Offshore Currency Borrowings bear interest at the Offshore Currency Rate plus the Applicable Rate for Offshore Currency Rate Loans, as defined in the Agreement. The Applicable Rates for Swing Line Loans in euros and Offshore Currency Rate Loans vary depending on our performance against certain financial ratios. The Applicable Rates for Swing Line Loans in euros and Offshore Currency Rate Loans were 2.25% and 1.75%, respectively, at March 31, 2006.

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

We pay a Facility Fee, as defined in the Agreement, on the total credit provided under the Facility. The Facility Fee varies depending on our performance against certain financial ratios. The Facility Fee was 0.50% at March 31, 2006. No compensating balances are required by the Agreement. The Agreement does require the maintenance of certain financial ratios, restricts the incurrence of indebtedness and other contingent financial obligations, and restricts certain types of business activities and investments.

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

Senior Notes

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

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

Promissory Note

In September 2001, we issued a $2.7 million promissory note in connection with the purchase of our Laredo, Texas warehouse facility. At March 31, 2006 and December 31, 2005 we had $2,096 and $2,131, respectively outstanding on the promissory note.

Notes Payable

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

Table of Contents

RMB Loan Contract

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

Obligations Under Capital Leases

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

The future minimum lease payments required under the capital leases as of March 31, 2006, are as follows:

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

Other Debt

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

Interest Rate Protection Agreements

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

Table of Contents

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

6. Special Charges

Capacity Realignment

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

As a result, we recorded the following special charges:

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

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

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

Balance sheet classification is as follows: $567 is included in the line item special charges reserve on the Condensed Consolidated Balance Sheets.

Salary Workforce Reduction Program

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

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

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

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

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

7. Pension

We have pension plans covering the majority of our employees. Benefits generally are based on compensation and length of service for salaried employees and job grade and length of service only for hourly employees. Our policy is to fund pension plans such that sufficient assets will be available to meet future benefit requirements. In addition, we have a supplemental employee retirement plan (SERP) covering certain employees. The U.S. pension plans, including the SERP, which is an unfunded liability, cover the hourly and salaried U.S.-based employees of Libbey. The non-U.S. pension plans cover the employees of our wholly owned subsidiaries, Royal Leerdam and Leerdam Crystal, both located in the Netherlands.

Effect on Operations

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

	U.S. Plans		**Non-U.S. Plans**		**Total**	
Three months ended March 31,	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**
Service cost	$ 1,633	$ 1,673	$ 168	$ 236	$ 1,801	$ 1,909
Interest cost	3,519	3,621	370	405	3,889	4,026
Expected return on plan assets	(3,881)	(4,333)	(565)	(545)	(4,446)	(4,878)
Amortization of unrecognized:						
Prior service cost	521	565	(86)	(99)	435	466
Gain	809	518	10		819	518
Pension expense (credit)	$ 2,601	$ 2,044	$(103)	$ (3)	$ 2,498	$ 2,041

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

Table of Contents

8. Nonpension Postretirement Benefits

We provide certain retiree health care and life insurance benefits covering a majority of our salaried and non-union hourly (hired before January 1, 2004) and union hourly employees. Employees are generally eligible for benefits upon retirement and completion of a specified number of years of creditable service. Benefits for most hourly retirees are determined by collective bargaining. The U.S. nonpension postretirement plans cover the hourly and salaried U.S.-based employees of Libbey. The non-U.S. nonpension postretirement plans cover the retirees and active employees of Libbey who are located in Canada. Under a cross-indemnity agreement, Owens-Illinois, Inc. assumed liability for the nonpension postretirement benefits of Libbey retirees who had retired as of June 24, 1993.

Effect on Operations

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

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

15

Table of Contents

9. Employee Stock Benefit Plans

We have two stock-based employee compensation plans. We also have an Employee Stock Purchase Plan (ESPP) under which eligible employees may purchase a limited number of shares of Libbey s common stock at a discount.

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

Employee Stock Purchase Plan (ESPP)

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

Table of Contents

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

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

Employee Stock Option and Restricted Stock Plan Program Description

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

Pro forma Information

Compensation expense for stock options is recorded based on the estimated fair value of the stock options using an option-pricing model. Compensation expense continues to be recorded for restricted stock grants over their vesting periods based on fair value, which is equal to the market price of our common stock on the date of grant. The following information summarizes the effects of implementing this standard on our net income (loss) and earning (loss) per share for stock option expense.

