



2015

*Libbey Inc. Annual Report*



LIBBEY.

**William A. Foley**  
Chairman and Chief Executive Officer



February 29, 2016

Dear Fellow Shareholders,

2015 was an important, but challenging, year for Libbey. Early in the year, we outlined our *Own the Moment* strategy. It is designed to transform our business from a less responsive industrial manufacturing business to a faster-moving, market-focused company with an objective to grow with improved margins and greater free cash flow.

During the year we experienced a number of challenges — some outside of our control and others where we could have performed more effectively. From a performance standpoint, we reported net sales at \$822.3 million for the full year, a decrease of 3.5 percent year-over-year (or an increase of 1.7 percent excluding currency) and Adjusted EBITDA margins of 14.1 percent (or 15.7 percent excluding currency). The negative impact of currency fluctuations on our Adjusted EBITDA for the year was \$12.6 million, which was difficult to overcome. While our results did not meet our expectations, we did deliver a number of important achievements in 2015 that position us well for the future.

The transformation of any business must begin with ensuring that the right talent is in place to achieve the strategic objectives of the business. In 2015, we invested in a number of areas and recruited strong talent for critical roles throughout the organization, adding and augmenting capabilities in sales, marketing, supply chain and operations. We are building a team able to compete at a higher level, understanding of the challenges we face, committed to the vision and energized by the opportunities ahead. We still have work to do, but I am pleased with our progress.

Our strong position in the foodservice sector remains the core of our Company, and we are proud of the strong and consistent results we experienced during the year. As the number one supplier of glass tableware and the number two supplier of

dinnerware and flatware in the United States and Canada, we continued to expand market share despite lackluster trends in restaurant traffic. Global foodservice sales grew 8 percent, excluding the impact of currency, and we have now achieved 11 consecutive quarters of volume growth in the channel. Foodservice remains the cornerstone of our strategy and will continue to be the critical foundation of our business.

One of the brightest highlights of 2015 was the unveiling of our new glass manufacturing technology at our plant in Shreveport, Louisiana, under the Libbey Signature™ and Masters Reserve® brand names. This new, proprietary high-brilliance glass utilizes Libbey's ClearFire™ glass formula, which represents the culmination of over two years of research and development. The stemware and beverage ware products we are introducing represent the highest quality machine-made glass ever produced in North America. Importantly, this new technology provides a sophisticated platform that will support future product innovation with a level of product quality not found elsewhere in this region. We introduced Libbey Signature™ products to U.S. retail end-markets during the third quarter of 2015, and the Masters Reserve® products to U.S. foodservice markets in the fourth quarter. The initial reaction from our customers has been very positive. We'll begin to see contributions to sales in 2016 and, in time, these and other new glass products using this technology will open opportunities for us around the globe.

During the year, we maintained our commitment to protect our strong balance sheet. We also instituted an annual dividend policy and share repurchase program that, together, returned more than 50 percent of our free cash flow to shareholders. Additionally, in early 2016, we announced a 5 percent increase in our annual dividend, underlining our commitment to return value to our shareholders. We believe that a balanced approach to capital allocation is important to our business and have four priorities for the use of our capital in the year ahead. First, we will continue to support the growth of our business; second, we intend to reduce our debt; third, we will maintain our dividend policy; and, finally, we will repurchase shares under our remaining authorization.

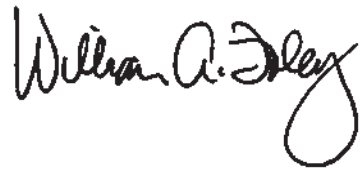
In January of 2016, we made the difficult decision to make a change of leadership within the Company. While never an easy decision, our Board felt that deeper experience in the glass business was needed to spark innovation and begin to unlock potential within the Company. I have been in the role of Chairman and CEO for a short time but am fortunate to be able to build from over 30 years of experience in this industry. I have spent my first few weeks listening to our associates and customers across the globe, and I have learned a great deal that reinforces my belief that Libbey's best days lie ahead. I have identified three critical objectives that will guide our work for the remainder of this year: first, is to focus our product development efforts to drive growth, innovation, improved operating margins and cash flow; second, is to get closer to our customers so we can respond more effectively to their ongoing needs every day, across the world; and third, is to simplify our business by removing non-value added complexity. We believe this approach will deliver more consistent and predictable earnings so you will be able to count on us to increase the value of our Company.

Despite the challenges we faced in 2015, we are committed to correcting these issues. While we are encouraged by the progress we made in 2015 and are looking forward to 2016 and beyond, it is clear that we have a lot to do to realize our full potential. While there are never quick fixes, we expect to make steady, recognizable progress during the year. Transforming any business is hard work, but employing a "back-to-basics" approach simplifies the work into practical steps that our organization can rally around. We are committed to transforming our business to drive change, move faster and deliver more value to customers in the dynamic and highly competitive environment in which we operate.

Our long-term vision is to be at the center of how our customers and consumers manage their business and live their lives, to work with them and to celebrate the moments that matter, both big and small. We want to be there for customers at restaurants and clubs, on vacation, at home and with family and friends for holidays and other important life events. We are certain we are on the right strategic path and will work together to make the *Own the Moment* strategy become a reality.

I am fortunate to be leading a team of talented associates that are excited and committed to building an outstanding company recognized for innovation and top quartile returns for our shareholders. We have a great brand, a solid foundation upon which to build and an excellent leadership team in place to execute our strategy. We want to thank you, our shareholders, our over 6,000 associates around the globe and the many stakeholders in the communities in which we operate for your continued support. We are on a mission to build one of the most innovative companies in this business and are looking forward to our achievements in 2016 and beyond.

Best regards,



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

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the fiscal year ended December 31, 2015**

or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**Commission file number 1-12084**

**Libbey Inc.**

*(Exact name of registrant as specified in its charter)*

**Delaware**

*(State or other jurisdiction of incorporation or organization)*

**34-1559357**

*(IRS Employer Identification No.)*

**300 Madison Avenue, Toledo, Ohio 43604**

*(Address of principal executive offices) (Zip Code)*

**419-325-2100**

*(Registrant's telephone number, including area code)*

**Securities registered pursuant to Section 12(b) of the Act:**

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
Common Stock, \$.01 par value	NYSE MKT

**Securities registered pursuant to Section 12(g) of the Act: None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer  Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The aggregate market value (based on the consolidated tape closing price on June 30, 2015) of the voting stock beneficially held by non-affiliates of the registrant was approximately \$882,192,802. For the sole purpose of making this calculation, the term "non-affiliate" has been interpreted to exclude directors and executive officers of the registrant. Such interpretation is not intended to be, and should not be construed to be, an admission by the registrant or such directors or executive officers that any such persons are "affiliates" of the registrant, as that term is defined under the Securities Act of 1934.

The number of shares of common stock, \$.01 par value, of the registrant outstanding as of February 22, 2016 was 21,765,037.

**DOCUMENTS INCORPORATED BY REFERENCE**

Certain information required by Items 10, 11, 12, 13 and 14 of Form 10-K is incorporated by reference into Part III hereof from the registrant's Proxy Statement for the Annual Meeting of Shareholders to be held May 10, 2016 ("Proxy Statement").

Certain information required by Part II of this Form 10-K is incorporated by reference from registrant's 2015 Annual Report to Shareholders where indicated.

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*This Annual Report on Form 10-K, including “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” contains forward-looking statements regarding future events and future results that are subject to the safe harbors created under the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended. Libbey desires to take advantage of the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995. These statements are based on current expectations, estimates, forecasts and projections, and the beliefs and assumptions of our management. Words such as “expect,” “anticipate,” “target,” “believe,” “intend,” “may,” “planned,” “potential,” “should,” “will,” “would,” variations of such words, and similar expressions are intended to identify these forward-looking statements. In addition, any statements that refer to projections of our future financial performance, our anticipated growth and trends in our businesses, and other characterizations of future events or circumstances are forward-looking 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.*

## **PART I**

### **Item 1. Business**

#### ***General***

Libbey Inc. (Libbey or the Company) is a leading global manufacturer and marketer of glass tableware products. We believe we are the largest such manufacturer in the Western Hemisphere, in addition to supplying to key markets throughout the world. We believe we have the largest manufacturing, distribution and service network among glass tableware manufacturers in the Western Hemisphere and are one of the largest glass tableware manufacturers in the world. We produce glass tableware in five countries and sell to over 100 countries. We design and market, under our Libbey<sup>®</sup>, Crisa<sup>®</sup>, Royal Leerdam<sup>®</sup>, World<sup>®</sup> Tableware, Syracuse<sup>®</sup> China and Crisal Glass<sup>®</sup> brand names (among others), an extensive line of high-quality glass tableware, ceramic dinnerware, metal flatware, hollowware and serveware items for sale primarily in the foodservice, retail and business-to-business markets. We are among the largest glass tableware manufacturers in Latin America through our subsidiary Crisa Libbey Mexico, S. de R.L. de C.V. (Libbey Mexico), which goes to market primarily under the Crisa<sup>®</sup> brand name. Through our subsidiary Libbey Glassware (China) Co., Ltd. (Libbey China) we have a state-of-the-art glass tableware manufacturing facility in China. Through our subsidiary B.V. Koninklijke Nederlandsche Glasfabriek Leerdam (Libbey Holland), we manufacture high-quality glass stemware under the Royal Leerdam<sup>®</sup> brand name. Through our subsidiary Crisal-Cristalaria Automática S.A. (Libbey Portugal), we manufacture glass tableware in Portugal for our worldwide customer base. We import and market ceramic dinnerware under the Syracuse<sup>®</sup> China brand name through our subsidiary Syracuse China Company (Syracuse China). Through our World Tableware Inc. (World Tableware) subsidiary, we import metal flatware, hollowware, serveware and ceramic dinnerware for resale. See note 19 to the Consolidated Financial Statements for segment and geographic information.

Libbey was incorporated in Delaware in 1987, but traces its roots back to The W. L. Libbey & Son Company, an Ohio corporation formed in 1888, when it began operations in Toledo, Ohio.

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

Our shares are traded on the NYSE MKT exchange under the ticker symbol LBY.

#### ***Growth Strategy***

Our strategic vision is to “Own every Moment, from the smallest occasions to life’s major celebrations”. Our “Own the Moment” strategy to accomplish this vision is built on the following concepts:

- Aggressively focus and invest in driving profitable growth and building on our positions of strength in the U.S. and Canada and Latin America. This entails the following:
  - Expanding around our core Foodservice business;
  - Investing in product development and innovation that drive value and differentiation with our key retail accounts;
  - Growing revenue in both the core and adjacent product categories in all channels;



- Driving efficiencies and pursuing low cost investments to maximize the returns in our Europe, Middle East and Africa (EMEA) and Asia Pacific regions. This entails the following:
  - Focusing our European business on cost savings, capital efficiency and targeted investments that drive greater value and differentiation from our competitors;
  - Expanding our core foodservice business and driving growth in the large business-to-business market in Asia Pacific;
- Building a foundation for excellence across our supply chain, increasing the speed of talent development and cultural change, enhancing all of our commercial capabilities and investing in information technology.

We seek to continue to increase our share and the profitability of our core North American market in the U.S. and Mexico foodservice and retail channels by leveraging our leading market positions, superior brand portfolio, innovation and product development capabilities, high customer service levels and broad distribution network. In China, we are actively managing our growth efforts by targeting high potential market segments and tailoring our go-to-market approach to serve them better. In our European business, we continue to explore and evaluate ways to optimize our business footprint while differentiating our products, services and go-to-market capabilities.

Our broad manufacturing base enables us to provide our customers with an extensive offering across multiple price points by sourcing products from our low-cost manufacturing facilities in Mexico and China to complement products manufactured at our higher-cost manufacturing facilities in our other regions. We believe that our facility in Mexico is one of the largest in the Western Hemisphere, and we believe that it has additional opportunities for expansion. We are continuing to focus on improving productivity, equipment availability and quality, all of which enable us to produce more glass pieces without adding assets.

In addition, improvement in profitability and cash flow generation is a key element of our strategy. To this end, we continue to focus on a number of initiatives aimed at creating operating efficiencies, eliminating waste, reducing working capital and instilling a culture of continuous improvement in all aspects of our operations.

### ***Products***

Our tableware products consist of glass tableware (including casual glass beverageware), ceramic dinnerware, and metal flatware, hollowware and serveware. Our glass tableware includes tumblers, stemware (including wine glasses), mugs, bowls, vases, salt and pepper shakers, shot glasses, canisters, candleholders and various other items. In addition to our glass tableware product assortment, our products include glass bakeware, handmade glass tableware and other glass products sold principally to original equipment manufacturers (OEMs), such as blender jars and washing machine windows. Through our Syracuse China and World Tableware subsidiaries, we offer a wide range of ceramic dinnerware products. These include plates, bowls, platters, cups, saucers and other tableware accessories. Our World Tableware subsidiary provides an extensive selection of metal flatware, including knives, forks, spoons and serving utensils. In addition, World Tableware sells metal hollowware, including serving trays, pitchers and other metal tableware accessories, as well as an extensive line of ceramic dinnerware.

Through distribution and licensing arrangements, Libbey offers a complete premium tabletop offering to service fine dining and event experiences. Effective February 1, 2013, we have an agreement in which we became the exclusive distributor of Spiegelau and Nachtmann glassware and serveware products to the U.S. foodservice industry. Spiegelau is known for its fine stemware and other drinkware assortments. Nachtmann offers a variety of upscale serveware, decorative products, stemware and drinkware for finer dining establishments. Effective July 1, 2015, we further extended our partnership with Spiegelau to also become the exclusive U.S. distributor of their glassware lines in the retail industry. Effective January 1, 2015, we have an agreement with Schönwald to become their exclusive foodservice distributor for dinnerware products in the U.S. and Canada. Schönwald is one of the world's leading providers of high-end porcelain and bone china for food service. In addition, effective January 1, 2015, we have an agreement with Reed & Barton to become their licensed foodservice distributor for flatware products in the U.S. and Canada. Established in 1824, Reed & Barton is one of the oldest and largest privately-held tableware and giftware companies.

### ***Customers***

The customers for our tableware products include approximately 500 foodservice distributors in the United States and Canada and many others throughout the world. In the retail channel, we sell to mass merchants, department stores, retail distributors, national retail chains and specialty housewares stores. In addition, our business-to-business channel primarily includes customers that use glass containers for candle and floral applications, gourmet food packaging companies, and various OEM applications. In Latin America, we sell to retail mass merchants and wholesale distributors, as well as candle and food packers and various OEM users of custom-molded glass. In Europe, Middle East and Africa (EMEA), we market glassware to retailers,

distributors and decorators that service the retail, foodservice and a highly developed business-to-business channel, which includes large breweries and distilleries for which products are decorated with company logos for promotional and resale purposes. We also have customers who use our products for promotional or other private uses. In Asia Pacific, we sell primarily to distributors and wholesalers. No single customer accounts for 10 percent or more of our sales, although the loss of any of our major customers could have a meaningful effect on us.

### ***Sales, Marketing and Distribution***

In 2015, approximately 77 percent of our sales were to customers located in North America, and approximately 23 percent of our sales were to customers located outside of North America. We sell our products to over 100 countries around the world, competing in the tableware markets of EMEA, Latin America and Asia Pacific, as well as the U.S. and Canada.

We have our own sales staff of professionals who call on customers and distributors. In addition, we occasionally retain the services of manufacturing representative organizations to assist in selling our products in select countries.

We have marketing staff located at our corporate headquarters in Toledo, Ohio, as well as in Mexico, Portugal, the Netherlands and China. They engage in developing strategies relating to product development, pricing, distribution, advertising, branding, merchandising and sales promotion globally and for the regions in which they are located.

We operate distribution centers located at or near each of our manufacturing facilities (see “Properties” below). In addition, we operate distribution centers for our products produced in Mexico in Laredo, Texas, and for our Syracuse<sup>®</sup> China and World<sup>®</sup> Tableware products in West Chicago, Illinois. The glass tableware manufacturing and distribution centers are strategically located to enable us to supply significant quantities of our product to virtually all of our customers on a timely and cost effective basis.

The majority of our sales are in the foodservice, retail and business-to-business channels, which are further detailed below.

#### ***Foodservice***

We have, according to our estimates, the leading market share in glass tableware sales in the U.S. and Canadian foodservice channel. Our Syracuse<sup>®</sup> China and World<sup>®</sup> Tableware brands are long-established brands of high-quality ceramic dinnerware, and metal flatware, hollowware and serveware. We are among the leading suppliers of these product categories to foodservice end users. Our glass tableware manufacturing facility in China continues to focus on growth in the domestic China market channel, and it also supplies products to targeted markets worldwide. A significant majority of our tableware sales to foodservice end users are made through a network of foodservice distributors. The distributors in turn sell to a wide variety of foodservice establishments, including national and regional hotel chains, national and regional restaurant chains, independently owned bars and restaurants and casinos.

