LIBBEY INC
Form 10-Q
May 12, 2008

Table of Contents

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

**(Mark One)**

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) of the Securities Exchange Act of 1934**

**For the quarterly period ended March 31, 2008**

**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 þ No o

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 o Accelerated filer þ Non-accelerated filer o Smaller reporting company o

(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 o No þ

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 14,606,199 shares at April 30, 2008.

**TABLE OF CONTENTS**

Table of Contents

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 period ended March 31, 2008, are not necessarily indicative of the results that may be expected for the year ended December 31, 2008.

The balance sheet at December 31, 2007, 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, 2007.

Table of Contents

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

| | Three months ended March 31, | |
|---|---|---|
| | **2008** | **2007** |
| Net sales | $ 187,276 | $ 179,496 |
| Freight billed to customers | 668 | 475 |
| Total revenues | 187,944 | 179,971 |
| Cost of sales | 157,607 | 147,556 |
| Gross profit | 30,337 | 32,415 |
| Selling, general and administrative expenses | 20,859 | 22,034 |
| Income from operations | 9,478 | 10,381 |
| Other income | 753 | 1,845 |
| Earnings before interest and income taxes | 10,231 | 12,226 |
| Interest expense | 17,151 | 15,564 |
| Loss before income taxes | (6,920) | (3,338) |
| Benefit for income taxes | (3,443) | (1,584) |
| Net loss | $ (3,477) | $ (1,754) |
| Net loss per share: | | |
| Basic | $ (0.24) | $ (0.12) |
| Diluted | $ (0.24) | $ (0.12) |
| Dividends per share | $ 0.025 | $ 0.025 |

See accompanying notes

4

**Table of Contents**

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

| | March 31, 2008 (unaudited) | December 31, 2007 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and equivalents | $ 7,602 | $ 36,539 |
| Accounts receivable net | 95,096 | 93,333 |
| Inventories net | 208,180 | 194,079 |
| Prepaid and other current assets | 26,804 | 20,072 |
| Total current assets | 337,682 | 344,023 |
| Other assets: | | |
| Deferred income taxes | 656 | 855 |
| Purchased intangible assets net | 31,012 | 30,731 |
| Goodwill net | 178,072 | 177,360 |
| Other assets | 15,133 | 16,366 |
| Total other assets | 224,873 | 225,312 |
| Property, plant and equipment net | 335,555 | 329,777 |
| Total assets | $ 898,110 | $ 899,112 |
| LIABILITIES AND SHAREHOLDERS EQUITY | | |
| Current liabilities: | | |
| Notes payable | $ 1,944 | $ 622 |
| Accounts payable | 66,080 | 73,593 |
| Salaries and wages | 22,858 | 28,659 |
| Accrued liabilities | 57,150 | 41,453 |
| Pension liability (current portion) | 1,883 | 1,883 |
| Nonpension postretirement benefits (current portion) | 3,528 | 3,528 |
| Derivative liability | 5,662 | 6,737 |
| Payable to Vitro | | 19,575 |
| Deferred income taxes | 4,462 | 4,462 |
| Long-term debt due within one year | 913 | 913 |
| Total current liabilities | 164,480 | 181,425 |
| Long-term debt | 508,203 | 495,099 |
| Pension liability | 72,181 | 71,709 |
| Nonpension postretirement benefits | 45,965 | 45,667 |
| Other long-term liabilities | 10,423 | 12,097 |
| Total liabilities | 801,252 | 805,997 |
| Shareholders equity: | | |
| | 187 | 187 |

| | | |
|---|---|---|
| Common stock, par value $.01 per share, 50,000,000 shares authorized, 18,697,630 shares issued at March 31, 2008 and at December 31, 2007 | | |
| Capital in excess of par value (includes warrants of $1,034, based on 485,309 shares at March 31, 2008 and at December 31, 2007) | 306,904 | 306,874 |
| Treasury stock, at cost, 4,091,431 shares (4,133,074 shares in 2007) | (109,681) | (110,780) |
| Retained deficit | (64,997) | (60,689) |
| Accumulated other comprehensive loss | (35,555) | (42,477) |
| Total shareholders equity | 96,858 | 93,115 |
| Total liabilities and shareholders equity | $ 898,110 | $ 899,112 |

See accompanying notes

Table of Contents

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

| | Three months ended March 31, 2008 | Three months ended March 31, 2007 |
|---|---|---|
| Net loss | $ (3,477) | $ (1,754) |
| Adjustments to reconcile net loss to net cash (used in) provided by operating activities: | | |
| Depreciation and amortization | 11,296 | 9,216 |
| Gain on asset sales | (7) | (1,569) |
| Change in accounts receivable | (230) | 3,588 |
| Change in inventories | (11,020) | (9,460) |
| Change in accounts payable | (9,898) | (4,925) |
| Pension & nonpension postretirement benefits | 278 | 2,587 |
| Payable to Vitro | (19,575) | |
| Other operating activities | 4,494 | 2,280 |
| Net cash used in operating activities | (28,139) | (37) |
| Investing activities: | | |
| Additions to property, plant and equipment | (9,352) | (9,793) |
| Proceeds from asset sales and other | 41 | 2,069 |
| Net cash used in investing activities | (9,311) | (7,724) |
| Financing activities: | | |
| Net ABL credit facility activity | 9,068 | (25,408) |
| Other net borrowings | (473) | 20,093 |
| Dividends | (364) | (359) |
| Net cash provided by (used in) financing activities | 8,231 | (5,674) |
| Effect of exchange rate fluctuations on cash | 282 | 66 |
| Decrease in cash | (28,937) | (13,369) |
| Cash and equivalents at beginning of period | 36,539 | 41,766 |
| Cash and equivalents at end of period | $ 7,602 | $ 28,397 |
| Supplemental disclosure of cash flows information: | | |
| Cash paid during the quarter for interest | $ 1,041 | $ 885 |
| Cash paid (net of refunds received) during the quarter for income taxes | $ (19) | $ 1,534 |

See accompanying notes

6

Table of Contents

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 to 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 North American glass tableware manufacturers. We design and market an extensive line of high-quality glass tableware, ceramic dinnerware, metal flatware, hollowware and serveware, and plastic items to a broad group of customers in the foodservice, retail, business-to-business and industrial markets. We 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 ceramic dinnerware plant in New York and a plastics plant in Wisconsin. In addition, we import products from overseas in order to complement our line of manufactured items. The combination of manufacturing and procurement allows us to compete in the 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 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, 2007 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, royalty expense 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. Translation adjustments are recorded in other income, where the U.S. dollar is the functional currency.

***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. FAS No. 109,

Table of Contents

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, we have recorded a full valuation allowance against our deferred income tax assets. In addition, valuation allowances have been recorded in the Netherlands and Mexico.

***Stock-Based Compensation Expense***

We account for stock-based compensation in accordance with SFAS No. 123-R, Accounting for Stock-Based Compensation ( SFAS No. 123-R ). 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 ended March 31, 2008, and the three months ended March 31, 2007, was $1.0 million and $0.7 million, respectively.

***New Accounting Standards***

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. However, for some companies, the application of this statement will change current practice. In February 2008, the FASB issued Staff Position 157-2, Effective Date of FASB Statement No. 157 , which delays the effective date of SFAS No. 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, until January 1, 2009. We adopted SFAS 157 as of January 1, 2008, with the exception of the application of the statement to non-recurring, nonfinancial assets and liabilities. The adoption of SFAS 157 had no impact on our consolidated results of operations and financial condition. See Note 12, Fair Value, for additional information.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of SFAS No. 115 ( SFAS 159 ), which is effective for fiscal years beginning after November 15, 2007. This statement permits an entity to choose to measure many financial instruments and certain other items at fair value at specified election dates. Subsequent unrealized gains and losses on items for which the fair value option has been elected will be reported in earnings. We adopted SFAS 159 as of January 1, 2008. The adoption of SFAS 159 had no impact on our consolidated results of operations and financial condition.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations ( SFAS 141R ), which changes how business combinations are accounted for and will impact financial statements both on the acquisition date and in subsequent periods. SFAS 141R is effective January 1, 2009 for Libbey and will be applied prospectively. The impact of adopting SFAS 141R will depend on the nature and terms of future acquisitions.