Table of Contents

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

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

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

General Stock Option Information

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

Table of Contents

The Black-Scholes option pricing model was developed for use in estimating the value of traded options that have no vesting restrictions and are fully transferable. Under the Black-Scholes option pricing model, the weighted-average grant-date fair value of options granted during the three months ended March 31, 2006 is $3.31. The fair value of each option is estimated on the date of grant with the following weighted-average assumptions used for grants in the three months ended March 31, 2006 and 2005, respectively:

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

The risk-free rate is based on the U.S. Treasury yield curve at the time of grant and has a term equal to the expected life. The rate for the period within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the grant date.

The expected term represents the period of time the options are expected to be outstanding and is based on historical trends. Additionally, we use historical data to estimate option exercises and employee forfeitures. We review the actual and estimated forfeitures on a quarterly basis and record an adjustment, if necessary. Employees expected exercises and post-vesting employment termination behavior was also incorporated into the fair value of an option. We project the expected life of our stock options based upon historical and other economic data trended into future years. The Company uses SAB 107 Simplified Method to estimate the expected term of the option, representing the period of time that options granted are expected to be outstanding.

The expected volatility was developed considering our historical experience. The range of expected volatilities used is 33.34%-38.56% and the average expected volatility 34.55%. We use projected data for expected volatility of our stock options based on the average of daily, weekly and monthly historical volatility of our stock price, over the expected life of the option and other economic data trended into future years.

The dividend yield is calculated as the ratio based on our most recent historical dividend payments per share of common stock at the grant date to the stock price on the date of grant.

No significant modifications occurred during the first quarter of 2006.

The policy for issuing shares upon exercise is for the shares to be issued from Treasury in order to fulfill exercises. We currently have a sufficient number of treasury shares on hand to fund options and ESPP in the following period.

Table of Contents

Information with respect to the stock options at March 31, 2006 is as follows:

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

Intrinsic value for share-based instruments is defined as the difference between the current market value and the exercise price. SFAS No. 123-R requires the benefits of tax deductions in excess of the compensation cost recognized for those stock options (excess tax benefits) to be classified as financing cash flows. Excess tax benefits are included as a financing cash inflow in the March 31, 2006 Condensed Consolidated Statement of Cash Flow .

For the quarter ended March 31, 2006:		
Intrinsic value of options exercised	$	
Cash received for options exercised		
Excess tax benefits realized from tax deductions from options exercised	$	

The aggregate intrinsic value in the preceding table represents the total pretax intrinsic value, based on our closing stock price of $7.08 as of March 31, 2006, which would have been received by the option holders had all option holders exercised their options as of that date. There are no in-the-money options exercisable as of March 31, 2006.
As of March 31, 2006, $.4 million of total unrecognized compensation expense related to nonvested stock options are expected to be recognized within the next four years on a weighted-average basis. The total fair value of shares vested during the three months ended March 31, 2006 is $0.
The following table summarizes our nonvested stock option activity for the three months ended March 31, 2006:

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

Table of Contents

10. Derivatives

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

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

All of our derivatives qualify and are designated as cash flow hedges at March 31, 2006. Hedge accounting is applied only when the derivative is deemed to be highly effective at offsetting changes in anticipated cash flows of the hedged item or transaction. The ineffective portion of the change in the fair value of a derivative designated as a cash flow hedge is recognized in current earnings. Ineffectiveness recognized in earnings during the first quarter of 2006 and 2005 was not material.

11. Comprehensive Income

Components of comprehensive income are as follows:

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

Accumulated other comprehensive loss (net of tax) includes:

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

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

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

21

Table of Contents

12. Guarantees

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

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

In addition, Libbey Inc. guarantees the payment by Crisa of its obligation to purchase electricity. The guarantee is based on the provisions of a Power Purchase Agreement to which Crisa is a party. The guarantee is limited to 49% of any such obligation of Crisa and limited to an aggregate amount of $5.0 million. The guarantee was entered into in October 2000 and continues for 15 years from the initial date of electricity generation, which commenced on April 12, 2003.

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

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

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

Table of Contents

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

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

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

13. Subsequent Events

Proposed Acquisition of Remaining Equity Interest in Crisa

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

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

Table of Contents

PART II OTHER INFORMATION

Item 6. Exhibits

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

Table of Contents

EXHIBIT INDEX

Exhibit Number	Description
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).

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

LIBBEY INC.

Date May 15, 2006

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