#### ***Retail***

Our primary customers in the retail channel include mass merchants, specialty housewares stores and value-oriented retailers. Based on data we received from Retail Tracking Services of NPD Group, we continue to maintain our leading U.S. market share in the retail market for casual glass beverage ware. Royal Leerdam<sup>®</sup> and Crisa<sup>®</sup> products, from Libbey Holland and Libbey Mexico respectively, are sold to similar retail customers in Europe and Mexico. With this retail representation, we are positioned to successfully introduce profitable new products. We also operate outlet stores in the U.S. and Mexico. In addition, we sell via internet retailers.

#### ***Business-to-Business***

Libbey Holland and Libbey Portugal supply glass tableware to the business-to-business channel of distribution in Europe. Customers in this channel include marketers who decorate our glassware with company logos and resell these products to large breweries and distilleries, which redistribute the glassware for promotional purposes and resale. Our customers for products sold in the business-to-business channel in Latin America and the U.S. and Canada include drink companies and custom decorators of glassware for promotional purposes and resale. Additionally, our products sold in the business-to-business channel include products for candle and floral applications, blender jars and washing machine windows. The craft industries and gourmet food-packing companies are also business-to-business consumers of our glassware.

## ***Seasonality***

Primarily due to the impact of consumer consumption, buying patterns and production activity, our sales and operating income, excluding special items, tend to be stronger in the last three quarters of each year and weaker in the first quarter of each year. In addition, our cash flow from operating activities tends to be stronger in the second half of the year and weaker in the first half of the year due to seasonal working capital trends. In particular, our inventory levels typically reach their highest levels in the third quarter of the year, and decrease in the following quarter due to seasonally higher sales that typically peak in the fourth quarter of the year. In addition, our receivables typically peak during the third and early fourth quarters and begin to decrease by the end of the year as cash collections continue through the end of December, but shipping activity decreases during the final week of the year. Our payables normally peak during the third and fourth quarters of the year as a result of our increased production levels going into those quarters, but are not sufficiently large as to provide relief for total working capital needs caused by increased investment in inventories. Accordingly, our overall investment in working capital will normally reach higher levels through the summer months as we build inventory during slower sales periods in order to allow for optimum customer service and timely delivery during the higher sales periods in the second half of the year, when sales typically exceed short-term production capabilities. Although little information with respect to our competitors is publicly available, we believe that our experience with working capital is generally consistent with the experience of the industry as a whole.

## ***Backlog***

As of December 31, 2015, our backlog was approximately \$67.5 million, compared to approximately \$78.9 million at December 31, 2014. The decrease was caused primarily by timing of order fulfillment and currency translation effects. Backlog includes orders confirmed with a purchase order for products scheduled to be shipped to customers in a future period. Because orders may be changed and/or canceled, we do not believe that our backlog is necessarily indicative of actual sales for any future period and expect that the majority of these orders will be fulfilled within the current year.

## ***Manufacturing and Sourcing***

In North America, we currently own and operate three glass tableware manufacturing plants - two in the United States (one in Toledo, Ohio and one in Shreveport, Louisiana) and one in Monterrey, Mexico. In Europe, we own and operate two glass tableware manufacturing plants - one in Leerdam, the Netherlands, and the other in Marinha Grande, Portugal. In Asia, we own and operate a glass tableware production facility in Langfang, China.

The manufacture of our tableware products involves the use of automated processes and technologies, as well as manual production. We design much of our glass tableware production machinery, and we continuously refine it to incorporate technological advances to create a competitive advantage. We believe that our production machinery and equipment continue to be adequate for our needs for the foreseeable future, but we continue to invest to further improve our product offering and production efficiencies and reduce our cost profile.

Our glass tableware products generally are produced using one of two manufacturing methods or, in the case of certain stemware, a combination of these methods. Most of our tumblers, stemware and other glass tableware products are produced by forming molten glass in molds with the use of compressed air. These products are known as “blown” glass products. Our other glass tableware products and the stems of certain stemware are “pressware” products, which are produced by pressing molten glass into the desired product shape.

To assist in the manufacturing process, we employ a team of engineers whose responsibilities include efforts to improve and upgrade our manufacturing facilities, equipment and processes. In addition, they provide engineering required to manufacture new products and implement the large number of innovative changes continuously being made to our product designs, sizes and shapes. See “Research and Development” below for additional information.

Ceramic dinnerware and metal flatware and hollowware are imported primarily from Asia, through our Syracuse China and World Tableware subsidiaries.

## ***Materials***

Our primary materials are sand, lime, soda ash, corrugated packaging and colorants. Historically, these materials have been available in adequate supply from multiple sources. However, there may be temporary shortages of certain materials due to weather or other factors, including disruptions in supply caused by material transportation or production delays. Such shortages have not previously had, and are not expected in the future to have, a material adverse effect on our operations. Natural gas is the primary source of energy in our production processes, and periodic variability in the price for natural gas has had and could

continue to have an impact on our profitability. Historically, we have used natural gas hedging contracts for a portion of our expected purchases to partially mitigate this impact in North America and Europe. We also experience fluctuations in the freight cost to deliver materials due to the cost of diesel fuel to our facilities, and such changes may affect our earnings and cash flow

### ***Research and Development***

Our core competencies include our glass engineering excellence and world-class manufacturing development techniques. Our focus is to increase the quality of our products, develop innovative new product offerings and enhance the profitability of our business through research and development, including adjacent technology, safety and risk mitigation techniques. We will continue to invest in strategic research and development projects that will further enhance our ability to compete in our core business.

We employ a team of engineers, in addition to external consultants and university collaboration studies in sciences, to conduct research and development. Our expenditures on research and development activities related to new and/or improved products and processes were \$6.1 million in 2015, \$6.2 million in 2014 and \$3.4 million in 2013. These costs were expensed as incurred.

### ***Patents, Trademarks and Licenses***

Based upon market research and surveys, we believe that our trade names and trademarks, as well as our product shapes and styles, enjoy a high degree of consumer recognition and are valuable assets. We believe that the Libbey<sup>®</sup>, Syracuse<sup>®</sup> China, World<sup>®</sup> Tableware, Crisa<sup>®</sup>, Royal Leerdam<sup>®</sup> and Crisal Glass<sup>®</sup> trade names and trademarks are material to our business.

We have rights under a number of patents that relate to a variety of products and processes. However, we do not consider that any patent or group of patents relating to a particular product or process is of material importance to our business as a whole.

### ***Competitors***

Our business is highly competitive, with the principal competitive factors being customer service, price, product quality, new product development, brand name, responsiveness, delivery time and breadth of product offerings.

Competitors in glass tableware include, among others:

- Arc International (a French company), which manufactures in various sites throughout the world, including France, USA, China, Russia and the U.A.E and distributes glass tableware worldwide to retail, foodservice and business-to-business customers;
- Paşabahçe (a unit of Şişecam, a Turkish company), which manufactures glass tableware at various sites throughout the world and sells to retail, foodservice and business-to-business customers worldwide;
- EveryWare Global, Inc. (a U.S. company), which manufactures and distributes under the Anchor Hocking brand<sup>®</sup> glass beverage ware, industrial products and bakeware primarily to retail, industrial and foodservice channels in North America;
- Bormioli Rocco Group (an Italian company), which manufactures glass tableware in Europe, where the majority of its competitive sales are to retail and foodservice customers;
- AnHui DeLi Glassware Co., Ltd. (a Chinese company), which manufactures glass tableware in China, where the majority of its competitive sales are to foodservice and retail customers;
- Vidrieria y Cristaleria de Lamiaco. S.A - Vicrila (a Spanish company), which manufactures glass tableware products to serve Europe and the Americas;
- various manufacturers in Asia, Europe, Middle East and South America; and
- various sourcing and marketing companies.

Other materials such as plastics also compete with glassware.

Competitors in U.S. ceramic dinnerware include, among others:

- Homer Laughlin;
- EveryWare Global, Inc. which markets under the Oneida<sup>®</sup> brand and others;
- Steelite; and
- various sourcing companies.

Competitors in metalware include, among others:

- EveryWare Global, Inc. which markets under the Oneida® brand and others;
- Walco, Inc.; and
- various sourcing companies.

### ***Environmental Matters***

Our operations, in common with those of industry generally, are subject to numerous existing laws and governmental regulations designed to protect the environment, particularly regarding plant waste, emissions and solid waste disposal and remediation of contaminated sites. We believe that we are in material compliance with applicable environmental laws, and we are not aware of any regulatory initiatives that we expect will have a material effect on our products or operations. See “Risk Factors-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.”

#### ***King Road Landfill***

We have shipped, and we continue to ship, waste materials for off-site disposal. However, we are not named as a potentially responsible party with respect to any waste disposal site matters pending prior to June 24, 1993, the date of Libbey's initial public offering and separation from Owens-Illinois, Inc. (Owens-Illinois). Owens-Illinois has been named as a potentially responsible party or other participant in connection with certain waste disposal sites to which we also may have shipped wastes prior to June 24, 1993. We may bear some responsibility in connection with those shipments. Pursuant to an indemnification agreement between Owens-Illinois and Libbey, Owens-Illinois agreed to defend and hold us harmless against any costs or liabilities we may incur in connection with any such matters identified and pending as of June 24, 1993, and to indemnify us for any liability that results from these matters in excess of \$3.0 million.

In January 1999, the Board of Commissioners of Lucas County, Ohio (which we refer to as the "County") instituted a lawsuit against Owens-Illinois, Libbey and numerous other defendants in the U.S. District Court for the Northern District of Ohio to recover costs incurred to address contamination from the King Road landfill formerly operated by the County. The Board of Commissioners dismissed the lawsuit without prejudice in October 2000. On September 12, 2012, the Ohio Department of Environmental Protection (which we refer to as "Ohio EPA") selected the remedy to be implemented by the County; however, members of the potentially responsible party group appealed Ohio EPA's decision. On September 9, 2014, Ohio EPA issued a modified decision document limiting the environmental remedy to require supplemental cover activities on only one acre of the 109-acre landfill site and to define the extent of a no-well zone. Ohio EPA then issued to the County (but not to any other potentially-responsible parties (which we call "PRPs")) an invitation to negotiate proposed orders with respect to the Remedial Design/Remedial Action plan. The County then asserted certain claims against the Company and other PRPs. Effective February 3, 2016, the County and PRPs entered into a Settlement Agreement pursuant to which the County agreed to undertake the required remediation and released the PRPs, including the Company, from any liability in connection with the matter. Owens-Illinois has satisfied the Company's obligation to pay certain sums to the County pursuant to the Settlement Agreement.

#### ***Syracuse China Environmental Matters***

On October 10, 1995, pursuant to an Asset Purchase Agreement, or APA, Syracuse China Company, our wholly-owned subsidiary, acquired from The Pfaltzgraff Co. (now known as TPC York, Inc., which we refer to as "TPC York") and certain of its subsidiary corporations, the assets operated by them as Syracuse China.

By letter dated October 31, 2008, the DEC and U.S. Environmental Protection Agency, which we refer to as the EPA, made a demand upon Syracuse China and several other potentially responsible parties, or "PRPs," for recovery of approximately \$12.5 million of direct and indirect costs allegedly expended by the DEC and EPA in connection with the lake bottom subsite (which we refer to as the Onondaga Lake Bottom subsite) of the Onondaga Lake Superfund Site. In February 2013, Syracuse China, TPC York and Honeywell International Inc., which we refer to as Honeywell, entered into an agreement to settle certain claims relating to the Onondaga Lake Bottom subsite, which Honeywell previously undertook to remediate. Under that Settlement Agreement, Honeywell has agreed to indemnify Syracuse China with respect to certain claims that may be made by any government or third party with respect to the Onondaga Lake Bottom subsite.

By letter dated October 30, 2009, the EPA notified Syracuse China and several other PRPs of potential liability for response costs in connection with the Lower Ley Creek subsite ("Ley Creek Subsite") of the Onondaga Lake Superfund Site. Since that date, the EPA has completed its Remedial Investigation (RI), Feasibility Study (FS), Risk Assessment (RA) and Proposed Remedial Action Plan (PRAP). The EPA issued its Record of Decision (RoD) on September 30, 2014. The RoD indicates that the EPA's estimate of the undiscounted cost of remediation ranges between approximately \$17.0 million (assuming local

disposal of contaminated sediments is feasible) and approximately \$24.8 million (assuming local disposal is not feasible). However, the RoD acknowledges that the final cost of the cleanup will depend upon the actual volume of contaminated material, the degree to which it is contaminated, and where the excavated soil and sediment is properly disposed. In connection with the General Motors Corporation bankruptcy, the EPA recovered \$22.0 million (which we refer to as the "GM Settlement Funds") from Motors Liquidation Company ("MLC"), the successor to General Motors Corporation. If the cleanup costs do not exceed the amount recovered by the EPA from MLC, Syracuse China may suffer no loss. If and to the extent the cleanup costs exceed the amount recovered by the EPA from MLC, it is not yet known whether other PRPs will be added to the current group of PRPs or how any excess costs may be allocated among the PRPs.

On March 3, 2015, the EPA issued to the PRPs notices and requests to negotiate performance of the remedial design, or RD, work. The notices contemplate that any agreement to perform the RD work would be memorialized in an Administrative Order on Consent, or AOC. The EPA and PRPs currently are discussing entering into an AOC pursuant to which some or all of the PRPs would agree to perform the RD work. The EPA and PRPs anticipate that the RD work will produce additional information from which the feasibility of a local disposal option and the cleanup costs can be better determined. The EPA has declined to advance the GM Settlement Funds for the RD work, instead conditioning use of those funds to reimburse for the RD work upon the successful completion of the RD work and the finalization of an AOC to perform the remedial action work.

To the extent Syracuse China is liable for any costs in connection with the remediation of the Ley Creek Subsite, including without limitation costs to fund the RD work, and to the extent such costs are not reimbursed from the GM Settlement Funds, then pursuant to the APA Syracuse China and TPC York will share such costs up to an aggregate of \$7.5 million. We believe that collection of the amounts for which TPC York is liable under that indemnification is probable.

In connection with the above proceedings, an estimated environmental liability of \$1.1 million and a recoverable amount of \$0.6 million has been recorded in other long term assets in the Consolidated Balance Sheets at December 31, 2015. An estimated liability of \$1.0 million and a recoverable amount \$0.7 million has been recorded in other long term assets in the Consolidated Balance Sheets at December 31, 2014. Expense of \$0.2 million and \$0.3 million has been recorded in cost of sales in the Consolidated Statements of Operations for the years ended December 31, 2015 and 2014, respectively. Although we cannot predict the ultimate outcome of this proceeding, we believe that it will not have a material adverse impact on our financial condition, results of operations or liquidity.

#### *Other*

We regularly review the facts and circumstances of the various environmental matters affecting us, including those covered by indemnification. Although not free of uncertainties, we do not expect, based upon the number of parties involved at the sites and the estimated cost, based upon known technology and the experience of others, of undisputed work necessary for remediation, to incur material loss for new matters in the future. There can be no assurance, however, that indemnification agreements will be performed in accordance with their terms. Our future expenditures for environmental matters will not have a material adverse effect on our financial position or results of operations.

In addition, occasionally the federal government and various state authorities have investigated possible health issues that may arise from the use of lead or other ingredients in enamels such as those used on the exterior surface of our decorated products. In that connection, Libbey Glass Inc. and numerous other glass tableware manufacturers, distributors and importers entered into a consent judgment on August 31, 2004 in connection with an action, *Leeman v. Arc International North America, Inc. et al*, Case No. CGC-003-418025 (Superior Court of California, San Francisco County) brought under California's so-called "Proposition 65." Proposition 65 requires businesses with ten or more employees to give a "clear and reasonable warning" prior to exposing any person to a detectable amount of a chemical listed by the state as covered by this statute. Lead is one of the chemicals covered by that statute. Pursuant to the consent judgment, Libbey Glass Inc. and the other defendants (including Anchor Hocking and Arc International North America, Inc.) agreed, over a period of time, to reformulate the enamels used to decorate the external surface of certain glass tableware items to reduce the lead content of those enamels. We have complied with this requirement.

Although we continue to modify our manufacturing processes and technologies in an effort to reduce our emissions and increase energy efficiency, capital expenditures for property, plant and equipment for environmental control activities were not material during 2015 or 2014 and are not expected to increase significantly in 2016.

#### *Employees*

Our employees are vital to achieving our vision to "own every moment, from the smallest occasions to life's major celebrations" and our mission "to always deliver favorite moments for all our customers through innovation, collaboration, and

bold action.” We strive to achieve our vision and mission through our values of customer focus, performance, continuous improvement, teamwork, respect and development.