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 recharacterizes minority interests as noncontrolling interests and requires noncontrolling interests to be classified as a component of shareholders equity. SFAS 160 is effective January 1, 2009 for Libbey, and requires retroactive adoption of the presentation and disclosure requirements for existing minority interests. We do not believe adoption of SFAS 160 will have a material impact on our consolidated financial statements.

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 is effective for us beginning January 1, 2009. We are currently assessing the potential impact that adoption of SFAS 161 may have on our financial statements.

Table of Contents

*Reclassifications*

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

**3. Balance Sheet Details**

The following table provides detail of selected balance sheet items:

| | March 31, 2008 | December 31, 2007 |
|---|---|---|
| **Accounts receivable:** | | |
| Trade receivables | $ 92,433 | $ 91,435 |
| Other receivables | 2,663 | 1,898 |
| Total accounts receivable, less allowances of $11,767 and $11,711 | $ 95,096 | $ 93,333 |
| **Inventories:** | | |
| Finished goods | $ 184,872 | $ 170,386 |
| Work in process | 4,249 | 4,052 |
| Raw materials | 5,685 | 5,668 |
| Repair parts | 10,471 | 11,137 |
| Operating supplies | 2,903 | 2,836 |
| Total inventories, less allowances of $6,767 and $6,435 | $ 208,180 | $ 194,079 |
| **Prepaid and other current assets:** | | |
| Prepaid expenses | $ 17,318 | $ 13,551 |
| Prepaid income taxes | 9,486 | 6,521 |
| Total prepaid and other current assets | $ 26,804 | $ 20,072 |
| **Other assets:** | | |
| Deposits | $ 428 | $ 596 |
| Finance fees net of amortization | 10,383 | 11,194 |
| Pension asset | 3,998 | 3,253 |
| Other | 324 | 1,323 |
| Total other assets | $ 15,133 | $ 16,366 |
| **Accrued liabilities:** | | |
| Accrued incentives | $ 15,165 | $ 14,236 |
| Workers compensation | 9,344 | 9,485 |
| Medical liabilities | 2,312 | 2,450 |
| Interest | 19,501 | 5,218 |
| Commissions payable | 1,450 | 1,381 |
| Special charges | | 38 |
| Accrued liabilities | 9,378 | 8,645 |
| Total accrued liabilities | $ 57,150 | $ 41,453 |
| **Other long-term liabilities:** | | |

| | | |
|---|---|---|
| Deferred liability | $ 1,267 | $ 1,254 |
| Other | 9,156 | 10,843 |
| Total other long-term liabilities | $ 10,423 | $ 12,097 |

**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 new $150.0 million Asset Based Loan facility (ABL Facility), expiring December 16, 2010.

Table of Contents

Borrowings consist of the following:

| | Interest Rate | Maturity Date | March 31, 2008 | December 31, 2007 |
|---|---|---|---|---|
| Borrowings under ABL facility | floating | December 16, 2010 | $ 17,380 | $ 7,366 |
| Senior notes | floating (1) | June 1, 2011 | 306,000 | 306,000 |
| PIK notes | 16.00% | December 1, 2011 | 127,697 | 127,697 |
| Promissory note | 6.00% | April 2008 to September 2016 | 1,790 | 1,830 |
| Notes payable | floating | April 2008 | 1,944 | 622 |
| RMB loan contract | floating | July 2012 to January 2014 | 35,700 | 34,275 |
| RMB working capital loan | floating | March 2010 | 7,140 | 6,855 |
| Obligations under capital leases | floating | April 2008 to May 2009 | 909 | 1,018 |
| BES Euro line | floating | January 2010 to January 2014 | 17,380 | 15,962 |
| Other debt | floating | September 2009 | 1,094 | 1,432 |
| Total borrowings | | | 517,034 | 503,057 |
| Less unamortized discounts and warrants | | | 5,974 | 6,423 |
| Total borrowings net | | | 511,060 | 496,634 |
| Less current portion of borrowings | | | 2,857 | 1,535 |
| Total long-term portion of borrowings net | | | $508,203 | $495,099 |

*(1) See Interest Rate Protection Agreements below.*

***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. Swing line U.S. dollar borrowings bear interest calculated at the prime rate plus the Applicable Rate for ABR (Alternate Base Rate) Loans, and euro-denominated swing line borrowings (Eurocurrency Loans) bear interest calculated at the Netherlands swing line rate, as defined in the ABL Facility. The Applicable Rates for ABR Loans and Eurocurrency Loans vary depending on our aggregate remaining availability. The Applicable Rates for ABR Loans and Eurocurrency Loans were 0 percent and 1.75 percent, respectively, at March 31, 2008. There were no Libbey Glass borrowings under the facility at March 31, 2008, while Libbey Europe had outstanding borrowings of $17.4 million at March 31, 2008, at an interest rate of 6.13 percent. Interest is payable 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. Additionally, borrowings by Libbey Europe under the ABL Facility are secured by a first priority security interest in (i) substantially all of the assets of Libbey Europe, the parent of Libbey Europe and certain of its subsidiaries, (ii) 100 percent of the stock of Libbey Europe and certain subsidiaries of Libbey Europe, and (iii) substantially all proceeds and products of the property and assets described in clauses (i) and (ii) of this sentence.

We pay a Commitment Fee, as defined by the ABL Facility, on the total credit provided under the Facility. The Commitment Fee varies depending on our aggregate availability. The Commitment Fee was 0.25 percent at March 31, 2008. No compensating balances are required by the Agreement. The Agreement does not require compliance with restrictive financial covenants, unless aggregate unused availability falls below $25.0 million.

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 $8.0 million and mark-to-market reserves for natural gas and interest rate swaps of $9.1 million and a rent reserve of $1.2 million. The ABL Facility also provides for the issuance of $30.0 million of letters of credit, which are applied against the $150.0 million limit. At March 31, 2008, we had $8.4 million in letters of credit outstanding under the ABL Facility. Remaining unused availability on the ABL Facility was $82.3 million at March 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 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 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 11.91 percent at March 31, 2008.

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 March 31, 2008, excluding applicable fees, is 5.24 percent per year and the total interest rate, including applicable fees, is 12.24 percent per year. The average maturity of these Rate Agreements is 1.7 years at March 31, 2008. Total remaining Senior Notes not covered by the Rate Agreements have fluctuating interest rates with a weighted average rate of 11.91 percent per year at March 31, 2008. 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 credit ratings were rated A+ or better as of March 31, 2008, by Standard and Poors. The fair market value for the Rate Agreements at March 31, 2008, was a $9.5 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 expire as originally contracted.

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 10). 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 new 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 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 is payable by issuance of additional PIK Notes. At March 31, 2008, additional PIK Notes for interest, that have been issued, bring the total principal amount of PIK notes to $127.7 million.

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 10). The PIK Notes and related guarantees are senior subordinated obligations of Libbey Glass and the guarantors of the PIK Notes and are entitled to the benefit of a third-priority lien, subject to permitted liens, on the collateral that secures the Senior Notes.

***Promissory Note***

In September 2001, we issued a $2.7 million promissory note in connection with the purchase of our Laredo, Texas warehouse facility. At March 31, 2008, we had $1.8 million outstanding on the promissory note. Interest with respect to the promissory note is paid monthly.

***Notes Payable***

We have an overdraft line of credit for a maximum of 1.8 million. The $1.9 million outstanding at March 31, 2008, was the U.S. dollar equivalent under the euro-based overdraft line and the interest rate was 5.31 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 equivalent of approximately $35.7 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 March 31, 2008, the annual interest rate was 6.56 percent. As of March 31, 2008, the outstanding balance was RMB 250.0 million (approximately $35.7 million). Interest is payable quarterly. Payments of principal in the amount of RMB 30.0 million (approximately $4.3 million) and RMB 40.0 million (approximately $5.7 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 $8.6 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.

***RMB Loan Working Capital Loan***

In March 2007, Libbey China entered into a 50.0 million RMB 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 6.30 percent, and is secured by a Libbey Inc. guarantee. At March 31, 2008, the U.S. dollar equivalent on the line was $7.1 million.

***Obligations Under Capital Leases***

We lease certain machinery and equipment under agreements that are classified as capital leases. These leases were assumed in the Crisal acquisition. The cost of the equipment under capital leases is included in the Condensed Consolidated Balance Sheets 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, 2008 are $767 for year one and $142 for year two.

Table of Contents

***BES Euro Line***

In January 2007, Crisal entered into a seven year, 11.0 million line of credit (approximately $17.4 million) with BANCO ESPÍRITO SANTO, S.A.(BES). The $17.4 million outstanding at March 31, 2008, was the U.S. dollar equivalent under the line at an interest rate of 5.63 percent. Payment of principal in the amount of 1.1 (approximately $1.7 million) is due in January 2010, payment of 1.6 (approximately $2.5 million) is due in January 2011, payment of 2.2 (approximately $3.5 million) is due in January 2012, payment of 2.8 (approximately $4.4 million) is due in January 2013 and payment of 3.3 (approximately $5.3 million) is due in January 2014. Interest with respect to the line is paid every six months.

***Other Debt***

The other debt of $1.1 million primarily consists of government-subsidized loans for equipment purchases at Crisal.

**5. 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. Further, the Company s current and future provision for income taxes is significantly impacted by the recognition of valuation allowances in certain countries, particularly the United States. The Company intends to maintain these allowances until it is more likely than not that the deferred tax assets will be realized.

**6. Pension and Nonpension Postretirement Benefits**

We have pension plans covering the majority of our employees. Benefits generally are based on compensation and length of service for salaried employees and job grade and length of service for hourly employees. 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, hired before January 1, 2006. 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:

| | U.S. Plans | | Non-U.S. Plans | | Total | |
|---|---|---|---|---|---|---|
| **Three months ended March 31,** | **2008** | **2007** | **2008** | **2007** | **2008** | **2007** |
| Service cost | $ 1,473 | $ 1,525 | $ 442 | $ 479 | $ 1,915 | $ 2,004 |
| Interest cost | 3,930 | 3,695 | 1,226 | 956 | 5,156 | 4,651 |
| Expected return on plan assets | (4,375) | (4,030) | (830) | (687) | (5,205) | (4,717) |
| Amortization of unrecognized: | | | | | | |
| Prior service cost (gain) | 585 | 522 | (18) | (12) | 567 | 510 |
| Loss | 354 | 555 | 91 | 74 | 445 | 629 |
| Pension expense | $ 1,967 | $ 2,267 | $ 911 | $ 810 | $ 2,878 | $ 3,077 |

We provide certain retiree health care and life insurance benefits covering our U.S. and Canadian salaried and non-union hourly hired before January 1, 2004 and a majority of our U.S. 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. The postretirement benefit plans are not funded.

Table of Contents

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,** | **2008** | **2007** | **2008** | **2007** | **2008** | **2007** |
| Service cost | $ 296 | $ 208 | $ | $ | $ 296 | $ 208 |
| Interest cost | 713 | 564 | 28 | 23 | 741 | 587 |
| Amortization of unrecognized: | | | | | | |
| Prior service gain | (136) | (220) | | | (136) | (220) |
| Loss (gain) | 48 | 18 | (15) | (13) | 33 | 5 |
| Nonpension postretirement benefit expense | $ 921 | $ 570 | $ 13 | $ 10 | $ 934 | $ 580 |

We expect to utilize $28.6 million to fund our pension plans and nonpension postretirement benefits in 2008, of which $3.8 million was incurred in the first quarter.

**7. Net Income per Share of Common Stock**

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

| **Three months ended March 31,** | **2008** | **2007** |
|---|---|---|
| Numerator for earnings per share net loss that is available to common shareholders | $ (3,477) | $ (1,754) |
| Denominator for basic earnings per share weighted-average shares outstanding | 14,579,507 | 14,361,608 |
| Effect of dilutive securities (1) | | |
| Denominator for diluted earnings per share adjusted weighted-average shares and assumed conversions | 14,579,507 | 14,361,608 |
| Basic loss per share | $ (0.24) | $ (0.12) |
| Diluted loss per share | $ (0.24) | $ (0.12) |

(1) *The effect of employee stock options, warrants, restricted stock units and the employee stock purchase plan (ESPP), 360,529 shares for the three months March 31, 2008, and 69,605 shares for the three months*

*ended March 31, 2007, were 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 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.

**8. Derivatives**

As of March 31, 2008, we had Interest Rate Protection Agreements for $200.0 million of our variable rate debt and commodity contracts for 2,090,000 million British Thermal Units (BTUs) of natural gas. In January 2008, we entered into a series of foreign currency contracts to sell Canadian dollars. As of March 31, 2008, we had contracts for 6.8 million Canadian dollars. The total fair value of these derivatives was $(5.7) million as of March 31, 2008, accounted for under Statement No. 133, Accounting for Derivative Instruments and Hedging Activities (Statement 133). At December 31, 2007, we had Interest Rate Protection Agreements for $200.0 million of variable rate debt, commodity contracts for 2,820,000 million BTUs of natural gas and a foreign currency contract for 212.0 million pesos for a contractual payment due to Vitro in January 2008 related to the Crisa acquisition, with a total fair value of $(6.7) million. The fair value of these derivatives is included in derivative liability on the Condensed Consolidated Balance Sheets.

We do not believe we are exposed to more than a nominal amount of credit risk in our interest rate, natural gas and foreign currency hedges, as the counterparties are established financial institutions. All counterparties were rated A+ or better as of March 31, 2008, by Standard and Poors.

Most of our derivatives qualify and are designated as cash flow hedges (except the foreign currency contract) at March 31, 2008. 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. For the three months ended March 31, 2008, the ineffective portion of the change in the fair value of a derivative designated as a cash flow hedge was zero. For the three months ended March 31, 2007, we recognized a gain of $0.7 million in other income in the Condensed Consolidated Statement of Operations.

**9. Comprehensive Income (Loss)**

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

| **Three months ended March 31,** | **2008** | **2007** |
|---|---|---|
| Net loss | $(3,477) | $(1,754) |
| Change in pension liability | (1,057) | 205 |
| Change in fair value of derivative instruments (see detail below) | 952 | 759 |
| Effect of exchange rate fluctuation | 7,027 | (1,069) |
| Comprehensive income (loss) | $ 3,445 | $(1,859) |

Accumulated other comprehensive loss (net of tax) includes:

| | **March 31, 2008** | **December 31, 2007** |
|---|---|---|
| Change in pension liability | $ (45,857) | $ (44,800) |
| Derivatives | (5,358) | (6,310) |
| Exchange rate fluctuation | 15,660 | 8,633 |
| Total | $ (35,555) | $ (42,477) |

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

| **Three months ended March 31,** | **2008** | **2007** |
|---|---|---|
| Change in fair value of derivative instruments | $1,475 | $1,113 |
| Less: | | |
| Income tax effect | 523 | 354 |
| Other comprehensive income related to derivatives | $ 952 | $ 759 |

**10. 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 quarterly periods ended March 31, 2008, and March 31, 2007.

At March 31, 2008, December 31, 2007 and March 31, 2007, 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.