We employed 6,543 persons at December 31, 2015. Approximately 71 percent of our employees are employed outside the U.S., and the majority of our employees are paid hourly and covered by collective bargaining agreements. Agreements with our unionized employees in Toledo, Ohio expire on September 30, 2016. Libbey Holland's collective bargaining agreement with its unionized employees expires on June 30, 2017. The agreement with our unionized employees in Shreveport, Louisiana is scheduled to expire on December 15, 2017. Libbey Mexico's collective bargaining agreements with its unionized employees have no expiration, but wages are reviewed annually and benefits are reviewed every two years. Libbey Portugal does not have a written collective bargaining agreement with its unionized employees but does have an oral agreement that is revisited annually. Libbey China does not have written collective bargaining agreements with its unionized employees but does consult with the unions on various matters. We believe that our relations with our employees are good.

**Executive Officers of the Registrant**

Our executive officers have a wealth of business knowledge, experience and commitment to Libbey.

**Name and Title**

**Professional Background**

Sherry L. Buck. . . . . Vice President, Chief Financial Officer	Ms. Buck, 52, joined Libbey as Vice President, Chief Financial Officer on August 1, 2012. Ms. Buck came to Libbey from Whirlpool Corporation (NYSE: WHR), which she joined in 1993 and where she most recently served as Chief Financial Officer, Global Product and Enterprise Cost Leadership, since October 2010. From 2009 to October 2010, Ms. Buck was Vice President, Finance - U.S., and from 2007 to the end of 2008 she served as Vice President, Cost Leadership. Previous roles with Whirlpool included Vice President, Finance - International and Corporate Vice President, Business Performance Management.
Annunciata Cerioli. . . . . Vice President, Chief Supply Chain Officer	Ms. Cerioli, 54, joined Libbey as Vice President, Chief Supply Chain Officer, on December 1, 2014. Ms. Cerioli came to Libbey from Borden Dairy Co., where she served as Senior Vice President Supply Chain since August 2011. Previously, Ms. Cerioli held various positions at the Kellogg Company (NYSE: K), which she joined in 1990. Ms Cerioli's most recent role at Kellogg was Senior Vice President Supply Chain for the Kellogg Morning Food Division, Kellogg's largest business unit, a position she held from October 2009 to January 2011. Other roles with Kellogg included Vice President, Manufacturing, Snacks Division from 2008 to 2009, Director of Manufacturing, Kellogg Europe from 2005 to 2008, and various earlier positions in the manufacturing, supply chain and human resources departments of Kellogg and its international affiliates and subsidiaries.
William A. Foley. . . . . Chief Executive Officer and Chairman of the Board	Mr. Foley, 68, has been Chief Executive Officer and Chairman of the Board of Libbey since January 12, 2016. Before assuming the role as Chief Executive Officer and Chairman of the Board, Mr. Foley served as Independent Chairman of the Board since August 2011 and a Director since 1994. Mr. Foley served as Chairman and Chief Executive Officer of Blonder Accents, LLC from June 2011 until November 2011 and served as Chairman and Chief Executive Officer of Blonder Company from 2008 until June 2011. Previously, Mr. Foley was President and a director of Arhaus, Inc.; co-founder of Learning Dimensions LLC; Chairman and Chief Executive Officer of LESCO Inc.; and Chairman and Chief Executive Officer of Think Well Inc. Mr. Foley also fulfilled the roles of Vice President, General Manager for The Scotts Company Consumer Division, and Vice President and General Manager of Rubbermaid Inc.'s Specialty Products division. Mr. Foley spent the first 14 years of his career with Anchor Hocking Corp. in various positions, including Vice President of Sales & Marketing of the Consumer and Industrial Products Group. Mr. Foley is a member of the Board of Directors of Myers Industries, Inc. (NYSE:MYE) (since 2010) and is President of the Indiana University Foundation Board of Associates (since 2006).

<u>Name and Title</u>	<u>Professional Background</u>
Susan A. Kovach . . . . . Vice President, General Counsel and Secretary	Ms. Kovach, 56, has been Vice President, General Counsel and Secretary of Libbey Inc. since July 2004, having joined Libbey in December 2003 as Vice President, Associate General Counsel and Assistant Secretary. Ms. Kovach was Of Counsel to Dykema Gossett PLLC from 2001 through November 2003. She served from 1997 to 2001 as Vice President, General Counsel and Corporate Secretary of Omega Healthcare Investors, Inc. (NYSE: OHI) and from 1998 to 2000 as Vice President, General Counsel and Corporate Secretary of Omega Worldwide, Inc., a NASDAQ-listed firm. Prior to joining Omega Healthcare Investors, Inc., Ms. Kovach was a partner in Dykema Gossett PLLC from 1995 through November 1997 and an associate in Dykema Gossett PLLC from 1985 to 1995.
Salvador Miñarro Villalobos . . . . . Vice President, General Manager, U.S. and Canada	Mr. Miñarro, 45, has been Vice President, General Manager, U.S. and Canada since April 1, 2015. From August 2012 through March 2015, Mr. Miñarro was Vice President, General Manager, Latin America and Mexico. From November 2009 until August 2012, Mr. Miñarro was Managing Director, Libbey Mexico. From June 2006 until November 2009, Mr. Miñarro served as Commercial Director of Libbey Mexico. From 2004 until Libbey acquired the remaining 51% interest in the Vitrocrisa joint venture in June 2006, Mr. Miñarro was employed by Vitrocrisa S de RL de C.V. as Vice President, Sales and Marketing of the joint venture. Previous roles with the joint venture included Vice President of Sales for Vitrocrisa from 2001 to 2004 and Vice President, Administration and Finance for Vitrocrisa from 1998 to 2001. In addition, Mr. Miñarro served as corporate finance manager for Vitro, S.A. from 1996 to 1998.
Timothy T. Paige . . . . . Vice President, Human Resources	Mr. Paige, 58, has served as Vice President, Human Resources since March 2012. From December 2002 until February 2012, he was Vice President, Administration, and from January 1997 until December 2002, Mr. Paige was Vice President and Director of Human Resources of the Company. From May 1995 to January 1997, Mr. Paige was Director of Human Resources of the Company. Prior to joining the Company, Mr. Paige was employed by Frito-Lay, Inc. in various human resources management positions.
James H. White . . . . . Vice President, Chief Operating Officer	Mr. White, 51, has served as Vice President, Chief Operating Officer since joining the Company on July 13, 2015. Mr. White came to Libbey from Ecolab, Inc. (NYSE:ECL), where he most recently served as Executive Vice President and President, Latin America since 2012. Mr. White's previous positions at Ecolab include President, Asia Pacific and Latin America from 2011 to 2012, President, Europe, Middle East and Africa from 2007 to 2010, and Senior Vice President, Strategy and Marketing from 2005 to 2007. Before joining Ecolab, Mr. White was President of the U.S. Consumer Products Division of International Multifoods from 2001 to 2004. Mr. White's previous experience includes various sales, marketing, finance and operations positions at The Pillsbury Company from 1992 to 2001, and serving as an associate marketing manager for General Mills, Inc. (NYSE:GIS) from 1989 to 1992.

**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.

**Risks associated with market conditions**

*Slowdowns in the retail, travel, restaurant and bar or entertainment industries may negatively impact demand for our products.*

Our business is dependent on business and personal discretionary spending in the retail, travel, restaurant and bar or entertainment industries. Business and personal discretionary spending may decline during general economic downturns or during periods of uncertainty about economic conditions. In addition, austerity and other regulatory measures adopted by some governments may cause consumers in some markets that we serve to reduce or postpone spending. Consumers also may reduce or postpone spending in response to tighter credit, negative financial news, higher fuel and energy costs, higher tax rates and health care costs and/or declines in income or asset values. Additionally, expenditures in the travel, restaurant and bar or entertainment industries may decline after incidents of terrorism, during periods of geopolitical conflict in which travelers become concerned about safety issues, during periods of severe weather or during periods when travel or entertainment might involve health-related risks such as severe outbreaks, epidemics or pandemics of contagious disease.



***An inability to meet the demand for new products may adversely impact our ability to compete effectively and to grow our business.***

Our new *Own the Moment* strategy depends in part on the timing and market acceptance of new product offerings and our ability to continually renew our pipeline of new products and bring those products to market. This ability may be adversely affected by difficulties or delays in product development, such as the inability to identify viable new products, obtain adequate intellectual property protection, or gain market acceptance of new products. There are no guarantees that new products will prove to be commercially successful or profitable.

***An inability to develop new or expand existing customer relationships may adversely impact our ability to grow our business.***

Our ability to grow our business depends in part on our ability to develop new customer relationships and to expand relationships with existing customers. Failure to develop and expand such relationships could have a material adverse effect on our business, results of operations and financial condition.

***Changing industry and market conditions may dictate strategic decisions to restructure some business units and discontinue others. These decisions may require us to record material restructuring charges.***

In the past, we have recorded restructuring charges related to involuntary employee terminations, various facility abandonments, and various other restructuring activities. We continually evaluate ways to reduce our operating expenses through new restructuring opportunities, including more effective utilization of our assets, workforce, and operating facilities. In addition, changing industry and market conditions may dictate strategic decisions to restructure some business units and discontinue others. As a result, there is a risk, which is increased during economic downturns and with expanded global operations, that we may incur material restructuring charges in the future.

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

Our business is highly competitive, with the principal competitive factors being customer service, price, product quality, new product development, brand name, delivery time and breadth of product offerings. Advantages or disadvantages in any of these competitive factors may be sufficient to cause the customer to consider changing providers of the kinds of products that we sell.

Competitors in glass tableware include, among others:

- Arc International (a French company), which manufactures in various sites throughout the world, including France, the U.S., China, Russia and the U.A.E. and distributes glass tableware worldwide to retail, foodservice and business-to-business customers;
- Paşabahçe (a unit of Şişecam, a Turkish company), which manufactures glass tableware at various sites throughout the world and sells to retail, foodservice and business-to-business customers worldwide;
- EveryWare Global, Inc., which manufactures and distributes, under the Anchor Hocking® brand, glass beverage ware, industrial products and bakeware primarily to retail, industrial and foodservice channels in North America;
- Bormioli Rocco Group (an Italian company), which manufactures glass tableware in Europe, where the majority of its sales are to retail and foodservice customers;
- AnHui DeLi Glassware Co., Ltd. (a Chinese company), which manufactures glass tableware in China, where the majority of its competitive sales are to foodservice and retail customers;
- Vidriera y Cristaleria de Lamiaco. S.A - Vicrila (a Spanish company), which manufactures glass tableware products to serve Europe and the Americas;
- various manufacturers in Asia, Europe, Middle East and South America; and
- various sourcing and marketing companies.

In addition, makers of tableware produced with other materials such as plastics compete to a certain extent with glassware manufacturers.

Competitors in the U.S. market for ceramic dinnerware include, among others: Homer Laughlin; EveryWare Global, Inc. (which markets ceramic dinnerware under the Oneida® brand and others); Steelite; and various sourcing companies. Competitors in metalware include, among others: EveryWare Global, Inc. (which markets metalware under the Oneida® brand and others); Walco, Inc.; and various sourcing companies. In Mexico, where a larger portion of our sales are in the retail market, our primary competitors include imports from foreign manufacturers located in countries such as China, France, Italy and Colombia, as well as Vidriera Santos and Vitro Par in the candle category.

Demand for our products may be adversely impacted by increased competitive pressures caused by the provision of subsidies by foreign countries to our competitors based in those countries; national and international boycotts and embargoes of other countries' or U.S. imports and/or exports; the raising of tariff rates on, or increase of non-tariff trade barriers that apply to, imports of our products to foreign countries; the lowering of tariff rates on imports into the U.S. of our foreign competitors' products; and other changes to international agreements that improve access to the U.S. market for our competitors.

In addition, the cost-competitiveness of our products may be adversely affected by inflationary pressures that cause us to increase the prices of our products in order to maintain their profitability. In that connection, some of our competitors may have greater financial and capital resources than we do and continue to invest heavily to achieve increased production efficiencies. Competitors may have incorporated more advanced technology in their manufacturing processes, including more advanced automation techniques. Our labor and energy costs also may be higher than those of some foreign producers of glass tableware.

The cost-competitiveness of our products, as compared to foreign competition, also may be reduced as a result of major fluctuations in the value of the euro, the Mexican peso, the Chinese yuan, which we refer to as the "RMB," or the Canadian dollar relative to the U.S. dollar and other major currencies. For example, over the last two years the U.S. dollar has appreciated substantially against the euro, the Mexican peso and the RMB, as a result of which the purchasing power of those currencies effectively has been reduced compared to the U.S. dollar, making our U.S.-manufactured products more expensive in the euro zone, Mexico and China, respectively, compared to the products of local competitors, and making products manufactured by our foreign competitors in those locations more cost-competitive in the U.S. with our U.S. manufactured products.

***Our Mexican pension and U.S. and non-U.S. postretirement welfare plans are unfunded; in the future, levels of funding of our U.S. pension plans could decline and our pension expense could materially increase.***

We have not funded, and under Mexican law we are not obligated to fund, our Mexican pension plan. As of December 31, 2015, the unfunded amount of the projected benefit obligation for the Mexican pension plan was \$35.9 million. In addition, although we have closed participation in our U.S. pension and post-retirement welfare plans, many of our employees participate in, and many of our former employees are entitled to benefits under, our U.S. and non-U.S. defined benefit pension plans and post-retirement welfare plans.

In connection with our employee pension and postretirement welfare 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 obligations and related expense. Our total pension and postretirement welfare expense, including pension settlement charges, for all U.S. and non-U.S. plans was \$36.0 million and \$13.5 million for the fiscal years ended December 31, 2015 and 2014, respectively. We expect our total pension and postretirement welfare expense for all U.S. and non-U.S. plans to decrease to \$9.3 million in 2016. Volatility in the capital markets affects the performance of our pension plan asset performance and related pension expense. Based on 2015 year-end data, sensitivity to these key market risk factors is as follows:

- A change of 1 percent in the discount rate would change our total pension and postretirement welfare expense by approximately \$4.3 million.
- A change of 1 percent in the expected long-term rate of return on plan assets would change total pension expense by approximately \$3.2 million.

Declines in interest rates or the market value of securities held by our U.S. pension plan, or certain other changes, could materially reduce the funded status of those plans and affect our pension expense and the level and timing of minimum required contributions to the plans under applicable law.

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

Natural gas is the primary source of energy in most of our production processes. We do not have long-term contracts for natural gas and therefore are subject to market variables and widely fluctuating prices. Consequently, our operating results are strongly

linked to the cost of natural gas. As of December 31, 2015, we had fixed price contracts in place for approximately 55.8 percent of our estimated 2016 natural gas needs with respect to our North American manufacturing facilities and approximately 51.6 percent of our estimated 2016 natural gas needs with respect to our international manufacturing facilities. In some countries in which we operate, including China, our ability to put fixed priced contracts in place is limited. We spent \$35.3 million and \$41.3 million, respectively on natural gas for the year ended December 31, 2015 and 2014. We have no way of predicting to what extent natural gas prices will rise in the future. To the extent that we are not able to offset increases in natural gas prices, such as by passing along the cost to our customers, these increases could adversely impact our margins and operating performance.

***The market price of our common stock is subject to volatility.***

The market price of our common stock could be subject to wide fluctuations in response to numerous factors, many of which are beyond our control. These factors include market conditions within the industries in which we operate, as well as general economic and market conditions, such as recessions; seasonality of our business operations; the general state of the securities markets and the market for stocks of companies in our industry; trading volumes; sales by holders of large amounts of our common stock; short selling; actual or anticipated variations in our operational results and cash flow; actual or anticipated variations in our earnings relative to our competition; changes in financial estimates by securities analysts; governmental legislation or regulation; and currency and exchange rate fluctuations.

**Operational Risks**

***If we are unable 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 party to collective bargaining agreements that cover most of our manufacturing employees. The agreements with our unionized employees in Toledo, Ohio, expire on September 30, 2016. Libbey Holland's collective bargaining agreement with its unionized employees expires on June 30, 2017. The agreement with our unionized employees in Shreveport, Louisiana, is scheduled to expire on December 15, 2017. Libbey Mexico's collective bargaining agreements with its unionized employees have no expiration, but wages are reviewed annually and benefits are reviewed every two years. Libbey Portugal does not have a written collective bargaining agreement with its unionized employees but does have an oral agreement that is revisited annually. Libbey China does not have written collective bargaining agreements with its unionized employees but does consult with the unions on various matters.

We may not be able to successfully negotiate new collective bargaining agreements without a labor disruption. If any of our unionized employees were to engage in a strike or work stoppage prior to expiration of their existing collective bargaining agreements, or if we are unable in the future to negotiate acceptable agreements with our unionized employees in a timely manner, we could experience a significant disruption of operations. In addition, we could experience increased operating costs as a result of higher wages or benefits paid to union members upon the execution of new agreements with our labor unions. We also could experience operating inefficiencies as a result of preparations for disruptions in production, such as increasing production and inventories. Finally, companies upon which we are dependent for raw materials, transportation or other services could be affected by labor difficulties. These factors and any such disruptions or difficulties could have an adverse impact on our operating performance and financial condition.

In addition, we are dependent on the cooperation of our largely unionized workforce to implement and adopt our productivity initiatives that are critical to our ability to improve our production efficiency. The effect of strikes and other slowdowns may adversely affect the degree and speed with which we can adopt optimization objectives.

***If we are unable to increase output or achieve operating efficiencies, the profitability of our business may be materially and adversely affected.***

We may not be successful in increasing output at our lower-cost manufacturing facilities or gaining operating efficiencies that may be necessary in order to ensure that our products and their prices remain competitive.

***Unexpected equipment failures may lead to production curtailments or shutdowns.***

Our manufacturing processes are dependent upon critical glass-producing equipment, such as furnaces, forming machines and lehrs. This equipment may incur downtime as a result of unanticipated failures, accidents, natural disasters or other *force majeure* events. We may in the future experience facility shutdowns or periods of reduced production as a result of such failures or events. Unexpected interruptions in our production capabilities would adversely affect our productivity and results of operations for the affected period. We also may face shutdowns if we are unable to obtain enough energy in the peak demand periods.

***A loss of the services of key personnel could have a material adverse effect on our business.***

Our continued success depends to a large degree upon our ability to attract and retain key management executives, as well as upon a number of members of technology, operations and sales and marketing staffs. The loss of some of our key executives or key members of our operating staff, or an inability to attract or retain other key individuals, could materially adversely affect us.

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

All of our major operations, including manufacturing, distribution, sales and accounting, are dependent upon our complex information systems. Our information systems are vulnerable to damage or interruption from:

- earthquake, fire, flood, hurricane and other natural disasters;
- power loss, computer systems failure, internet and telecommunications or data network failure; and
- hackers, computer viruses or software bugs.

Any damage or significant disruption in the operation of such systems or the failure of our information systems to perform as expected could disrupt our business; result in decreased sales, increased overhead costs, excess inventory and product shortages; and otherwise adversely affect our operations, financial performance and condition. We take significant steps to mitigate the potential impact of each of these risks, but there can be no assurance that these procedures would be completely successful.

In addition, although we take steps to secure our management information systems, including our computer systems, intranet and internet sites, email and other telecommunications and data networks, the security measures we have implemented may not be effective and our systems may be vulnerable to theft, loss, damage and interruption from a number of potential sources and events, including unauthorized access or security breaches and cyber attacks. Our reputation, brand, and financial condition could be adversely affected if, as a result of a significant cyber event or otherwise, our operations are disrupted or shutdown; our confidential, proprietary information is stolen or disclosed; data is manipulated or destroyed; we incur costs or are required to pay fines in connection with stolen customer, employee, or other confidential information; we must dedicate significant resources to system repairs or increase cyber security protection; or we otherwise incur significant litigation or other costs.

***A severe outbreak, epidemic or pandemic of a contagious disease in a location where we have a facility could adversely impact our operations and financial condition.***

Our facilities may be impacted by the outbreak of certain public health issues, including epidemics, pandemics and other contagious diseases. If a severe outbreak were to occur where we have facilities, it could adversely impact our operations and financial condition.

***We may not be able to effectively integrate future businesses we acquire or joint ventures into which we enter.***

Any future acquisitions that we might make or joint ventures into which we might enter are subject to various risks and uncertainties, including:

- the inability to integrate effectively the operations, products, technologies and personnel of the acquired companies (some of which may be spread out in different geographic regions) and to achieve expected synergies;
- the potential disruption of existing business and diversion of management's attention from day-to-day operations;

- the inability to maintain uniform standards, controls, procedures and policies or correct deficient standards, controls, procedures and policies, including internal controls and procedures sufficient to satisfy regulatory requirements of a public company in the U.S.;
- the incurrence of contingent obligations that were not anticipated at the time of the acquisitions;
- the failure to obtain necessary transition services such as management services, information technology services and others;
- the need or obligation to divest portions of the acquired companies; and
- the potential impairment of relationships with customers.

In addition, we cannot provide assurance that the integration and consolidation of newly acquired businesses or joint ventures will achieve any anticipated cost savings and operating synergies. The inability to integrate and consolidate operations and improve operating efficiencies at newly acquired businesses or joint ventures could have a material adverse effect on our business, financial condition and results of operations.

### **Financial risks**

#### ***Our level of debt may limit our operating and financial flexibility.***

As of December 31, 2015, we had \$436.9 million aggregate principal amount of debt outstanding. Although our ABL Facility credit agreement and Term Loan B Senior Secured Credit Agreement generally do not contain financial covenants, the credit agreements contain other covenants that limit our operational and financial flexibility, such as by:

- limiting the additional indebtedness that we may incur;
- limiting certain business activities, investments and payments, and
- limiting our ability to dispose of certain assets.

These covenants may limit our ability to engage in activities that may be in our long-term best interests.

In addition, our levels of indebtedness could:

- limit our ability to withstand business and economic downturns and/or place us at a competitive disadvantage compared to our competitors that have less debt, because of the high percentage of our operating cash flow that is dedicated to servicing our debt;
- limit our ability to make capital investments in order to expand our business;
- limit our ability to invest operating cash flow in our business and future business opportunities, because we use a substantial portion of these funds to service debt and because our covenants restrict the amount of our investments;
- limit our ability to obtain additional debt or equity financing for working capital, capital expenditures, product development, debt service requirements, acquisitions or other purposes;
- make it more difficult for us to satisfy our financial obligations;
- limit our ability to pay dividends; and
- limit our ability to attract and retain talent.

If cash generated from operations is insufficient to satisfy our liquidity requirements, if we cannot service our debt, or if we fail to meet our covenants, we could have substantial liquidity problems. In those circumstances, we might have to discontinue payment of dividends and/or share repurchases, sell assets, delay planned investments, obtain additional equity capital or restructure our debt. Depending on the circumstances at the time, we may not be able to accomplish any of these actions on favorable terms or at all.

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

***Our variable rate indebtedness subjects us to interest rate risk that could cause our debt service obligations to increase significantly.***

Borrowings under our Senior Secured Term Loan B are at variable rates of interest and expose us to interest rate risk. Although we have entered into a forward interest-rate swap to fix the interest rate on \$220.0 million of our Senior Secured Term Loan B, if interest rates were to increase, our debt service obligations on the variable rate indebtedness would increase even if the amount borrowed were to remain the same. As a result, our net income and cash flows would decrease.

***If we are unable to control or pass on to our customers increases in key input costs, including the cost of raw materials, sourced products, utilities, packaging and freight, the profitability of our business may be materially and adversely affected.***

Sand, soda ash, lime and corrugated packaging materials are the principal materials we use to make our products. We also rely heavily on natural gas, electricity, water and other utilities. In addition, we obtain glass tableware, ceramic dinnerware, metal flatware and hollowware from third parties. Increases in the costs of these commodities or products may result from inflationary pressures as well as temporary shortages due to disruptions in supply caused by weather, transportation, production delays or other factors. If we experience shortages in commodities or sourced products, we may be forced to procure them from alternative suppliers, and we may not be able to do so on terms as favorable as our current terms or at all.

In addition, the cost of U.S. dollar-denominated purchases (including for raw materials) for our operations in the euro zone, Mexico and China may increase due to appreciation of the U.S. dollar against the euro, the Mexican peso or the RMB, respectively.

If we are unsuccessful in managing our costs or in passing cost increases through to our customers through increased prices, our financial condition and results of operations may be materially and adversely affected.

***The profitability of our business may be materially and adversely impacted if we are unable to fully absorb the high levels of fixed costs associated with our business.***

The high levels of fixed costs of operating glass production plants encourage high levels of output, even during periods of reduced demand, which can lead to excess inventory levels and exacerbate the pressure on profit margins. In addition, significant portions of our selling, administrative and general expenses are fixed costs that neither increase nor decrease proportionately with sales. Our profitability is dependent, in part, on our ability to spread fixed costs over an increasing number of products sold and shipped, and if we reduce our rate of production our costs per unit increase, negatively impacting our gross margins. Decreased demand or the need to reduce inventories can lead to capacity adjustments that reduce our ability to absorb fixed costs and, as a result, may materially impact our profitability.

***We face inventory risk.***

We identify slow-moving and obsolete inventories and estimate appropriate loss provisions accordingly. No assurance can be given that we will not incur additional inventory charges. Such charges could materially adversely affect our financial condition and operating results.

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

Our reporting currency is the U.S. dollar. A significant portion of our net sales, costs, assets and liabilities are denominated in currencies other than the U.S. dollar, primarily the euro, the Mexican peso, the RMB and the Canadian dollar. In our consolidated financial statements, we translate local currency financial results into U.S. dollars based on the exchange rates prevailing during the reporting period. During times of a strengthening U.S. dollar, the reported revenues and earnings of our international operations will be reduced because the local currencies will translate into fewer U.S. dollars. This could have a material adverse effect on our financial condition, results of operations and cash flow.

In addition, changes in the value, relative to the U.S. dollar, of the various currencies in which we conduct operations, including the euro, the Mexican peso and the RMB, may result in significant changes in the indebtedness of our non-U.S. subsidiaries.

***Downgrades of our credit ratings could adversely impact us.***

Our credit ratings are important to our cost of capital. The major debt rating agencies routinely evaluate our debt based on a number of factors, including our financial strength and business risk as well as transparency with rating agencies and timeliness of financial reporting. A downgrade in our debt rating could result in increased interest and other expenses on future borrowings. Downgrades in our debt rating could also restrict our access to capital markets.

***If we have an asset impairment in a business segment, our net earnings and net worth could be materially and adversely affected by a write-down of goodwill, intangible assets or fixed assets.***

We have recorded a significant amount of goodwill, which represents the excess of cost over the fair value of the net assets of the business acquired; other identifiable intangible assets, including trademarks and trade names; and fixed assets. Impairment of goodwill, identifiable intangible assets or fixed assets may result from, among other things, deterioration in our performance, adverse market conditions, adverse changes in applicable laws or regulations, including changes that restrict the activities of or affect the products sold by our business, and a variety of other factors. Under U.S. GAAP, we are required to charge the amount of any impairment immediately to operating income. In 2015 and 2014, we did not have any impairment related to goodwill, intangible assets or fixed assets. As of December 31, 2015, we had goodwill and other identifiable intangible assets of \$180.5 million and net fixed assets of \$272.5 million.

We conduct an impairment analysis at least annually related to goodwill and other indefinite lived intangible assets. This analysis requires our management to make significant judgments and estimates, primarily regarding expected growth rates, the terminal value calculation for cash flow and the discount rate, identifying similar companies with comparable business factors and assessing comparable multiples. We determine expected growth rates based on internally developed forecasts considering our future financial plans. We establish the terminal cash flow value based on expected growth rates, capital spending trends and investment in working capital to support anticipated sales growth. We estimate the discount rate used based on an analysis of comparable company weighted average costs of capital that considered market assumptions obtained from independent sources. We identified similar companies with comparable business factors such as size, growth, profitability, risk and return on investment. We identified comparable multiples that we felt were most relevant to Libbey. The estimates that our management uses in this analysis could be materially impacted by factors such as specific industry conditions, changes in cash flow from operations and changes in growth trends. In addition, the assumptions our management uses are management's best estimates based on projected results and market conditions as of the date of testing. Significant changes in these key assumptions could result in indicators of impairment when completing the annual impairment analysis. We assess our fixed assets for possible impairment whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. We remain subject to future financial statement risk in the event that goodwill, other identifiable intangible assets or fixed assets become impaired. For further discussion of key assumptions in our critical accounting estimates, see "Management's Discussion and Analysis of Financial Condition and Results of Operations-Critical Accounting Estimates."

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

We have derivative financial instruments to hedge our interest rate risk. In addition, in order to mitigate the variation in our operating results due to commodity price fluctuations, we have derivative financial instruments that hedge certain commodity price risks associated with forecasted future natural gas requirements and foreign exchange rate risks associated with transactions denominated in some currencies other than the U.S. dollar. The results of our hedging practices could be positive, neutral or negative in any period, depending on price changes of the hedged exposures. We account for derivatives in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 815, "Derivatives and Hedging." These derivatives qualify for hedge accounting if the hedges are highly effective and we have designated and documented contemporaneously the hedging relationships involving these derivative instruments. If we do not elect hedge accounting, 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 will impact our results of operations and could significantly impact our earnings.

***If counterparties to our hedge agreements fail to perform, the hedge agreements would not protect us from fluctuations in certain commodity pricing.***

If the counterparties to our derivative financial instruments that hedge commodity price risks were to fail to perform, we would no longer be protected from fluctuations in the pricing of these commodities and the impact of pricing fluctuations would impact our results of operations and financial condition.

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

Our operations are capital intensive, requiring us to maintain a large fixed cost base. Our total capital expenditures were \$48.1 million and \$54.4 million for the years ended December 31, 2015 and 2014, respectively.

Our business may not generate sufficient operating cash flow and external financing sources may not be available in an amount sufficient to enable us to make anticipated capital expenditures.

***Charges related to our employee pension and postretirement welfare plans may adversely affect our results of operations and financial condition.***

As part of our pension expense, we incurred pension settlement charges of \$21.6 million and \$0.8 million during 2015 and 2014, respectively. The 2015 charges were triggered by the unwinding of direct ownership of our Dutch defined benefit plan while 2014 charges were triggered by excess lump sum distributions to retirees and terminated vested employees. For further discussion of these charges, see note 9 to our Consolidated Financial Statements for the year ended December 31, 2015. We may incur further expenses related to our employee pension and postretirement welfare plans that could have a material adverse effect on our results of operations and financial condition.

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

The manufacture of our tableware products involves the use of automated processes and technologies. We designed much of our glass tableware production machinery internally and have continued to develop and refine this equipment to incorporate advancements in technology. We will continue to invest in equipment and make other capital expenditures to further improve our production efficiency and reduce our cost profile. To the extent that these investments do not generate targeted levels of returns in terms of efficiency or improved cost profile, our financial condition and results of operations could be adversely affected.

***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.***

While the Mexican government does not currently restrict, and for many years has not restricted, the right or ability of Mexican or foreign persons or entities to convert pesos into U.S. dollars or to transfer other currencies out of Mexico, in the future the Mexican government could institute restrictive exchange rate policies or governmental controls over the convertibility of pesos into U.S. dollars. Restrictive exchange rate or conversion policies could limit our ability to transfer or convert the peso earnings of our Mexican subsidiary into U.S. dollars, upon which we rely in part to satisfy our debt obligations through intercompany loans.

In addition, the government of China imposes controls on the convertibility of RMB into foreign currencies and, in certain cases, the remittance of currency out of China. Shortages in the availability of foreign currency may restrict the ability of Libbey China to remit sufficient foreign currency to make payments to us. Under existing Chinese foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade-related transactions, can be made in foreign currencies without prior approval from the Chinese State Administration of Foreign Exchange by complying with certain procedural requirements. However, approval from appropriate government authorities is required where RMB are to be converted into foreign currencies and remitted out of China to pay capital expenses such as the repayment of bank loans denominated in foreign currencies. In the future, the Chinese government could institute restrictive exchange rate policies for current account transactions. These policies could adversely affect our results of operations and financial condition.

***Our ability to recognize the benefit of deferred tax assets is dependent upon future taxable income and the timing of temporary difference reversals.***

We recognize the expected future tax benefit from deferred tax assets when realization of the tax benefit is considered more likely than not. Otherwise, a valuation allowance is applied against deferred tax assets. Assessing the recoverability of deferred tax assets requires management to make significant estimates related to expectations of future taxable income and the timing of reversals of temporary differences. To the extent that these factors differ significantly from estimates, our ability to realize the deferred tax assets could be impacted. Additionally, future changes in tax laws could impact our ability to obtain the future tax benefits represented by our deferred tax assets. As of December 31, 2015 and 2014, those jurisdictions having a net deferred tax asset position where no valuation allowances are recorded had balances of \$48.6 million and \$9.0 million, respectively.