Table of Contents

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

| | Three months ended March 31, 2008 | | | | | |
|---|---|---|---|---|---|---|
| | Libbey Inc. (Parent) | Libbey Glass (Issuer) | Subsidiary Guarantors | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
| Net sales | $ | $ 89,987 | $26,583 | $84,055 | $(13,349) | $187,276 |
| Freight billed to customers | | 172 | 303 | 193 | | 668 |
| Total revenues | | 90,159 | 26,886 | 84,248 | (13,349) | 187,944 |
| Cost of sales | | 79,775 | 20,650 | 70,531 | (13,349) | 157,607 |
| Gross profit | | 10,384 | 6,236 | 13,717 | | 30,337 |
| Selling, general and administrative expenses | | 10,843 | 2,609 | 7,407 | | 20,859 |
| Income (loss) from operations | | (459) | 3,627 | 6,310 | | 9,478 |
| Other income (expense) | | 333 | 38 | 382 | | 753 |
| Earnings (loss) before interest and income taxes | | (126) | 3,665 | 6,692 | | 10,231 |
| Interest expense | | 15,693 | | 1,458 | | 17,151 |
| Earnings (loss) before income taxes | | (15,819) | 3,665 | 5,234 | | (6,920) |
| Provision (benefit) for income taxes | | (320) | 563 | (3,686) | | (3,443) |
| Net income (loss) | | (15,499) | 3,102 | 8,920 | | (3,477) |
| Equity in net income (loss) of subsidiaries | (3,477) | 12,022 | | | (8,545) | |
| Net income (loss) | $(3,477) | $ (3,477) | $ 3,102 | $ 8,920 | $ (8,545) | $ (3,477) |

Table of Contents

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

| | Three months ended March 31, 2007 | | | | | |
|---|---|---|---|---|---|---|
| | Libbey Inc. (Parent) | Libbey Glass (Issuer) | Subsidiary Guarantors | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
| Net sales | $ | $90,708 | $27,434 | $71,505 | $(10,151) | $179,496 |
| Freight billed to customers | | 148 | 301 | 26 | | 475 |
| Total revenues | | 90,856 | 27,735 | 71,531 | (10,151) | 179,971 |
| Cost of sales | | 74,267 | 22,398 | 61,042 | (10,151) | 147,556 |
| Gross profit | | 16,589 | 5,337 | 10,489 | | 32,415 |
| Selling, general and administrative expenses | | 11,958 | 2,250 | 7,826 | | 22,034 |
| Income (loss) from operations | | 4,631 | 3,087 | 2,663 | | 10,381 |
| Other income (expense) | | 865 | 1,128 | (148) | | 1,845 |
| Earnings (loss) before interest and income taxes | | 5,496 | 4,215 | 2,515 | | 12,226 |
| Interest expense | | 14,668 | | 896 | | 15,564 |
| Earnings (loss) before income taxes | | (9,172) | 4,215 | 1,619 | | (3,338) |
| Provision (benefit) for income taxes | | (4,352) | 2,000 | 768 | | (1,584) |
| Net income (loss) | | (4,820) | 2,215 | 851 | | (1,754) |
| Equity in net income (loss) of subsidiaries | (1,754) | 3,066 | | | (1,312) | |
| Net income (loss) | $(1,754) | $ (1,754) | $ 2,215 | $ 851 | $ (1,312) | $ (1,754) |

**Table of Contents**

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

| | March 31, 2008 (unaudited) | | | | | |
|---|---|---|---|---|---|---|
| | Libbey Inc. (Parent) | Libbey Glass (Issuer) | Subsidiary Guarantors | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
| Cash and equivalents | $ | $ 363 | $ 1,041 | $ 6,198 | $ | $ 7,602 |
| Accounts receivable net | | 36,695 | 8,339 | 50,062 | | 95,096 |
| Inventories net | | 74,315 | 37,530 | 96,335 | | 208,180 |
| Other current assets | | 2,750 | 1,888 | 22,166 | | 26,804 |
| Total current assets | | 114,123 | 48,798 | 174,761 | | 337,682 |
| Other non-current assets | | 7,619 | 468 | 7,702 | | 15,789 |
| Investments in and advances to subsidiaries | 96,858 | 435,772 | 278,777 | 126,502 | (937,909) | |
| Goodwill and purchased intangible assets net | | 28,775 | 16,087 | 164,222 | | 209,084 |
| Total other assets | 96,858 | 472,166 | 295,332 | 298,426 | (937,909) | 224,873 |
| Property, plant and equipment net | | 100,011 | 18,878 | 216,666 | | 335,555 |
| Total assets | $96,858 | $686,300 | $363,008 | $689,853 | $(937,909) | $898,110 |
| Accounts payable | $ | $ 13,267 | $ 3,198 | $ 49,615 | $ | $ 66,080 |
| Accrued and other current liabilities | | 52,962 | 9,556 | 33,025 | | 95,543 |
| Notes payable and long-term debt due within one year | | 209 | | 2,648 | | 2,857 |
| Total current liabilities | | 66,438 | 12,754 | 85,288 | | 164,480 |
| Long-term debt | | 429,258 | | 78,945 | | 508,203 |
| Other long-term liabilities | | 94,915 | 5,425 | 28,229 | | 128,569 |
| Total liabilities | | 590,611 | 18,179 | 192,462 | | 801,252 |
| Total shareholders equity | 96,858 | 95,689 | 344,829 | 497,391 | (937,909) | 96,858 |
| Total liabilities and shareholders equity | $96,858 | $686,300 | $363,008 | $689,853 | $(937,909) | $898,110 |

18

**Table of Contents**

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

| | December 31, 2007 | | | | | |
|---|---|---|---|---|---|---|
| | **Libbey Inc. (Parent)** | **Libbey Glass (Issuer)** | **Subsidiary Guarantors** | **Non-Guarantor Subsidiaries** | **Eliminations** | **Consolidated** |
| Cash and equivalents | $ | $ 20,834 | $ 532 | $ 15,173 | $ | $ 36,539 |
| Accounts receivable net | | 39,249 | 9,588 | 44,496 | | 93,333 |
| Inventories net | | 71,856 | 37,890 | 84,333 | | 194,079 |
| Other current assets | | 8,884 | 467 | 10,721 | | 20,072 |
| Total current assets | | 140,823 | 48,477 | 154,723 | | 344,023 |
| Other non-current assets | | 12,955 | 596 | 3,670 | | 17,221 |
| Investments in and advances to subsidiaries | 93,115 | 346,905 | 277,576 | 130,751 | (848,347) | |
| Goodwill and purchased intangible assets net | | 26,833 | 16,089 | 165,169 | | 208,091 |
| Total other assets | 93,115 | 386,693 | 294,261 | 299,590 | (848,347) | 225,312 |
| Property, plant and equipment net | | 100,742 | 19,389 | 209,646 | | 329,777 |
| Total assets | $93,115 | $628,258 | $362,127 | $663,959 | $(848,347) | $899,112 |
| Accounts payable | $ | $ 20,126 | $ 7,246 | $ 46,221 | | $ 73,593 |
| Accrued and other current liabilities | | 51,078 | 7,614 | 47,605 | | 106,297 |
| Notes payable and long-term debt due within one year | | 209 | | 1,326 | | 1,535 |
| Total current liabilities | | 71,413 | 14,860 | 95,152 | | 181,425 |
| Long-term debt-net | | 428,896 | | 66,203 | | 495,099 |
| Other long-term liabilities | | 91,369 | 5,496 | 32,608 | | 129,473 |
| Total liabilities | | 591,678 | 20,356 | 193,963 | | 805,997 |
| Total shareholders equity | 93,115 | 36,580 | 341,771 | 469,996 | (848,347) | 93,115 |
| Total liabilities and shareholders equity | $93,115 | $628,258 | $362,127 | $663,959 | $(848,347) | $899,112 |