## **International risks**

*We are subject to risks associated with operating in foreign countries.*

We operate manufacturing and other facilities throughout the world. As a result of our international operations, we are subject to risks associated with operating in foreign countries, including:

- difficulties in staffing and managing multinational operations;
- changes in government policies and regulations;
- limitations on our ability to enforce legal rights and remedies;
- political, social and economic instability;
- drug-related violence, particularly in Mexico;
- war, civil disturbance or acts of terrorism;
- taking of property by nationalization or expropriation without fair compensation;
- imposition or increase of withholding and other taxes on remittances and other payments by foreign subsidiaries;
- ineffective intellectual property protection;
- disadvantages of competing against companies from countries that are not subject to U.S. laws and regulations including the U.S. Foreign Corrupt Practices Act (“FCPA”);
- potentially adverse tax consequences;
- impositions or increase of investment and other restrictions or requirements by foreign governments; and
- limitations on our ability to achieve the international growth contemplated by our strategy.

## **Legal and Regulatory Risks**

*Increasing legal and regulatory complexity will continue to affect our operations and results in potentially material ways.*

Our legal and regulatory environment worldwide exposes us to complex compliance, litigation and similar risks that affect our operations and results in ways that potentially may be material. In many of our markets, including the U.S. and Europe, we are subject to increasing regulation, which has increased our cost of doing business. In developing markets, including in China, we face the risks associated with new and untested laws and judicial systems. Among the more important regulatory and litigation risks we face and must manage are the following:

- The cost, compliance and other risks associated with the often conflicting and highly prescriptive regulations we face, especially in the U.S., where inconsistent standards imposed by local, state and federal authorities can increase our exposure to litigation or governmental investigations or proceedings;
- The impact of new, potential or changing regulation that can affect our business plans, such as those relating to the content and safety of our products, as well as the risks and costs of our labeling and other disclosure practices;
- The risks and costs to us and our supply chain of increased focus by U.S. and overseas governmental authorities and non-governmental organizations on environmental matters, such as climate change, the reduction of greenhouse gases and water consumption, including as a result of initiatives that effectively impose a tax on carbon emissions;
- The impact of litigation trends, particularly in our major markets; the relative level of our defense costs, which vary from period to period depending on the number, nature and procedural status of pending proceedings; and the cost and other effects of settlements or judgments, which may require us to make disclosures or take other actions that may affect perceptions of our brand and products;

- The increasing costs and other effects of compliance with U.S. and overseas regulations affecting our workforce and labor practices, including regulations relating to wage and hour practices, immigration, healthcare, retirement and other employee benefits and unlawful workplace discrimination;
- The cost and disruption of responding to governmental audits, investigations or proceedings (including audits of abandoned and unclaimed property, tax audits and audits of pension plans and our compliance with wage and hour laws), whether or not they have merit, and the cost to resolve or contest the results of any such governmental audits, investigations or proceedings;
- The legal and compliance risks associated with information technology, such as the costs of compliance with privacy, consumer protection and other laws, the potential costs associated with alleged security breaches (including the loss of consumer confidence that may result and the risk of criminal penalties or civil liability to consumers or employees whose data is alleged to have been collected or used inappropriately) and potential challenges to the associated intellectual property rights or to our use of that intellectual property; and
- The impact of changes in financial reporting requirements, accounting principles or practices, including with respect to our critical accounting estimates, changes in tax accounting or tax laws (or authoritative interpretations relating to any of these matters), and the impact of settlements of pending or any future adjustments proposed by the IRS or other taxing authorities in connection with our tax audits, all of which will depend on their timing, nature and scope.
- The impact of new accounting standards or pronouncements could adversely affect our operating results or cause unanticipated fluctuations in our results in future periods. The accounting rules and regulations with which we must comply are complex and continually changing. In addition, many companies' accounting policies are being subjected to heightened scrutiny by regulators and the public. While we believe that our financial statements have been prepared in accordance of U.S. generally accepted accounting principles, we cannot predict the impact of future changes to accounting principles or to our accounting policies on our financial statements going forward.

***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 operations and properties, both in the U.S. and abroad, are subject to extensive laws, ordinances, regulations and other legal requirements relating to environmental protection, including legal requirements governing investigation and clean-up of contaminated properties as well as water discharges, air emissions, waste management and workplace health and safety. These legal requirements frequently change and vary among jurisdictions. For example, Chinese restrictions on air emissions have continued to evolve in the face of the extreme air pollution in China. Compliance with these requirements, or the failure to comply with these requirements, may have a material adverse effect on operations.

We have incurred, and expect to incur, costs to comply with environmental legal requirements, including requirements limiting greenhouse gas emissions, and these costs could increase in the future. Many environmental legal requirements provide for substantial fines, orders (including orders to cease operations) and criminal sanctions for violations. Also, certain environmental laws impose strict liability and, under certain circumstances, joint and several liability on current and prior owners and operators of these sites, as well as persons who sent waste to them, for costs to investigate and remediate contaminated sites. These legal requirements may apply to conditions at properties that we presently or formerly owned or operated, as well as at other properties for which we may be responsible, including those at which wastes attributable to us were disposed. A significant order or judgment against us, the loss of a significant permit or license or the imposition of a significant fine may have a material adverse effect on operations.

***Our products are subject to various health and safety requirements and may be subject to new health and safety requirements in the future; these requirements could have a material adverse effect on our operations.***

Our products are subject to certain legal requirements relating to health and safety. These legal requirements frequently change and vary among jurisdictions. Compliance with these requirements, or the failure to comply with these requirements, may have a material adverse effect on our operations. If any of our products becomes subject to new regulations, or if any of our products becomes specifically regulated by additional governmental or other regulatory entities, the cost of compliance could be material. For example, the U.S. Consumer Product Safety Commission, or CPSC, regulates many consumer products, including glass tableware products that are externally decorated with certain ceramic enamels. New regulations or policies by the CPSC could require us to change our manufacturing processes, which could materially raise our manufacturing costs. In addition, such new regulations could reduce sales of our glass tableware products. Furthermore, a significant order or judgment against us by any

governmental or regulatory entity relating to health or safety matters, or the imposition of a significant fine relating to such matters, may have a material adverse effect on our operations.

***We are subject to complex corporate governance, public disclosure and accounting requirements to which most of our competitors are not subject.***

We are subject to changing rules and regulations of federal and state government, as well as the stock exchange on which our common stock is listed. These entities, including the Public Company Accounting Oversight Board (“PCAOB”), the Securities and Exchange Commission (“SEC”) and the NYSE MKT exchange, have issued a significant number of new and increasingly complex requirements and regulations over the course of the last several years and continue to develop additional regulations and requirements in response to laws enacted by the U.S. Congress. For example, the Sarbanes-Oxley Act of 2002 and the rules and regulations subsequently implemented by the SEC and the PCAOB, imposed and may impose further compliance burdens and costs on us. Also, in July 2010, the Dodd-Frank Wall Street Reform and Protection Act (the “Dodd-Frank Act”) was signed into law. The Dodd-Frank Act includes significant corporate governance and executive compensation-related provisions that require the SEC to adopt additional rules and regulations in these areas. Our efforts to comply with new requirements of law and regulation are likely to result in an increase in expenses and a diversion of management’s time from other business activities. Also, those laws, rules and regulations may make it more difficult and expensive for us to attract and retain key employees and directors and to maintain director and officer liability insurance, and we may be required to accept reduced coverage or incur substantially higher costs to maintain coverage.

Our competitors generally are not subject to these rules and regulations, because they do not have securities that are publicly traded on a U.S. securities exchange. As a result, our competitors generally are not subject to the risks identified above. In addition, the public disclosures that we are required to provide pursuant to these rules and regulations may furnish our competitors with greater competitive information regarding our operations and financial results than we are able to obtain regarding their operations and financial results, thereby placing us at a competitive disadvantage.

***Estimates and assumptions that we make in accounting for our results from operations are dependent on future results, involve significant judgments, may be imprecise and may differ materially from actual results.***

Several estimates and assumptions are made that affect the accounting for and recognition of assets, liabilities, revenues and expenses. These estimates and assumptions must be made due to certain information used in preparation of our financial statements which is dependent on future events, cannot be calculated with a high degree of precision from data available or is not capable of being readily calculated based on generally accepted methodologies. We believe that accounting for long-lived assets, goodwill, pension benefit plans, contingencies and litigation, and income taxes involves significant judgments and estimates used in the preparation of our consolidated financial statements. Actual results for all estimates could differ materially from the estimates and assumptions that we use, which could have a material adverse effect on our financial condition and results of operations.

***Our financial results and operations may be adversely affected by violations of anti-bribery laws.***

The FCPA and similar anti-bribery laws in other jurisdictions generally prohibit companies and their intermediaries from making improper payments to non-U.S. officials for the purpose of obtaining or retaining business. Our policies mandate compliance with these anti-bribery laws. We operate in many parts of the world that have experienced governmental corruption to some degree and, in certain circumstances, strict compliance with anti-bribery laws may conflict with local customs and practices. We cannot assure you that our internal controls and procedures always will protect us from the reckless or criminal acts committed by our employees or agents. If we were found to be liable for FCPA violations (either due to our own acts or our inadvertence or due to the acts or inadvertence of others), we could be liable for criminal or civil penalties or other sanctions, which could have a material adverse effect on our business.

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

Our success depends in part on our ability to protect our intellectual property rights. We rely on a combination of patent, trademark, copyright and trade secret laws, licenses, confidentiality and other agreements to protect our intellectual property rights. However, this protection may not be fully adequate. Our intellectual property rights may be challenged or invalidated, an infringement suit by us against a third party may not be successful and/or third parties could adopt trademarks similar to our own. In particular, third parties could design around or copy our proprietary furnace, manufacturing and mold technologies, which are important contributors to our competitive position in the glass tableware industry. We may be particularly susceptible to these challenges in countries where protection of intellectual property is not strong. In addition, we may be accused of infringing or violating the intellectual

property rights of third parties. Any such claims, whether or not meritorious, could result in costly litigation and divert the efforts of our personnel. Our failure to protect our intellectual property or prevail in any intellectual property litigation could materially and adversely affect our competitive position, reduce net sales or otherwise harm our business.

***Our financial results may be adversely impacted by product liability claims, recalls or other litigation that is determined adversely to us.***

We are involved in various routine legal proceedings arising in the ordinary course of our business. We do not consider any pending legal proceeding as material. However, our financial results could be adversely affected by monetary judgments and the cost to defend legal proceedings in the future, including product liability claims related to the products we manufacture. Although we maintain product liability insurance coverage, potential product liability claims are subject to a self-insured retention or could be excluded under the terms of the policy.

**Item 1B. Unresolved Staff Comments**

None.

## Item 2. Properties

At December 31, 2015 we occupied the following square footage at plants and warehouse/distribution facilities:

Location	U.S. & Canada		Latin America		EMEA		Other	
	Owned	Leased	Owned	Leased	Owned	Leased	Owned	Leased
<b>Toledo, Ohio:</b>								
Manufacturing . . . . .	733,800	—						
Warehousing/Distribution. . . . .	713,100	408,200						
<b>Shreveport, Louisiana:</b>								
Manufacturing . . . . .	525,000	—						
Warehousing/Distribution. . . . .	166,000	646,000						
<b>Monterrey, Mexico:</b>								
Manufacturing . . . . .			684,000	—				
Warehousing/Distribution. . . . .			563,700	684,000				
<b>Leerdam, Netherlands:</b>								
Manufacturing . . . . .					141,000	—		
Warehousing/Distribution. . . . .					127,000	442,000		
<b>Laredo, Texas:</b>								
Warehousing/Distribution. . . . .	149,000	163,000						
<b>West Chicago, Illinois:</b>								
Warehousing/Distribution. . . . .	—	249,000						
<b>Marinha Grande, Portugal:</b>								
Manufacturing . . . . .					217,000	—		
Warehousing/Distribution. . . . .					193,000	—		
<b>Langfang, China:</b>								
Manufacturing . . . . .							218,557	—
Warehousing/Distribution. . . . .							232,000	53,820

These facilities have an aggregate floor space of 7.3 million square feet. We own approximately 64 percent and lease approximately 36 percent of this floor space. In addition to the facilities listed above, our headquarters (Toledo, Ohio), some warehouses (various locations), sales offices (various locations), showrooms (in Toledo, Ohio and New York) and various outlet stores are located in leased space. We also utilize various warehouses as needed on a month-to-month basis.

All of our principal facilities are currently being utilized for their intended purpose. In the opinion of management, all of these facilities are well maintained and adequate for our planned operational requirements.

## Item 3. Legal Proceedings

We are involved in various routine legal proceedings arising in the ordinary course of our business. No pending legal proceeding is deemed to be material.

## Item 4. Mine Safety Disclosures

Not applicable.

## PART II

### Item 5. Market For Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities

#### *Common Stock and Dividends*

Libbey Inc. common stock is listed for trading on the NYSE MKT exchange under the symbol **LBY**. The price range for the Company's common stock as reported by the NYSE MKT exchange and dividends declared for our common stock were as follows:

	2015			2014		
	Price Range		Cash Dividend Declared	Price Range		Cash Dividend Declared
	High	Low		High	Low	
First Quarter . . . . .	\$ 40.00	\$ 29.99	\$0.11	\$ 26.28	\$ 19.19	\$—
Second Quarter . . . . .	\$ 42.04	\$ 37.25	\$0.11	\$ 28.00	\$ 24.10	\$—
Third Quarter . . . . .	\$ 41.67	\$ 31.51	\$0.11	\$ 28.42	\$ 22.36	\$—
Fourth Quarter . . . . .	\$ 35.75	\$ 21.21	\$0.11	\$ 32.07	\$ 25.61	\$—

The closing market price of our common stock on February 22, 2016 was \$17.56 per share.

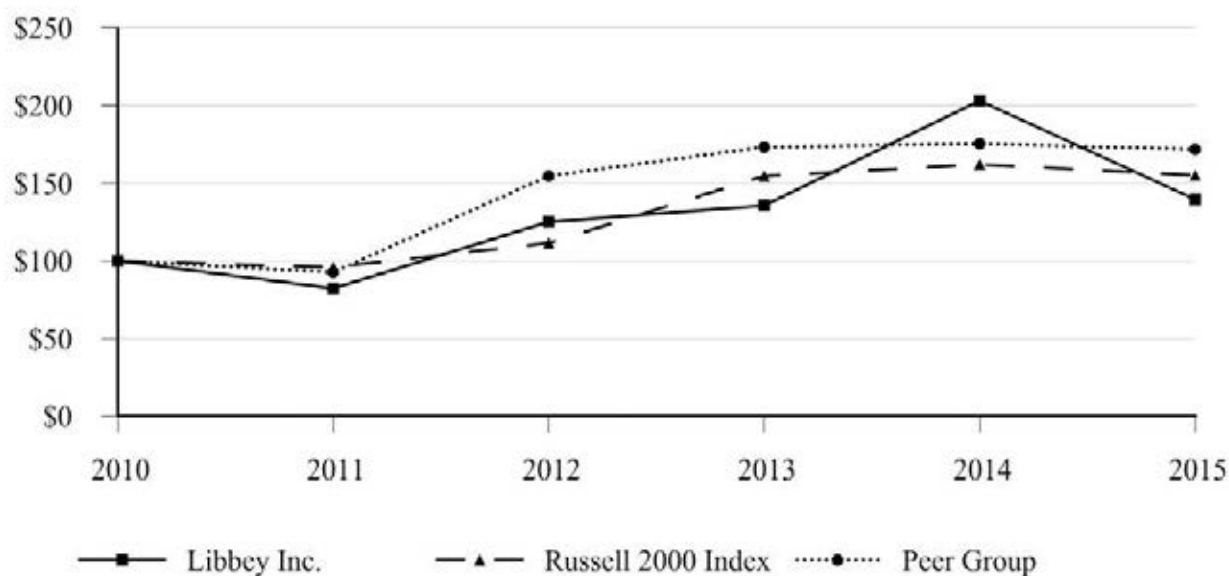
On February 22, 2016, there were 703 registered common shareholders of record. From February 2009 through year-end 2014, no dividends were paid. The declaration of future dividends is within the discretion of the Board of Directors of Libbey and depends upon, among other things, business conditions, earnings and the financial condition of Libbey.

#### *Comparison of Cumulative Total Returns*

The graph below compares the total stockholder return on our common stock to the cumulative total return for the Russell 2000 Index ("Russell 2000"), a small-cap index, and a peer group that we use for executive compensation purposes, as disclosed in the proxy statement for our 2016 Annual Meeting of shareholders. The index reflects the year-end market value of an investment in the stock of each company in the index, including additional shares assumed to have been acquired with cash dividends, if any.

The graph assumes an \$100 investment in our common stock on January 1, 2010, and also assumes investments of \$100 in each of the Russell 2000 and the peer group, respectively, on January 1, 2010. The value of these investments on December 31 of each year from 2010 through 2015 is shown in the table below the graph.