Table of Contents

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

| Three months ended March 31, 2008 | Libbey Inc. (Parent) | Libbey Glass (Issuer) | Subsidiary Guarantors | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|---|
| Net income (loss) | $(3,477) | $ (3,477) | $ 3,102 | $ 8,920 | $(8,545) | $ (3,477) |
| Depreciation and amortization | | 3,882 | 756 | 6,658 | | 11,296 |
| Other operating activities | 3,477 | (17,147) | (3,234) | (27,599) | 8,545 | (35,958) |
| Net cash provided by (used in) operating activities | | (16,742) | 624 | (12,021) | | (28,139) |
| Additions to property, plant & equipment | | (3,320) | (115) | (5,917) | | (9,352) |
| Other investing activities | | 41 | | | | 41 |
| Net cash provided by (used in) investing activities | | (3,279) | (115) | (5,917) | | (9,311) |
| Net borrowings (repayments) | | (86) | | 8,681 | | 8,595 |
| Other financing activities | | (364) | | | | (364) |
| Net cash provided by (used in) financing activities | | (450) | | 8,681 | | 8,231 |
| Exchange effect on cash | | | | 282 | | 282 |
| Increase (decrease) in cash | | (20,471) | 509 | (8,975) | | (28,937) |
| Cash and equivalents at beginning of period | | 20,834 | 532 | 15,173 | | 36,539 |
| Cash and equivalents at end of period | $ | $ 363 | $ 1,041 | $ 6,198 | $ | $ 7,602 |

**Table of Contents**

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

| | **Three months ended March 31, 2007** | | | | | |
|---|---|---|---|---|---|---|
| | **Libbey Inc. (Parent)** | **Libbey Glass (Issuer)** | **Subsidiary Guarantors** | **Non-Guarantor Subsidiaries** | **Eliminations** | **Consolidated** |
| Net Income (loss) | $(1,754) | $ (1,754) | $ 2,215 | $ 851 | $(1,312) | $ (1,754) |
| Depreciation and amortization | | 4,270 | 880 | 4,066 | | 9,216 |
| Other operating activities | 1,754 | (10,255) | (4,343) | 4,033 | 1,312 | (7,499) |
| Net cash provided by (used in) operating activities | | (7,739) | (1,248) | 8,950 | | (37) |
| Additions to property, plant & equipment | | (2,468) | (203) | (7,122) | | (9,793) |
| Other investing activities | | | 1,501 | 568 | | 2,069 |
| Net cash provided by (used in) investing activities | | (2,468) | 1,298 | (6,554) | | (7,724) |
| Net borrowings (repayments) | | 412 | | (5,727) | | (5,315) |
| Other financing activities | | (359) | | | | (359) |
| Net cash provided by (used in) financing activities | | 53 | | (5,727) | | (5,674) |
| Exchange effect on cash | | | | 66 | | 66 |
| Increase (decrease) in cash | | (10,154) | 50 | (3,265) | | (13,369) |
| Cash and equivalents at beginning of period | | 22,849 | 509 | 18,408 | | 41,766 |
| Cash and equivalents at end of period | $ | $ 12,695 | $ 559 | $15,143 | $ | $ 28,397 |

Table of Contents

**11. Segments**

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, holloware 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.

The accounting policies of the segments are the same as those described in Note 1 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** | **March 31, 2008** | **March 31, 2007** |
|---|---|---|
| **Net Sales** | | |
| North American Glass | $127,477 | $124,726 |
| North American Other | 26,583 | 27,435 |
| International | 36,387 | 29,782 |
| Eliminations | (3,171) | (2,447) |
| Consolidated | $187,276 | $179,496 |
| **EBIT** | | |
| North American Glass | $ 7,072 | $ 10,935 |
| North American Other | 3,818 | 3,769 |
| International | (659) | (2,478) |
| Consolidated | $ 10,231 | $ 12,226 |
| **Depreciation & Amortization** | | |
| North American Glass | $ 6,553 | $ 5,762 |
| North American Other | 756 | 881 |
| International | 3,987 | 2,573 |
| Consolidated | $ 11,296 | $ 9,216 |
| **Capital Expenditures** | | |
| North American Glass | $ 5,709 | $ 5,479 |
| North American Other | 115 | 203 |
| International | 3,528 | 4,111 |
| Consolidated | $ 9,352 | $ 9,793 |
| **Reconciliation of EBIT to Net Income** | | |
| Segment EBIT | $ 10,231 | $ 12,226 |
| Interest Expense | (17,151) | (15,564) |
| Benefit for Income Taxes | 3,443 | 1,584 |

| | | |
|---|---|---|
| Net Loss | $ (3,477) | $ (1,754) |

Table of Contents

**12. Fair Value**

We adopted SFAS 157 as of January 1, 2008, with the exception of the application of the statement to non-recurring, nonfinancial assets and liabilities. The adoption of SFAS 157 had no impact on our fair value measurements. SFAS 157 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. SFAS 157 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.

| | Fair Value at March 31, 2008 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Interest rate protection agreements | $ | $(9,452) | $ | $(9,452) |
| Foreign currency contracts | | 177 | | 177 |
| Commodity futures natural gas contracts | | 3,613 | | 3,613 |
| Derivative liability | $ | $(5,662) | $ | $(5,662) |

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 foreign currency contracts and our commodity futures natural gas contracts are determined from market quotes.

The foreign currency contracts, 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.

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

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

**Results of Operations First Quarter 2008 Compared with First Quarter 2007**

Dollars in thousands, except percentages and per-share amounts

| | | | Variance | |
|---|---|---|---|---|
| **Three months ended March 31,** | **2008** | **2007** | **In dollars** | **In percent** |
| Net sales | $187,276 | $179,496 | $ 7,780 | 4.3% |
| Gross profit | $ 30,337 | $ 32,415 | $(2,078) | (6.4)% |

| | | | | |
|---|---|---|---|---|
| *Gross profit margin* | *16.2%* | *18.1%* | | |
| Income from operations (IFO) | $ 9,478 | $ 10,381 | $ (903) | (8.7)% |
| *IFO margin* | *5.1%* | *5.8%* | | |
| Earnings before interest and income taxes (EBIT)(1) | $ 10,231 | $ 12,226 | $ (1,995) | (16.3)% |
| *EBIT margin* | *5.5%* | *6.8%* | | |
| Earnings before interest, taxes, depreciation and amortization (EBITDA)(1) | $ 21,527 | $ 21,442 | $ 85 | 0.4% |
| *EBITDA margin* | *11.5%* | *11.9%* | | |
| Net loss | $ (3,477) | $ (1,754) | $ (1,723) | (98.2)% |
| *Net loss margin* | *(1.9)%* | *(1.0)%* | | |
| Diluted net loss per share | $ (0.24) | $ (0.12) | $ (0.12) | (100.0)% |

*(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.*

Table of Contents

**Net Sales**

For the quarter ended March 31, 2008, net sales increased 4.3 percent to $187.3 million from $179.5 million in the year-ago quarter. The increase in net sales was attributable to continued solid increases of approximately 18.0 percent in shipments to retail glassware customers in the United States and Canada and increased shipments to Crisa customers. These increases were partially offset by lower shipments to U.S. foodservice customers of approximately 12.0 percent. North American Other sales decreased 3.1 percent as shipments to Syracuse China customers were down approximately 12.0 percent, partially offset by an increase of 3.0 percent in shipments of World Tableware products. International sales increased as a result of increased shipments to customers of Libbey China and a favorable currency impact on European sales. International sales increased approximately 8.0 percent excluding the currency impact.