## Comparison of Cumulative Five Year Total Return



Company/Index	Base Period Dec 2010	Indexed Returns Years Ending				
		Dec 2011	Dec 2012	Dec 2013	Dec 2014	Dec 2015
Libbey Inc. ....	100	82.35	125.08	135.75	203.23	139.71
Russell 2000 Index .....	100	95.82	111.49	154.78	162.35	155.18
Peer Group .....	100	92.69	122.92	173.45	175.44	171.83

### Issuer Purchases of Equity Securities

Following is a summary of the 2015 fourth quarter activity in our share repurchase program:

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 <sup>(1)</sup>
October 1 to October 31, 2015 .....	—	\$ —	—	1,052,542
November 1 to November 30, 2015 ...	—	\$ —	—	1,052,542
December 1 to December 31, 2015 ....	—	\$ —	—	1,052,542
Total .....	—	\$ —	—	1,052,542

(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 authorization. In 2003, 1,500,000 shares of our common stock were purchased. No additional shares were purchased from 2004 through the year ended December 31, 2013. In 2014, we repurchased 34,985 shares in the open market for \$1.1 million. In January 2015, our Board of Directors increased the current stock repurchase authorization by an additional 500,000 shares. In 2015, we repurchased 412,473 shares in the open market for \$15.3 million

## Item 6. Selected Financial Data

Selected Financial Information is as follows:

Year ended December 31, (dollars in thousands, except percentages, per-share amounts and employees)	2015 <sup>(e) (f) (g)</sup>	2014 <sup>(e) (f)</sup>	2013 <sup>(b) (e) (f)</sup>	2012 <sup>(e) (f)</sup>	2011 <sup>(e) (f)</sup>
<b>Operating Results:</b>					
Net sales	\$ 822,345	\$ 852,492	\$ 818,811	\$ 825,287	\$ 817,056
Gross profit <sup>(b) (e)</sup>	\$ 176,328	\$ 203,145	\$ 189,417	\$ 195,185	\$ 168,739
Gross profit margin	21.4 %	23.8%	23.1%	23.7%	20.7%
Selling, general and administrative expenses <sup>(e)</sup>	\$ 132,607	\$ 121,909	\$ 109,981	\$ 113,896	\$ 105,545
Income from operations (IFO) <sup>(b) (e)</sup>	\$ 43,721	\$ 81,236	\$ 74,577	\$ 81,289	\$ 63,475
IFO margin	5.3 %	9.5%	9.1%	9.8%	7.8%
Other income (expense) <sup>(e) (f)</sup>	\$ 2,880	\$ (44,840)	\$ (871)	\$ (30,887)	\$ 5,228
Earnings before interest and income taxes (EBIT) <sup>(b) (e) (f)</sup>	\$ 46,601	\$ 36,396	\$ 73,706	\$ 50,402	\$ 68,703
EBIT margin	5.7 %	4.3%	9.0%	6.1%	8.4%
Interest expense	\$ 18,484	\$ 22,866	\$ 32,006	\$ 37,727	\$ 43,419
Income before income taxes <sup>(b) (e) (f)</sup>	\$ 28,117	\$ 13,530	\$ 41,700	\$ 12,675	\$ 25,284
Provision (benefit) for income taxes <sup>(g)</sup>	\$ (38,216)	\$ 8,567	\$ 13,241	\$ 5,709	\$ 1,643
Effective tax rate	(135.9)%	63.3%	31.8%	45.0%	6.5%
Net income <sup>(b) (e) (f) (g)</sup>	\$ 66,333	\$ 4,963	\$ 28,459	\$ 6,966	\$ 23,641
Net income margin	8.1 %	0.6%	3.5%	0.8%	2.9%
<b>Per-Share Amounts:</b>					
Diluted net income <sup>(b) (e) (f) (g)</sup>	\$ 2.99	\$ 0.22	\$ 1.31	\$ 0.33	\$ 1.14
Dividends declared	\$ 0.44	\$ —	\$ —	\$ —	\$ —
<b>Other Information:</b>					
EBIT	\$ 46,601	\$ 36,396	\$ 73,706	\$ 50,402	\$ 68,703
Depreciation & amortization <sup>(b)</sup>	\$ 42,712	\$ 40,388	\$ 43,969	\$ 41,471	\$ 42,188
EBITDA <sup>(c) (e) (f)</sup>	\$ 89,313	\$ 76,784	\$ 117,675	\$ 91,873	\$ 110,891
EBITDA margin	10.9 %	9.0%	14.4%	11.1%	13.6%
Adjusted EBITDA <sup>(c) (h)</sup>	\$ 116,131	\$ 123,389	\$ 135,317	\$ 132,139	\$ 112,805
Adjusted EBITDA margin	14.1 %	14.5%	16.5%	16.0%	13.8%
Employees	6,543	6,553	6,437	6,663	6,907
<b>Balance Sheet Data:</b>					
Total assets	\$ 852,444	\$ 822,938	\$ 820,475	\$ 789,919	\$ 792,300
Total liabilities	\$ 704,062	\$ 745,484	\$ 689,666	\$ 765,443	\$ 764,520
Working Capital <sup>(a)</sup>	\$ 200,846	\$ 178,449	\$ 173,050	\$ 172,687	\$ 175,145
% of net sales	24.4 %	20.9%	21.1%	20.9%	21.4%
Total borrowings - net	\$ 431,019	\$ 437,930	\$ 402,388	\$ 454,210	\$ 390,091
<b>Cash Flow Data:</b>					
Net cash provided by operating activities	\$ 66,099	\$ 81,871	\$ 72,729	\$ 8,497	\$ 55,351
Capital expenditures	\$ 48,136	\$ 54,393	\$ 49,407	\$ 32,720	\$ 41,420
Proceeds from asset sales and other	\$ 7	\$ 2,374	\$ 81	\$ 647	\$ 17,700
Free Cash Flow <sup>(d)</sup>	\$ 17,970	\$ 29,852	\$ 23,403	\$ (23,576)	\$ 31,631

Note: Prior years have been revised to conform with the 2015 presentation.

(a) Defined as net inventory plus net accounts receivable, excluding receivable on furnace malfunction insurance claim, less accounts payable.



- (b) Includes \$1,699 in 2013 of depreciation expense included in restructuring charges related to the capacity realignment at our Shreveport, Louisiana manufacturing facility, net of \$(166) depreciation related to our furnace malfunction in Toledo, Ohio.
- (c) We believe that EBITDA (earnings before interest, taxes, depreciation and amortization) and Adjusted EBITDA (adjusted earnings before interest, taxes, depreciation and amortization), non-GAAP financial measures, are useful metrics for evaluating our financial performance, as they are measures that we use internally to assess performance.
- (d) We believe that Free Cash Flow (net cash provided by operating activities, less capital expenditures, plus proceeds from asset sales and other), is a useful metric for evaluating our financial performance, as it is the measure that we use internally to assess performance.
- (e) Includes special items of \$27,036, \$(1,833) and \$17,585 in 2015, 2014 and 2013, respectively and disclosed in notes 7, 9, 18 and 19 to the Consolidated Financial Statements. In 2012, we incurred charges of \$5,150 for severance and \$4,306 for pension settlement and curtailment charges. In 2011, we incurred charges of \$2,722 for CEO transition expenses, \$1,105 for severance, \$2,719 for abandoned property, \$817 for write down of unutilized fixed assets, \$(1,021) credit from supplier, and \$(84) for restructuring charges.
- (f) Includes \$218, \$(1,247), \$(916), \$265 and \$284 in 2015, 2014, 2013, 2012 and 2011, respectively, for income (expense) related to hedge ineffectiveness on our natural gas contracts and interest rate swap, as well as, mark-to-market adjustments on our natural gas contracts that have been de-designated and those for which we did not elect hedge accounting. It also includes \$(47,191), \$(2,518), \$(31,075) and \$(2,803) for (loss) on redemption of debt in 2014, 2013, 2012 and 2011, respectively. In 2013, we incurred a net gain of \$1,844 on a furnace malfunction at our Toledo, Ohio manufacturing facility. Also, 2011 includes a gain of \$6,863 on the sale of land at our Libbey Holland facility and sale of substantially all of the assets of the Traex<sup>®</sup> plastics product line.
- (g) Includes a tax benefit of \$(43,805) in the fourth quarter of 2015 related to the reversal of substantially all of the remaining valuation allowance recorded against U.S. deferred tax assets.
- (h) Excludes items noted in (e) and (f) above.

## **Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations**

### **Forward Looking Statements**

This document and supporting schedules contain statements that are not historical facts and constitute projections, forecasts or forward-looking statements. For a description of the forward-looking statements and risk factors that may affect our performance, see the “Risk Factors” section above.

Additionally, for an understanding of the significant factors that influenced our performance during the past three years, the following should be read in conjunction with the audited Consolidated Financial Statements and Notes.

### **General Overview**

Headquartered in Toledo, Ohio, we believe that we have the largest manufacturing, distribution and service network among glass tableware manufacturers in the Western Hemisphere and that we are one of the largest glass tableware manufacturers in the world. Our product portfolio consists of an extensive line of high quality, machine-made glass tableware, including casual glass beverageware, in addition to ceramic dinnerware, metal flatware, hollowware and serveware. We sell our products to foodservice, retail, and business-to-business customers in over 100 countries, with our sales to customers within North America accounting for approximately 77 percent of our total sales. We believe we are the largest manufacturer and marketer of casual glass beverageware in North America for the foodservice and retail channels. Additionally, we believe we are a leading manufacturer and marketer of casual glass beverageware in Europe, the Middle East and Africa (EMEA) and have a growing presence in Asia Pacific.

In the fourth quarter of 2015, we revised our reporting segments in connection with the transition of all regional business units reporting to our Chief Operating Officer who is also the Chief Operating Decision Maker. Under the new structure, our U.S. and Canada glass tableware business is combined with our U.S. and Canada sourcing business in order to be consistent with the way we manage and report our other segments. Our reporting segments continue to align with our regionally focused organizational structure, which we believe enables us to better serve customers across the globe. We now report financial results for U.S. and Canada; Latin America; Europe, the Middle East and Africa (EMEA); and Other. Sales and Segment EBIT are based on the geographical destination of the sale. The revised segment results do not affect any previously reported consolidated financial results. Our three reportable segments are defined below. Our operating segment that does not meet the criteria to be a reportable segment is disclosed as Other.

U.S. & Canada—includes worldwide sales of manufactured and sourced glass tableware and sourced ceramic dinnerware, metal tableware, hollowware and serveware having an end market destination in the U.S and Canada excluding glass products for Original Equipment Manufacturers (OEM), which remain in the Latin America segment.

Latin America—includes primarily worldwide sales of manufactured and sourced glass tableware having an end market destination in Latin America including glass products for OEMs that have an end market destination outside of Latin America.

EMEA—includes primarily worldwide sales of manufactured and sourced glass tableware having an end market destination in Europe, the Middle East and Africa.

Other—includes primarily worldwide sales of manufactured and sourced glass tableware having an end market destination in Asia Pacific.

## Executive Overview

During 2015, we operated in a competitive environment in a dynamic global economy where we experienced the impact of slow economic growth and the strengthening of the U.S. dollar. As the year progressed, and particularly in the second half of 2015, we saw economic conditions within some of our segments deteriorate further and a more aggressive competitive environment. The pressures on retailers, restaurants and consumer durable goods companies experienced in 2014 around the globe continued through all of 2015.

Consumer sentiment in the U.S. weakened in 2015, as major foodservice indices indicate same-store restaurant traffic decreased in the fourth quarter of 2015. This was the sixth consecutive quarter we have observed a decline in U.S. restaurant traffic. NPD Group continues to report full year 2015 downward trends for U.S. retail point-of-sale data for the glass beverageware category. The Latin American economy experienced low to no growth in 2015. The effects of declining oil prices, strengthening of the U.S. dollar, and reductions in governmental spending in Brazil, Colombia and Mexico are more than offsetting government stimulus efforts in Chile and Peru. The Mexican economy continues to advance at a slow pace following volatility in the peso exchange rate, tax reform, the decline in oil prices, and government spending cuts that were announced at the beginning of 2015 and that have dampened consumer confidence. The European economy is negatively impacted by the devaluation of the euro, the geopolitical situation between Europe and Russia, a changing retail landscape with fewer stores, more aggressive competition, high unemployment and the fear of deflation. China has been impacted over the past 18 to 24 months by slower economic growth rates. 2015 saw the weakest growth in 25 years. With the weaker economic growth and devaluation of the RMB, we have seen an increase in competition.

Our net sales for the year of \$822.3 million were 3.5 percent lower than the prior year, or up 1.7 percent on a constant currency basis. Net sales were negatively impacted by a number of factors, including foreign currency and lower-than-expected retail sales, unfavorable macro-economic and geopolitical environments and increased competition. Our foodservice channel experienced net sales growth in 2015 of 5.8 percent (8.0 percent growth on a constant currency basis) in spite of the fact that U.S. restaurant traffic trends declined year-over-year for the sixth consecutive quarter, as reported by third party research firms Knapp-Track and Blackbox. Excluding the effects of currency, our business to business channel net sales grew 0.5 percent for the year 2015 as compared to 2014.

In January 2015, we announced our *Own the Moment* strategy, which called for a shift from an internal manufacturing driven focus to an external consumer and customer driven focus. In the U.S. and Canada and Latin America, we are focusing on and investing in driving profitable growth and building on our positions of strength. In our EMEA and Asia Pacific regions, we are driving cost savings, efficiencies and pursuing targeted investments to drive greater value and differentiation from our competitors. To support this shift we are building excellence across our supply chain, enhancing all of our commercial capabilities and investing in information technology. We also are investing in the development of key capabilities and talent to enable our *Own the Moment* strategy, including through a management reorganization to support our growth strategy that began in the second quarter of 2015 and continued through the end of 2015.

To reinforce our leadership in key market channels throughout the world, we continue to make substantial investments in new products. On July 6, 2015, we announced the launch of our new Libbey Signature™ (previously Perfect Signature™) product line into retail markets. This announcement represented the unveiling of the approximately \$30.0 million investment in new glass technology at our Shreveport, Louisiana, manufacturing facility. Manufacturing of our unique ClearFire™ glassware is anticipated to reach normalized operating performance in early 2016. During the first quarter of 2016, we will continue to launch into foodservice markets a broader product line using the same technology in the Shreveport, Louisiana, facility under the Master's Reserve™ brand name.

Our *Own the Moment* strategy also includes a balanced capital allocation strategy that features an \$0.11 per share quarterly dividend, a share repurchase program (our current authorization is 1.5 million shares) and reinvestment in the business. During 2015, we exceeded the goal of returning 50 percent of free cash flow to shareholders through dividends and share repurchases of \$24.9 million. Since the inception of our repurchase program in December of 2014, we have repurchased over 447,400 shares of our stock at an average purchase price of approximately \$36.51 per share, with the majority of the repurchases occurring in the first half of 2015. We expect to repurchase the remaining 1.1 million shares under our current authorization by year-end 2017.