**Gross Profit**

For the quarter ended March 31, 2008, gross profit decreased by $2.1 million, or 6.4 percent, to $30.3 million, compared to $32.4 million in the year-ago quarter. Gross profit as a percentage of net sales decreased to 16.2 percent, compared to 18.1 percent in the year-ago quarter. Factors contributing to the decrease in gross profit were an unfavorable mix of sales, as a result of the lower U.S. glass foodservice sales, a $1.4 million increase in natural gas expenses and a $2.1 million increase in depreciation expense, partially offset by better manufacturing performance. The $2.1 million increase in depreciation expense is primarily the result of a full quarter of production at our China facility in 2008 and capital expenditures at Crisa related to the capacity rationalization.

**Income From Operations**

Income from operations for the quarter ended March 31, 2008, decreased by $0.9 million to $9.5 million, compared to income from operations of $10.4 million in the year-ago quarter. Income from operations as a percentage of net sales decreased to 5.1 percent in the first quarter 2008, compared to 5.8 percent in the year-ago quarter. The decrease in income from operations is a result of lower gross profit as discussed above offset by a reduction of $1.2 million in selling, general and administrative expenses primarily related to favorable rulings in connections with an outstanding dispute regarding a warehouse lease in Mexico, lower incentive compensation expense and an increase in stock-based compensation expense.

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

Earnings before interest and income taxes (EBIT) decreased by $2.0 million in the first quarter 2008, compared to the year-ago quarter. EBIT as a percentage of net sales decreased to 5.5 percent in the first quarter 2008, compared to 6.8 percent in the year-ago quarter. Key contributors to the decrease in EBIT compared to the prior year are the same as those discussed above under Income From Operations. In addition, the first quarter 2007 EBIT included a $1.1 million one-time gain on the sale of excess land in Syracuse, NY.

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

EBITDA increased by $0.1 million, or 0.4 percent for the first quarter 2008, to $21.5 million compared to $21.4 million in the year-ago quarter. As a percentage of net sales, EBITDA was 11.5 percent for the first quarter 2008, compared to 11.9 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). Depreciation and amortization increased by $2.1 million to $11.3 million, primarily due to the depreciation related to our new facility in China and to capital expenditures at Crisa related to the capacity rationalization.

**Net Loss and Diluted Net Loss Per Share**

We recorded a net loss of $3.5 million, or $(0.24) per diluted share, in the first quarter 2008, compared to a net loss of $1.8 million, or $(0.12) per diluted share, in the year-ago quarter. Net loss as a percentage of net sales was 1.9 percent in the first quarter 2008, compared to net loss of 1.0 percent in the year-ago quarter. As a result of higher debt, primarily driven by the payment in kind (PIK) notes, interest expense increased $1.6 million compared to the year-ago period. The effective tax rate increased to 49.8 percent for the quarter, compared to 47.5 percent in the year-ago quarter.

**Segment Results of Operations**

| Dollars in thousands | | | Variance | |
|---|---|---|---|---|
| **Three Months Ended March 31,** | **2008** | **2007** | **In Dollars** | **In Percent** |
| Net Sales: | | | | |
| North American Glass | $127,477 | $124,726 | $ 2,751 | 2.2% |
| North American Other | 26,583 | 27,435 | (852) | (3.1)% |
| International | 36,387 | 29,782 | 6,605 | 22.2% |
| Eliminations | (3,171) | (2,447) | | |
| Consolidated | $187,276 | $179,496 | $ 7,780 | 4.3% |
| EBIT: | | | | |
| North American Glass | $ 7,072 | $ 10,935 | $(3,863) | (35.3)% |
| North American Other | 3,818 | 3,769 | 49 | 1.3% |
| International | (659) | (2,478) | 1,819 | 73.4% |
| Consolidated | $ 10,231 | $ 12,226 | $(1,995) | (16.3)% |
| EBIT Margin: | | | | |
| North American Glass | 5.5% | 8.8% | | |
| North American Other | 14.4% | 13.7% | | |
| International | (1.8)% | (8.3)% | | |
| Consolidated | 5.5% | 6.8% | | |

***North American Glass***

For the quarter ended March 31, 2008, net sales increased 2.2 percent to $127.5 million from $124.7 million in the year-ago quarter. Of the total increase in sales, approximately 3.8 percent was attributable to continued solid increases in shipments to retail glassware customers in the United States and Canada, and approximately 2.8 percent was attributable to increased shipments to Crisa customers. These increases were partially offset by a decline of 4.4 percent in shipments to U.S. foodservice customers.

EBIT decreased by $3.9 million to $7.1 million for the first quarter 2008, compared to $10.9 million in the year-ago quarter. EBIT, as a percentage of net sales, decreased to 5.5 percent in the first quarter 2008, compared to 8.8 percent in the year-ago quarter. The key contributors to the decrease in EBIT compared to the year-ago quarter were an unfavorable sales mix of $4.8 million offset by a reduction of $1.3 million in selling, general and administrative expenses related to favorable rulings in connection with an outstanding dispute regarding a warehouse lease in Mexico, lower incentive compensation expense of $0.3 million and an increase in stock-based compensation expense of $0.3 million.

***North American Other***

For the quarter ended March 31, 2008, net sales decreased 3.1 percent to $26.6 million from $27.4 million in the year-ago quarter. The decrease in net sales was primarily attributable to a decrease in shipments to Syracuse China customers resulting in approximately 4.0 percent of the decrease, offset by an increase in shipments of World Tableware products, which increased 1.4 percent.

EBIT for the first quarter of 2008 was $3.8 million, which was flat compared to the first quarter of 2007. EBIT as a percentage of net sales increased to 14.4 percent in the first quarter 2008 compared to 13.7 percent in the year-ago quarter. The first quarter 2007 results included a $1.1 million gain on the sale of excess land in Syracuse, NY. Excluding the sale of land recorded in 2007, the increase in EBIT in 2008 is primarily attributable to higher sales margins.

Table of Contents

*International*

For the quarter ended March 31, 2008, net sales increased 22.2 percent to $36.4 million from $29.8 million in the year-ago quarter. Of the total increase in net sales, approximately 14.0 percent of the increase was related to the currency impact of a stronger euro and the majority of the remaining increase in net sales was related to our China facility being in full operation.

For the first quarter ended March 31, 2008, EBIT was a loss of $0.7 million, which was an improvement of $1.8 million compared to the year-ago quarter. EBIT as a percentage of net sales improved to (1.8) percent in the first quarter 2008, compared to (8.3) percent in the year-ago quarter. The improvement in EBIT compared to the prior year quarter was driven primarily by Libbey China s complete quarter of operations (as contrasted with its start-up operations in the prior year quarter), contributing $1.5 million to the increase, and increased sales and improved margin in our European operations of $1.7 million. These increases were partially offset by higher natural gas costs in Europe of $1.0 million.