## Results of Operations

The following table presents key results of our operations for the years 2015, 2014 and 2013:

Year ended December 31, (dollars in thousands, except percentages and per-share amounts)	2015	2014	2013
Net sales . . . . .	\$ 822,345	\$ 852,492	\$ 818,811
Gross profit <sup>(2)</sup> . . . . .	\$ 176,328	\$ 203,145	\$ 189,417
<i>Gross profit margin</i> . . . . .	21.4%	23.8%	23.1%
Income from operations (IFO) <sup>(2)(3)</sup> . . . . .	\$ 43,721	\$ 81,236	\$ 74,577
<i>IFO margin</i> . . . . .	5.3%	9.5%	9.1%
Earnings before interest and income taxes (EBIT) <sup>(1)(2)(3)(4)</sup> . . . . .	\$ 46,601	\$ 36,396	\$ 73,706
<i>EBIT margin</i> . . . . .	5.7%	4.3%	9.0%
Earnings before interest, taxes, depreciation and amortization (EBITDA) <sup>(1)(2)(3)(4)</sup> . . . . .	\$ 89,313	\$ 76,784	\$ 117,675
<i>EBITDA margin</i> . . . . .	10.9%	9.0%	14.4%
Adjusted EBITDA <sup>(1)</sup> . . . . .	\$ 116,131	\$ 123,389	\$ 135,317
<i>Adjusted EBITDA margin</i> . . . . .	14.1%	14.5%	16.5%
Net income <sup>(2)(3)(4)</sup> . . . . .	\$ 66,333	\$ 4,963	\$ 28,459
<i>Net income margin</i> . . . . .	8.1%	0.6%	3.5%
Diluted net income per share . . . . .	\$ 2.99	\$ 0.22	\$ 1.31

(1) *We believe that EBIT, EBITDA and Adjusted 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. For a reconciliation from net income to EBIT, EBITDA, and Adjusted EBITDA, see the "Adjusted EBITDA" sections below in the Discussion of Results of Operations and the reasons we believe these non-GAAP financial measures are useful.*

(2) *2015 includes \$17.0 million in pension settlement charges due to unwinding direct ownership of our Dutch defined benefit pension plan and \$0.2 million in charges for an environmental obligation related to our assessment of Syracuse China Company as a potentially responsible party with respect to the Lower Ley Creek sub-site of the Onondaga Lake Superfund site. 2014 includes a net gain of \$4.8 million related to the 2013 furnace malfunction at our Toledo, Ohio, manufacturing facility; \$1.0 million of charges related to discontinuing production of certain glassware in North America and reducing manufacturing capacity at our Shreveport, Louisiana, facility; and \$0.3 million in charges for an environmental obligation related to our assessment of Syracuse China Company as a potentially responsible party with respect to the Lower Ley Creek sub-site of the Onondaga Lake Superfund site. 2013 includes a net \$6.3 million loss of production at our Toledo, Ohio, manufacturing facility due to a furnace malfunction, \$0.4 million of pension settlement charges and \$1.7 million of accelerated depreciation on fixed assets that were impaired from discontinuing production of certain glassware in North America and reducing manufacturing capacity at our Shreveport, Louisiana, facility. (See notes 5, 7, 9 and 18 to the Consolidated Financial Statements.)*

(3) *In addition to item (2) above, 2015 includes \$4.6 million in pension settlement charges due to unwinding direct ownership of our Dutch defined benefit pension plan, \$4.3 million of charges related to reorganization to support our growth strategy and \$0.9 million of charges related to executive terminations. 2014 includes \$0.8 million of pension settlement charges and \$0.9 million for executive retirement. 2013 includes \$4.9 million in charges related to discontinuing production of certain glassware in North America and reducing manufacturing capacity at our Shreveport, Louisiana, facility, \$1.8 million of pension settlement charges, \$1.8 million for abandoned property charges and \$0.7 million for an executive retirement. (See notes 5, 7, 9 and 18 to the Consolidated Financial Statements.)*

- (4) *In addition to item (3) above, 2015 includes income of \$0.2 million related to hedge ineffectiveness on our natural gas contracts in Mexico. 2014 includes a loss of \$47.2 million related to the write-off of unamortized finance fees and call premium payments on the \$405.0 million Senior Secured Notes redeemed in April and May 2014, and the write-off of the debt carrying value adjustment related to the termination of the \$45.0 million interest rate swap; and \$1.2 million related to hedge ineffectiveness primarily on natural gas contracts in Mexico. 2013 includes a net gain of \$1.8 million related to the furnace malfunction at our Toledo, Ohio manufacturing facility, \$0.9 million of expense related to hedge ineffectiveness, and a loss of \$2.5 million related to the redemption of \$45.0 million of Senior Secured Notes in May 2013. (See notes 6, 13, 17 and 18 to the Consolidated Financial Statements).*

## **Discussion of 2015 vs. 2014 Results of Operations**

### ***Net Sales***

For the year ended December 31, 2015, net sales decreased 3.5 percent to \$822.3 million, compared to \$852.5 million in the prior year. The decrease in net sales was primarily attributable to decreased sales of \$24.9 million in EMEA and \$23.0 million in Latin America, partially offset by increased net sales in U.S. and Canada of \$15.6 million.

The following table summarizes net sales by operating segment:

Year ended December 31, (dollars in thousands)	2015	2014
U.S. & Canada .....	\$ 497,728	\$ 482,094
Latin America .....	167,069	190,079
EMEA .....	122,664	147,587
Other .....	34,884	32,732
Consolidated .....	<u>\$ 822,345</u>	<u>\$ 852,492</u>

#### ***Net Sales — U.S. & Canada***

Net sales in U.S. & Canada were \$497.7 million, compared to \$482.1 million in 2014, an increase of 3.2 percent. The primary contributor was a 7.5 percent increase in sales in our foodservice market channel due to a stronger volume and favorable mix in spite of the continuing decline in U.S. restaurant traffic. In addition, net sales increased 1.1 percent in our business-to-business channel. Partially offsetting these increases was a 2.5 percent decrease in retail sales due to weaker volume.

#### ***Net Sales — Latin America***

Net sales in Latin America were \$167.1 million, compared to \$190.1 million in 2014, a decrease of 12.1 percent (a decrease of 1.3 percent excluding currency fluctuation). The sales decrease was primarily due to the devaluation of the peso and weaker retail volumes.

#### ***Net Sales — EMEA***

Net sales in EMEA were \$122.7 million, compared to \$147.6 million in 2014, a decrease of 16.9 percent (a decrease of 1.4 percent excluding currency fluctuation). The sales decrease was due to the devaluation of the euro and lower volume in all channels, as we are experiencing the negative impacts from the macro-economy and increased competition. Partially offsetting the reduction in volume was a favorable price and mix impact. Our strategy does not anticipate significant revenue growth in our EMEA segment. We are focused on opportunities to expand margins in a challenging economic environment.

### ***Gross Profit***

Gross profit was \$176.3 million in 2015, compared to \$203.1 million in the prior year, a decrease of \$26.8 million. Gross profit as a percentage of net sales decreased to 21.4 percent, compared to 23.8 percent in the prior year. The primary drivers of the \$26.8 million decrease in gross profit were a negative currency impact of \$14.4 million primarily related to the Mexican Peso, \$20.1 million in higher pension costs primarily related to the unwinding of our Dutch defined benefit pension plan, \$4.8 million related to the non-repeating net insurance proceeds from the furnace malfunction at our Toledo, Ohio, manufacturing facility, an increase of \$2.5 million in repair and maintenance expense, and \$4.5 million of net operating inefficiencies including, among other items, the production stoppages for improved air quality in our China facility and our new glass technology ramp-up at our Shreveport, Louisiana, facility. Partially offsetting these unfavorable factors were a favorable \$13.5 million net sales

impact mainly due to a better price and mix in our U.S. & Canada segment, favorable input costs of \$4.0 million primarily for electricity and natural gas and lower non-income tax expense of \$2.3 million.

### ***Income From Operations***

Income from operations for the year ended December 31, 2015 decreased \$37.5 million, to \$43.7 million, compared to \$81.2 million in the prior year. Income from operations as a percentage of net sales was 5.3 percent for the year ended December 31, 2015, compared to 9.5 percent in the prior year. The decrease in income from operations is the result of the decrease in gross profit of \$26.8 million (discussed above), an increase of \$7.3 million in investments to increase commercial and marketing capabilities and increased advertising expense, \$4.3 million in reorganization charges, a \$4.4 million increase in pension expense driven by the unwinding of our Dutch defined benefit pension plan; all offset by a favorable currency impact of \$4.7 million on selling, general and administrative expenses.

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

EBIT for the year ended December 31, 2015 increased by \$10.2 million, to \$46.6 million in 2015 from \$36.4 million in 2014. EBIT as a percentage of net sales increased to 5.7 percent in 2015, compared to 4.3 percent in the prior year. The increase in EBIT is a result of the inclusion in 2014 of \$47.2 million for loss on redemption of debt and a favorable change of \$0.5 million in other income partially offset by the decrease in income from operations of \$37.5 million (discussed above).

### ***Segment EBIT***

The following table summarizes Segment EBIT<sup>(1)</sup> by operating segments:

Year ended December 31, (dollars in thousands)	2015	2014
U.S. & Canada .....	\$ 80,406	\$ 72,546
Latin America .....	\$ 22,017	\$ 32,909
EMEA .....	\$ 1,251	\$ 5,726

(1) *Segment EBIT represents earnings before interest and taxes and excludes amounts related to certain items we consider not representative of ongoing operations as well as certain retained corporate costs and other allocations that are not considered by management when evaluating performance. See note 19 to the Consolidated Financial Statements for a reconciliation of Segment EBIT to net income.*

### ***Segment EBIT — U.S. & Canada***

Segment EBIT increased to \$80.4 million in 2015 compared to \$72.5 million in 2014. Segment EBIT as a percentage of net sales for U.S. & Canada increased to 16.2 percent in 2015, compared to 15.0 percent in the prior year. The primary drivers of the \$7.9 million increase in Segment EBIT was a favorable sales impact of \$17.1 million primarily driven by sales price, mix and volume and the non-repeat of the 2014 \$0.8 million of non-income tax assessments. The favorable sales impact above is partially offset by an increase of \$3.0 million in expense for investments to increase our commercial and marketing capabilities and increased advertising, \$2.5 million increase in pension and healthcare costs, \$2.1 million in increased costs related to external warehousing and repair and maintenance expense, and \$2.9 million related to new glass technology ramp-up in our Shreveport, Louisiana, facility.

### ***Segment EBIT — Latin America***

Segment EBIT decreased to \$22.0 million in 2015, compared to \$32.9 million in 2014. Segment EBIT as a percentage of net sales for Latin America decreased to 13.2 percent in 2015, compared to 17.3 percent in the prior-year. The primary drivers of the \$10.9 million decrease in Segment EBIT were an unfavorable currency impact of \$9.3 million and an unfavorable sales impact of \$3.4 million. These unfavorable items were partially offset by favorable input costs of \$2.1 million primarily driven by lower prices of natural gas and electricity.

### ***Segment EBIT — EMEA***

Segment EBIT decreased to \$1.3 million in 2015, compared to \$5.7 million in 2014. Segment EBIT as a percentage of net sales for EMEA decreased to 1.0 percent in 2015, compared to 3.9 percent in the prior-year. The primary drivers of the \$4.5 million

decrease in Segment EBIT were a decrease in production activity of \$2.1 million, the \$1.5 million investment to primarily increase commercial, marketing and supply chain capabilities, and increased pension costs of \$1.1 million.

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

EBITDA increased by \$12.5 million in 2015, to \$89.3 million, compared to \$76.8 million in 2014. As a percentage of net sales, EBITDA increased to 10.9 percent in 2015, from 9.0 percent in 2014. The key contributors to the increase in EBITDA were those factors discussed above under Earnings Before Interest and Income Taxes (EBIT) and an increase in depreciation and amortization expense of \$2.3 million.

### ***Adjusted EBITDA***

Adjusted EBITDA decreased by \$7.3 million in 2015, to \$116.1 million, compared to \$123.4 million in 2014. As a percentage of net sales, Adjusted EBITDA was 14.1 percent for 2015, compared to 14.5 percent in 2014. The key contributors to the decrease in Adjusted EBITDA were those factors discussed above under Earnings Before Interest, Taxes, Depreciation & Amortization (EBITDA) and the elimination of the special items noted below in the reconciliation of net income to EBIT, EBITDA and Adjusted EBITDA.

<b>Year ended December 31, (dollars in thousands)</b>	<b>2015</b>	<b>2014</b>
Net income . . . . .	\$ 66,333	\$ 4,963
Add: Interest expense . . . . .	18,484	22,866
Add: Provision (benefit) for income taxes . . . . .	(38,216)	8,567
Earnings before interest and income taxes (EBIT) . . . . .	46,601	36,396
Add: Depreciation and amortization . . . . .	42,712	40,388
Earnings before interest, taxes, depreciation and amortization (EBITDA) . . . . .	89,313	76,784
Add: Special items before interest and taxes:		
Loss on redemption of debt (see note 6) <sup>(1)</sup> . . . . .	—	47,191
Pension settlement (see note 9) <sup>(2)</sup> . . . . .	21,693	774
Furnace malfunction (see note 18) <sup>(3)</sup> . . . . .	—	(4,782)
Restructuring charges (see note 7) <sup>(4)</sup> . . . . .	—	985
Reorganization charges <sup>(5)</sup> . . . . .	4,316	—
Executive terminations . . . . .	870	875
Environmental obligation (see note 18) <sup>(6)</sup> . . . . .	157	315
Derivatives (see note 13) <sup>(7)</sup> . . . . .	(218)	1,247
Adjusted EBITDA . . . . .	<u>\$ 116,131</u>	<u>\$ 123,389</u>

- (1) *Loss on redemption of debt for 2014 includes the write-off of unamortized finance fees and call premium payments on the \$405.0 million Senior Secured Notes redeemed in April and May 2014, and the write-off of the debt carrying value adjustment related to the termination of the \$45.0 million interest rate swap.*
- (2) *The pension settlement charge for 2015 relates to EMEA unwinding direct ownership of its Dutch defined benefit pension plan. The pension settlement charge for 2014 relates to excess lump sum distributions.*
- (3) *Furnace malfunction in 2014 relates to a \$10.7 million insurance recovery, net of a loss of production of \$5.9 million, at our Toledo, Ohio, manufacturing facility.*
- (4) *Restructuring charges relate to discontinuing production of certain glassware in North America and reducing manufacturing capacity at our Shreveport, Louisiana, facility.*
- (5) *Reorganization charges relate to management reorganization to support our growth strategy.*
- (6) *Environmental obligation relates to our assessment of Syracuse China Company as a potentially responsible party with respect to the Lower Ley Creek sub-site of the Onondaga Lake Superfund site.*
- (7) *Derivatives relate to hedge ineffectiveness on our natural gas contracts and interest rate swap, as well as, mark-to-market adjustments on our natural gas contracts that have been de-designated and those for which we did not elect hedge accounting.*

*We sometimes refer to data derived from consolidated financial information but not required by GAAP to be presented in financial statements. Certain of these data are considered “non-GAAP financial measures” under Securities and Exchange Commission (SEC) Regulation G. We believe that non-GAAP data provide investors with a more complete understanding of*

*underlying results in our core business and trends. In addition, 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.*

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

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

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

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

*We believe that EBITDA is an important supplemental measure for investors in evaluating operating performance in that it provides insight into company profitability and cash flow. Libbey's senior management uses this measure internally to measure profitability. 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.*

*We present Adjusted EBITDA because we believe it assists investors and analysts in comparing our performance across reporting periods on a consistent basis by excluding items that we do not believe are indicative of our core operating performance. In addition, we use Adjusted EBITDA internally to measure profitability.*

*Adjusted EBITDA has limitations as an analytical tool. Some of these limitations are:*

- Adjusted EBITDA does not reflect our cash expenditures or future requirements for capital expenditures or contractual commitments;*
- Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;*
- Adjusted EBITDA does not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments, on our debts;*
- Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and Adjusted EBITDA does not reflect any cash requirements for such replacements;*
- Adjusted EBITDA does not reflect the impact of certain cash charges resulting from matters we consider not to be indicative of our ongoing operations; and*
- Other companies in our industry may calculate Adjusted EBITDA differently than we do, limiting its usefulness as a comparative measure.*

*Because of these limitations, Adjusted EBITDA should not be considered in isolation or as a substitute for performance measures calculated in accordance with GAAP.*

### ***Net Income and Diluted Net Income Per Share***

We recorded net income of \$66.3 million, or \$2.99 per diluted share, in 2015, compared to \$5.0 million, or \$0.22 per diluted share, in 2014. Net income as a percentage of net sales was 8.1 percent in 2015, compared to 0.6 percent in the prior year. The increase in net income and diluted net income per share is generally due to the factors discussed in Earnings Before Interest and Income Taxes (EBIT) above, including the \$47.2 million loss on redemption of debt in 2014, a \$46.8 million favorable change in income taxes and a \$4.4 million reduction in interest expense. The favorable income tax benefit includes a tax benefit of \$55.8 million related to management's decision in the fourth quarter that a valuation allowance against its U.S. deferred tax assets was no longer necessary in addition to changes in the valuation allowance throughout the year caused principally by utilization of net operating loss carry forwards to offset current year pre-tax income. The decrease in interest expense is

primarily driven by a lower interest rate from the debt refinancing completed in the second quarter of 2014. The effective tax rate was (135.9) percent for 2015 compared to 63.3 percent in 2014. The change in the effective tax rate was primarily driven by the release of the U.S. valuation allowance. Other less material factors were foreign earnings with differing statutory tax rates, foreign withholding tax, accruals related to uncertain tax positions, non-taxable foreign translation gains, and other activity in jurisdictions with recorded valuation allowances.

## Discussion of 2014 vs. 2013 Results of Operations

### Net Sales

For the year ended December 31, 2014, net sales increased 4.1 percent to \$852.5 million, compared to \$818.8 million in the prior year. The increase in net sales was primarily attributable to increased sales of \$22.5 million in the U.S. & Canada segment and \$10.5 million in Latin America.