**Capital Resources and Liquidity**

***Balance Sheet and Cash flows***

Cash and Equivalents

At March 31, 2008, our cash balance decreased $28.9 million from $36.5 million on December 31, 2007, to $7.6 million. The decrease was primarily due to the $19.6 million payment to Vitro S.A. de C.V. made in the current year related to the purchase of Crisa in 2006 and funding our ongoing working capital needs.

Working Capital

The following table presents working capital components:

| Dollars in thousands, except percentages and DSO, DIO, DPO and DWC | March 31, 2008 | December 31, 2007 | Variance In dollars | Variance In percent |
|---|---|---|---|---|
| Accounts receivable net | $ 95,096 | $ 93,333 | $ 1,763 | 1.9% |
| *DSO (1)* | *42.2* | *41.8* | | |
| Inventories net | 208,180 | 194,079 | 14,101 | 7.3% |
| *DIO (2)* | *92.5* | *87.0* | | |
| Accounts payable | 66,080 | 73,593 | (7,513) | (10.2)% |
| *DPO (3)* | *29.4* | *33.0* | | |
| Working capital (4) | $237,196 | $213,819 | $23,377 | 10.9% |
| *DWC (5)* | *105.3* | *95.8* | | |
| *Percentage of net sales* | *28.9%* | *26.3%* | | |

*DSO, DIO, DPO and DWC are all 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 accounts receivable and 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, which is defined as accounts receivable and inventories less accounts payable, was $237.2 million at March 31, 2008. Working capital increased $23.4 million from December 31, 2007, primarily due to normal seasonal inventory build-up, increased working capital at our China facility as it continues to reach full production and the foreign currency impact on our euro and RMB denominated working capital.

Table of Contents

*Borrowings*

The following table presents our total borrowings:

| | Interest Rate | Maturity Date | March 31, 2008 | December 31, 2007 |
|---|---|---|---|---|
| Borrowings under ABL facility | floating | December 16, 2010 | $ 17,380 | $ 7,366 |
| Senior notes | floating (1) | June 1, 2011 | 306,000 | 306,000 |
| PIK notes | 16.00% | December 1, 2011 | 127,697 | 127,697 |
| Promissory note | 6.00% | April 2008 to September 2016 | 1,790 | 1,830 |
| Notes payable | floating | April 2008 | 1,944 | 622 |
| RMB loan contract | floating | July 2012 to January 2014 | 35,700 | 34,275 |
| RMB working capital loan | floating | March 2010 | 7,140 | 6,855 |
| Obligations under capital leases | floating | April 2008 to May 2009 | 909 | 1,018 |
| BES Euro line | floating | January 2010 to January 2014 | 17,380 | 15,962 |
| Other debt | floating | September 2009 | 1,094 | 1,432 |
| Total borrowings | | | 517,034 | 503,057 |
| Less unamortized discounts and warrants | | | 5,974 | 6,423 |
| Total borrowings net (2) | | | 511,060 | 496,634 |

*(1) See Interest Rate Protection Agreements below.*

*(2) 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 $517.0 million at March 31, 2008, compared to total borrowings of $503.1 million at December 31, 2007. The $13.9 million increase in borrowings was the result of funding our operating needs, the $19.6 million payment to Vitro S.A. de C.V. made in the current year related to the purchase of Crisa in 2006 and the foreign currency impact on our euro and RMB denominated debt.

Of our total indebtedness, $187.6 million is subject to fluctuating interest rates at March 31, 2008. A change in one percentage point in such rates would result in a change in interest expense of approximately $1.9 million on an annual basis.

Included in interest expense is the amortization of discounts, warrants, and financing fees of $1.3 million and $1.4 million for the three months ended March 31, 2008 and March 31, 2007, respectively.

*Cash Flow*

The following table presents key drivers to free cash flow.

| **Dollars in thousands, except percentages** | | | **Variance** | |
|---|---|---|---|---|
| **Three months ended March 31,** | **2008** | **2007** | **In dollars** | **In percent** |
| Net cash used in operating activities | $(28,139) | $ (37) | $(28,102) | >100% |
| Capital expenditures | (9,352) | (9,793) | 441 | 4.5% |
| Proceeds from asset sales and other | 41 | 2,069 | (2,028) | 98.0% |
| Free cash flow (a) | $(37,450) | $(7,761) | $(29,689) | >100% |

(a) *We believe that free cash flow (net cash used in operating activities, less capital expenditures, plus proceeds from asset 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 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 used in operating activities was $28.1 million in the first quarter of 2008, compared to $0.04 million in the year-ago quarter, or an increase of $28.1 million. The increase was primarily due to the $19.6 million payment to Vitro S.A. de C.V. made in the current year related to the purchase of Crisa in 2006 and the increase in working capital discussed above.

Net cash used in investing activities was $9.3 million in the first quarter of 2008, compared to $7.7 million in the year-ago quarter, or an increase of $1.6 million. The primary contributor to the increase was the non-recurring receipt of proceeds of $2.1 million on the sale of excess land in Syracuse, N.Y. in the first quarter of 2007.

Net cash provided by financing activities was $8.2 million in the first quarter of 2008, compared to net cash used by financing activities of $5.7 million in the year-ago quarter. The net cash provided by financing activities in the first quarter of 2008 is primarily attributable to borrowing under our ABL facility to fund operating needs. The net cash used by financing activities in the year-ago period resulted in using cash on hand to repay borrowings under the ABL facility.

Our free cash flow was $(37.5) million during the first quarter 2008, compared to $(7.8) million in the year-ago quarter, a decrease of $29.7 million. The primary contributors were a $19.6 million payment to Vitro S.A. de C.V. related to the purchase of Crisa in 2006 and increased uses of cash for working capital. In addition, the first quarter of 2007 included proceeds of $2.1 million on the sale of excess land in Syracuse, N.Y.

*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 March 31, 2008, excluding applicable fees, is 5.24 percent per year and the total interest rate, including applicable fees, is 12.24 percent per year. The average maturity of these Rate Agreements is 1.7 years at March 31, 2008. Total remaining Senior Notes not covered by the Rate Agreements have fluctuating interest rates with a weighted average rate of 11.91 percent per year at March 31, 2008. 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 credit ratings were rated A+ or better as of March 31, 2008, by Standard and Poors. The fair market value for the Rate Agreements at March 31, 2008, was $(9.5) million. At December 31, 2007, the fair market value of these Rate Agreements was a $(5.3) million. The fair value of the Rate Agreements is based on the market standard methodology of netting the discounted expected future variable cash receipts and the discounted future fixed cash payments. The variable cash receipts are based on an expectation of future interest rates derived from observed market interest rate forward curves. We do not expect to cancel these agreements and expect them to expire as originally contracted.

We also use commodity futures contracts related to forecasted future U.S. natural gas requirements. The objective of these futures contracts and other derivatives is to limit the fluctuations in prices paid and potential losses in earnings or cash flows from 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, generally six or more months in the future. The fair values of these instruments are determined from market quotes. At March 31, 2008, we had commodity futures contracts for 2,090,000 million British Thermal Units (BTUs) of natural gas with a fair market value of $3.6 million. We have hedged a portion of forecasted transactions through September 2009. At December 31, 2007, we had commodity futures contracts for 2,820,000 million BTUs of natural gas with a fair market value of $(1.8) million.

In January 2008, we entered into a series of foreign currency contracts to sell Canadian dollars. As of March 31, 2008, we had contracts for 6.8 million Canadian dollars with a fair value of $0.2 million. During 2007, we entered into a foreign currency contract for 212.0 million pesos for a contractual payment due to Vitro in January 2008, related to the Crisa acquisition. The fair value of the foreign currency contract at December 31, 2007 was $0.4 million.

**Capital Resources and Liquidity**

Based on our current level of operations, we believe our cash flow from operations and available borrowings under our ABL facility and various other facilities will be adequate to meet our liquidity needs for at least the next twelve months. Our ability to fund our working capital needs, debt payments and other obligations, capital expenditures program and other funding requirements, and to comply with debt agreements, depends on our future operating performance and cash flow (see Part II, Item 1A. Risk Factors).

**Outlook**

We expect second quarter net sales to be in the range of $215 million to $220 million, and EBITDA to be between $30 million and $32 million in the second quarter of 2008. We expect EBITDA for the full year 2008 of approximately $113 million to $123 million.

**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 loss to EBIT and EBITDA**

| | Three months ended March 31, | |
|---|---|---|
| **Dollars in thousands** | **2008** | **2007** |
| Net loss | $ (3,477) | $ (1,754) |
| Add: Interest expense | 17,151 | 15,564 |
| Add: Benefit for income taxes | (3,443) | (1,584) |
| Earnings before interest and income taxes (EBIT) | 10,231 | 12,226 |
| Add: Depreciation and amortization | 11,296 | 9,216 |
| Earnings before interest, taxes, deprecation and amortization (EBITDA) | $21,527 | $21,442 |

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

*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 before interest expense, income taxes, depreciation and amortization. The most directly comparable U.S. GAAP financial measure is earnings before interest and income taxes.*

Table of Contents

*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.*

**Table 2**

**Reconciliation of net cash used in operating activities to free cash flow**

| | Three months ended March 31, | |
|---|---|---|
| **Dollars in thousands** | **2008** | **2007** |
| Net cash used in operating activities | $(28,139) | $ (37) |
| Capital expenditures | (9,352) | (9,793) |
| Proceeds from asset sales and other | 41 | 2,069 |
| Free cash flow | $(37,450) | $(7,761) |

*We define free cash flow as net cash 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 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 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** | **March 31, 2008** | **December 31, 2007** |
|---|---|---|
| Accounts receivable (net) | $ 95,096 | $ 93,333 |
| Plus: Inventories (net) | 208,180 | 194,079 |
| Less: Accounts payable | 66,080 | 73,593 |
| Working capital | $237,196 | $213,819 |

*We define working capital as accounts receivable (net) plus inventories (net) 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, operational performance and to set performance targets for managers.*

*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.*

Table of Contents

## Item 3. Qualitative and Quantitative Disclosures about Market Risk

### Currency

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

### Interest Rates

We are exposed to market risk 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 a 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. We had $187.6 million of debt subject to fluctuating interest rates at March 31, 2008. A change of one percentage point in such rates would result in a change in interest expense of approximately $1.9 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 counterparties credit ratings were rated A+ or better as of March 31, 2008, by Standard and Poors.

### Natural Gas

We are also exposed to market risks associated with changes in the price of natural gas. We use commodity futures contracts related to forecasted future natural gas requirements of our 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, generally six or more months in the future. For our natural gas requirements that are not hedged, we are subject to changes in the price of natural gas, which affect our earnings. 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 credit ratings were rated A+ or better as of March 31, 2008, by Standard and Poors.

### 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 $1.6 million.

- A change of 1 percent in the expected long-term rate of return on plan assets would change our annual pension expense by approximately $2.6 million.

## Item 4. Controls and Procedures

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

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

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

## PART II OTHER INFORMATION

This document and supporting schedules contain statements that are not historical facts and constitute projections, forecasts or forward-looking statements. These forward-looking statements reflect only our best assessment at this time, and may be identified by the use of words or phrases such as anticipate, believe, expect, intend, may, pla 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 year-to-year 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.

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.

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 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.

Table of Contents

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.

An inability to meet targeted production and profit margin goals in connection with the operation of our new production facility in China could result in significant additional costs or lost sales.

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.

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.

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.

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) |
|---|---|---|---|---|
| January 1 to January 31, 2008 | | | | 1,000,000 |
| February 1 to February 29, 2008 | | | | 1,000,000 |
| March 1 to March 31, 2008 | | | | 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 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 September 30, 1993 and incorporated herein by reference). |
| 3.2 | Amended and Restated By-Laws of Libbey Inc. (filed as Exhibit 3.01 to Registrant s Form 8-K filed February 7, 2005 and incorporated herein by reference). |
| 4.1 | Credit Agreement, dated June 16, 2006, among Libbey Glass Inc. and Libbey Europe B.V., Libbey Inc., the other loan parties party thereto, the lenders party thereto, JPMorgan Chase Bank, N.A., J.P. Morgan Europe Limited, LaSalle Bank Midwest National Association, Wells Fargo Foothill, LLC, Fifth Third Bank, and J.P. Morgan Securities Inc., as Sole Bookrunner and Sole Lead Arranger. (filed as Exhibit 4.1 to Registrant s Form 8-K filed June 21, 2006 and incorporated herein by reference). |
| 4.2 | Indenture, dated June 16, 2006, among Libbey Glass Inc., Libbey Inc., the Subsidiary Guarantors party thereto and The Bank of New York Trust Company, N.A., as trustee. (filed as Exhibit 4.2 to Registrant s Form 8-K filed June 21, 2006 and incorporated herein by reference). |
| 4.3 | Form of Floating Rate Senior Secured Note due 2011. (filed as Exhibit 4.3 to Registrant s Form 8-K filed June 21, 2006 and incorporated herein by reference). |
| 4.4 | Registration Rights Agreement, dated June 16, 2006, among Libbey Glass Inc., Libbey Inc., the Subsidiary Guarantors party thereto and the Initial Purchasers named therein. (filed as Exhibit 4.4 to Registrant s Form 8-K filed June 21, 2006 and incorporated herein by reference). |
| 4.5 | Indenture, dated June 16, 2006, among Libbey Glass Inc., Libbey Inc., the Subsidiary Guarantors party thereto and Merrill Lynch PCG, Inc. (filed as Exhibit 4.5 to Registrant s Form 8-K filed June 21, 2006 and incorporated herein by reference). |
| 4.6 | Form of 16% Senior Subordinated Secured Pay-in-Kind Note due 2011. (filed as Exhibit 4.6 to Registrant s Form 8-K filed June 21, 2006 and incorporated herein by reference). |
| 4.7 | Warrant, issued June 16, 2006. (filed as Exhibit 4.7 to Registrant s Form 8-K filed June 21, 2006 and incorporated herein by reference). |
| 4.8 | Registration Rights Agreement, dated June 16, 2006, among Libbey Inc. and Merrill Lynch PCG, Inc. (filed as Exhibit 4.8 to Registrant s Form 8-K filed June 21, 2006 and incorporated herein by reference). |
| 4.9 | Intercreditor Agreement, dated June 16, 2006, among Libbey Glass Inc., JPMorgan Chase Bank, N.A., The Bank of New York Trust Company, N.A., Merrill Lynch PCG, Inc. and the Loan Parties party thereto. (filed as Exhibit 4.9 to Registrant s Form 8-K filed June 21, 2006 and incorporated herein by reference). |

| | |
|---|---|
| 10.1 | 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 June 30, 2006 and incorporated herein by reference) |
| 31.1 | Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) or Rule 15d-14(a) (filed herein). |
| 31.2 | Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) or Rule 15d-14(a) (filed herein). |
| 32.1 | Chief Executive Officer Certification Pursuant To 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 Of The Sarbanes-Oxley Act of 2002 (filed herein). |
| 32.2 | Chief Financial Officer Certification Pursuant To 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 Of The Sarbanes-Oxley Act of 2002 (filed herein). |

**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 12, 2008 | By /s/ Gregory T. Geswein<br>Gregory T. Geswein,<br>Vice President, Chief Financial Officer<br>(duly authorized principal financial officer) |

36