The following table summarizes net sales by operating segment:

Year ended December 31, (dollars in thousands)	2014	2013
U.S. & Canada . . . . .	\$ 482,094	\$ 459,575
Latin America . . . . .	190,079	179,567
EMEA . . . . .	147,587	146,455
Other . . . . .	32,732	33,214
Consolidated . . . . .	\$ 852,492	\$ 818,811

#### Net Sales — U.S. & Canada

Net sales in the U.S. & Canada were \$482.1 million, compared to \$459.6 million in 2013, an increase of 4.9 percent. The primary contributor was an 18.8 percent increase in sales in our business-to-business channel due to stronger volume, as well as smaller increases in both retail and foodservice sales of 2.4 percent and 2.2 percent, respectively. In aggregate, the severe winter weather in the U.S. and Canada during the first quarter 2014 reduced sales by \$2.7 million, with over half of the impact in the foodservice channel. Additionally, the retail channel was impacted by our decision to exit the sale of certain low margin items as we reconfigured our U.S. & Canada manufacturing footprint.

#### Net Sales — Latin America

Net sales in Latin America were \$190.1 million, compared to \$179.6 million in 2013, an increase of 5.6 percent (an increase of 8.6 percent excluding currency fluctuation). The primary contributors were a sales increase of 6.0 percent and 5.1 percent in sales in our business-to-business and retail channels, respectively, driven primarily by strong sales volume and favorable price mix, as well as a 9.1 percent increase in our foodservice channel driven by higher volume.

#### Net Sales — EMEA

Net sales in EMEA were \$147.6 million, compared to \$146.5 million in 2013, an increase of 0.8 percent (an increase of 0.7 percent excluding currency fluctuation). The primary contributors to the increased net sales were the favorable product mix to EMEA customers and increased shipments.

### Gross Profit

Gross profit increased to \$203.1 million in 2014, compared to \$189.4 million in the prior year. Gross profit as a percentage of net sales increased to 23.8 percent, compared to 23.1 percent in the prior year. The primary drivers of the \$13.7 million increase in gross profit were the realization of cost savings of \$10.3 million from the North American capacity realignment; \$9.1 million in net increased production activity compared to 2013, when significant furnace rebuilds resulted in a reduction in capacity utilization; an \$11.1 million favorable impact in 2014 compared to 2013 related to the furnace malfunction at our Toledo, Ohio, manufacturing facility, primarily related to insurance proceeds received in 2014; reduced pension and postretirement welfare expense of \$4.6 million; lower incentive compensation of \$2.6 million; and lower charges in 2014 compared to 2013 related to the North American capacity realignment of \$0.7 million. Partially offsetting these favorable factors were \$7.0 million in costs associated with an earlier-than-planned furnace repair; increase input (primarily natural gas, electricity and packaging) and freight costs of \$5.6 million and \$5.2 million, respectively; an unfavorable currency impact of \$4.5 million primarily related to



the Mexican peso; the unfavorable impact of the severe winter weather of \$1.3 million in the first quarter of 2014 and non-income tax assessments of \$0.8 million.

### ***Income From Operations***

Income from operations for the year ended December 31, 2014 increased \$6.7 million, to \$81.2 million, compared to \$74.6 million in the prior year. Income from operations as a percentage of net sales was 9.5 percent for the year ended December 31, 2014, compared to 9.1 percent in the prior year. The increase in income from operations is the result of the increase in gross profit of \$13.7 million (discussed above) and the favorable impact in 2014 of a reduction in restructuring charges compared to the prior-year period, when we recorded \$4.9 million of restructuring charges related to the discontinuation of production of certain glassware in North America and the reduction of manufacturing capacity at our Shreveport, Louisiana, manufacturing facility. Offsetting this was an increase in selling, general and administrative expense of \$11.9 million, primarily the result of \$10.4 million in growth investments and \$0.8 million on unplanned non-income tax assessments. The growth investments include the development of new products, additional sales force, expanded marketing capabilities, and our new capital allocation and *Own the Moment* strategies.

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

EBIT for the year ended December 31, 2014 decreased by \$37.3 million, or 50.6 percent, to \$36.4 million in 2014 from \$73.7 million in 2013. EBIT as a percentage of net sales decreased to 4.3 percent in 2014, compared to 9.0 percent in the prior year. The decrease in EBIT is a result of the inclusion in 2014 of \$47.2 million for loss on redemption of debt, as compared to \$2.5 million in 2013, partially offset by a favorable change of \$0.7 million in other income (expense) and the increase in income from operations of \$6.7 million (discussed above).

### ***Segment EBIT***

The following table summarizes Segment EBIT<sup>(1)</sup> by operating segments:

Year ended December 31, (dollars in thousands)	2014	2013
U.S. & Canada . . . . .	\$ 72,546	\$ 76,445
Latin America . . . . .	\$ 32,909	\$ 33,841
EMEA . . . . .	\$ 5,726	\$ 874

(1) *Segment EBIT represents earnings before interest and taxes and excludes amounts related to certain items we consider not representative of ongoing operations as well as certain retained corporate costs and other allocations that are not considered by management when evaluating performance. See note 19 to the Consolidated Financial Statements for a reconciliation of Segment EBIT to net income.*

### ***Segment EBIT — U.S. & Canada***

Segment EBIT decreased to \$72.5 million in 2014 compared to \$76.4 million in 2013, a decrease of \$3.9 million. Segment EBIT as a percentage of net sales for U.S. & Canada decreased to 15.0 percent in 2014, compared to 16.6 percent in the prior year. The primary drivers of the \$3.9 million decrease in Segment EBIT were an unfavorable net \$8.3 million from production inefficiencies and costs associated with an earlier-than-planned furnace repair; higher input costs for natural gas, packaging and electricity of \$5.0 million; increase in sales force, marketing and product sampling of \$2.9 million; higher freight costs of \$1.8 million; and an unfavorable impact of the severe winter weather of \$1.3 million. These unfavorable items were primarily offset by the realization of savings of \$9.5 million from the completed North American capacity realignment and lower healthcare and pension costs of \$5.9 million.

### ***Segment EBIT — Latin America***

Segment EBIT decreased to \$32.9 million in 2014 compared to \$33.8 million in 2013. Segment EBIT as a percentage of net sales for Latin America decreased to 17.3 percent in 2014 compared to 18.8 percent in 2013. The primary drivers of the \$0.9 million decrease in Segment EBIT were increased delivery costs of \$2.5 million; increased repair and maintenance expense of \$2.3 million; higher input costs for natural gas, packaging and electricity of \$1.2 million; and an unfavorable currency impact of \$1.2 million. These unfavorable items were partially offset by increased production efficiencies of \$2.8 million, a favorable sales mix impact of \$2.4 million, and the realization of \$0.8 million in savings from the completed North American capacity realignment.

## Segment EBIT — EMEA

Segment EBIT increased to \$5.7 million in 2014, compared to \$0.9 million in 2013. Segment EBIT as a percentage of net sales for EMEA increased to 3.9 percent in 2014, compared to 0.6 percent in the prior-year. The primary drivers of the \$4.9 million increase in Segment EBIT were increased production activity of \$3.4 million and lower input costs of \$1.9 million. These favorable items were partially offset by increased repairs and maintenance of \$0.5 million.

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

EBITDA decreased by \$40.9 million in 2014, to \$76.8 million, compared to \$117.7 million in 2013. As a percentage of net sales, EBITDA decreased to 9.0 percent in 2014, from 14.4 percent in 2013. The key contributors to the decrease in EBITDA were those factors discussed above under Earnings Before Interest and Income Taxes (EBIT), including the \$47.2 million loss on redemption of debt in 2014, which was the largest driver, as compared to \$2.5 million in 2013. Additionally, 2013 included \$3.6 million of additional depreciation and amortization, of which \$1.7 million related to accelerated depreciation on certain fixed assets included in the capacity realignment.

## Adjusted EBITDA

Adjusted EBITDA decreased by \$11.9 million in 2014, to \$123.4 million, compared to \$135.3 million. As a percentage of net sales, Adjusted EBITDA was 14.5 percent for 2014, compared to 16.5 percent in 2013. The key contributors to the decrease in Adjusted EBITDA were those factors discussed above under Earnings Before Interest, Taxes, Depreciation & Amortization (EBITDA) and the elimination of the special items noted below in the reconciliation of net income to EBIT, EBITDA and Adjusted EBITDA.

Year ended December 31, (dollars in thousands)	2014	2013
Net income . . . . .	\$ 4,963	\$ 28,459
Add: Interest expense . . . . .	22,866	32,006
Add: Provision for income taxes . . . . .	8,567	13,241
Earnings before interest and income taxes (EBIT) . . . . .	<u>36,396</u>	<u>73,706</u>
Add: Depreciation and amortization . . . . .	40,388	43,969
Earnings before interest, taxes, depreciation and amortization (EBITDA) . . . . .	<u>76,784</u>	<u>117,675</u>
Add: Special items before interest and taxes:		
Loss on redemption of debt (see note 6) <sup>(1)</sup> . . . . .	47,191	2,518
Pension settlement charge (see note 9) <sup>(2)</sup> . . . . .	774	2,252
Furnace malfunction (see note 18) <sup>(3)</sup> . . . . .	(4,782)	4,428
Restructuring charges (see note 7) <sup>(4)</sup> . . . . .	985	6,544
Abandoned property (see note 18) . . . . .	—	1,781
Executive retirement . . . . .	875	736
Environmental obligation (see note 18) <sup>(5)</sup> . . . . .	315	—
Derivatives (see note 13) <sup>(6)</sup> . . . . .	1,247	916
Depreciation expense included in special items and also in depreciation and amortization above . . . . .	—	(1,533)
Adjusted EBITDA . . . . .	<u>\$ 123,389</u>	<u>\$ 135,317</u>

(1) Loss on redemption of debt for 2014 includes the write-off of unamortized finance fees and call premium payments on the \$405.0 million Senior Secured Notes redeemed in April and May 2014, and the write-off of the debt carrying value adjustment related to the termination of the \$45.0 million interest rate swap. Loss on redemption of debt for 2013 includes the write-off of unamortized finance fees and call premium on the \$45.0 million Senior Secured Notes redeemed in May 2013.

(2) The pension settlement charge for 2014 and 2013 relates to excess lump sum distributions.

(3) Furnace malfunction in 2014 relates to a \$10.7 million insurance recovery, net of a loss of production of \$5.9 million, at our Toledo, Ohio, manufacturing facility. Furnace malfunction in 2013 relates to loss of production of \$8.9 million

*and disposal of fixed assets of \$0.5 million, net of a \$5.0 million insurance recovery, at our Toledo, Ohio, manufacturing facility.*

- (4) Restructuring charges relate to discontinuing production of certain glassware in North America and reducing manufacturing capacity at our Shreveport, Louisiana, facility.*
- (5) Environmental obligation relates to our assessment of Syracuse China Company as a potentially responsible party with respect to the Lower Ley Creek sub-site of the Onondaga Lake Superfund site.*
- (6) Derivatives relate to hedge ineffectiveness on our natural gas contracts and interest rate swap, as well as, mark-to-market adjustments on our natural gas contracts that have been de-designated and those for which we did not elect hedge accounting.*

*We sometimes refer to data derived from consolidated financial information but not required by GAAP to be presented in financial statements. Certain of these data are considered “non-GAAP financial measures” under SEC Regulation G. We believe that certain 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. For our definition of these non-GAAP measures and certain limitations, see the Adjusted EBITDA section in the Discussion of 2015 vs. 2014 Results of Operations above.*

### **Net Income and Diluted Net Income Per Share**

We recorded net income of \$5.0 million, or \$0.22 per diluted share, in 2014, compared to \$28.5 million, or \$1.31 per diluted share, in 2013. Net income as a percentage of net sales was 0.6 percent in 2014, compared to 3.5 percent in the prior year. The decrease in net income and diluted net income per share is generally due to the factors discussed in EBIT above, partially offset by a \$9.1 million reduction in interest expense, and a \$4.7 million decrease in the provision for income taxes. The decrease in interest expense is primarily driven by lower interest rates as a result of the debt refinancing completed in the second quarter of 2014. The effective tax rate was 63.3 percent for 2014 compared to 31.8 percent in 2013. The effective tax rate was generally influenced by foreign earnings with differing statutory tax rates, foreign withholding tax, accruals related to uncertain tax positions and other activity in jurisdictions with recorded valuation allowances.

### **Outlook**

Taking into consideration the slowing global economy and the challenging competitive environment, we expect net sales growth, on an as reported basis, of approximately 1.0 percent in 2016 as compared to 2015. Given the continued volatility in the peso and euro, we expect full year Adjusted EBITDA margins to be approximately 14 percent. *Adjusted EBITDA, a non-GAAP financial measure, is a useful metric for evaluating our financial performance. For a reconciliation from net income to Adjusted EBITDA, see the “Adjusted EBITDA” section above in the Discussion of 2015 vs. 2014 Results of Operations and the reasons we believe this non-GAAP financial measure is useful.*

We expect capital expenditures of \$50.0 million to \$55.0 million for the full year 2016.

### **Capital Resources and Liquidity**

Historically, cash flows generated from operations, cash on hand and our borrowing capacity under our ABL Facility have enabled us to meet our cash requirements, including capital expenditures and working capital requirements. Under the ABL Facility at December 31, 2015, we had no borrowings, had letters of credit of \$6.6 million, and had \$0.3 million in rent reserves and \$2.1 million in mark-to-market reserves for natural gas. As a result, we had \$91.0 million of unused availability. In addition, we had \$49.0 million of cash on hand at December 31, 2015, compared to \$60.0 million of cash on hand at December 31, 2014. Of our total cash on hand at December 31, 2015 and 2014, \$27.0 million and \$33.7 million, respectively, were held in foreign subsidiaries. Except for our Chinese and Canadian subsidiaries, we plan to indefinitely reinvest the earnings of all foreign subsidiaries to support ongoing operations, capital expenditures, debt service, and continued growth plans outside the United States. Our Chinese subsidiaries' cash balance was \$12.0 million as of December 31, 2015. Local law currently prevents distribution of this cash as a dividend.

Based on our operating plans and current forecast expectations, we anticipate that our level of cash on hand, cash flows from operations and our borrowing capacity under our ABL Facility will provide sufficient cash availability to meet our ongoing liquidity needs.

## Balance Sheet and Cash Flows

### Cash and Equivalents

See the cash flow section below for a discussion of our cash balance.

### Working Capital

The following table presents our working capital components:

December 31, (dollars in thousands, except percentages and DSO, DIO, DPO and DWC)	2015	2014
Accounts receivable — net	\$ 94,379	\$ 91,106
<i>DSO</i> <sup>(1)</sup>	41.9	39.0
Inventories — net	\$ 178,027	\$ 169,828
<i>DIO</i> <sup>(2)</sup>	79.0	72.7
Accounts payable	\$ 71,560	\$ 82,485
<i>DPO</i> <sup>(3)</sup>	31.8	35.3
Working capital <sup>(4)</sup>	\$ 200,846	\$ 178,449
<i>DWC</i> <sup>(5)</sup>	89.1	76.4
Percentage of net sales	24.4%	20.9%

- (1) *Days sales outstanding (DSO) measures the number of days it takes to turn receivables into cash.*
- (2) *Days inventory outstanding (DIO) measures the number of days it takes to turn inventory into cash.*
- (3) *Days payable outstanding (DPO) measures the number of days it takes to pay the balances of our accounts payable.*
- (4) *Working capital is defined as net accounts receivable plus net inventories less accounts payable. See below 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.*

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

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

*Working capital is used in conjunction with and in addition to results presented in accordance with U.S. GAAP. Working capital is neither intended to represent nor be an alternative to any measure of liquidity and operational performance recorded under U.S. GAAP. Working capital may not be comparable to similarly titled measures reported by other companies.*

Working capital, defined as net accounts receivable plus net inventories less accounts payable, increased by \$22.4 million in 2015, compared to 2014. During 2015 we have introduced a large number of new products and have added inventory in connection with our partnerships with Spiegelau (new retail license), Schonwald and Reed and Barton. Our increase in working capital is primarily due to additional inventories resulting from new products and lower sales volume than anticipated, increased accounts receivable related to timing of collections, and lower accounts payable. The impact of currency (primarily driven by the euro and peso) decreased total working capital by \$11.6 million at December 31, 2015, in comparison to December 31, 2014. As a result of these factors, working capital as a percentage of net sales increased to 24.4 percent at December 31, 2015, compared to the 20.9 percent at December 31, 2014.

## Borrowings

The following table presents our total borrowings:

(dollars in thousands)	Interest Rate	Maturity Date	December 31, 2015	December 31, 2014
Borrowings under ABL Facility . . . . .	floating	April 9, 2019	\$ —	\$ —
Term Loan B . . . . .	floating <sup>(1)</sup>	April 9, 2021	433,400	437,800
RMB Working Capital Loan . . . . .	6.78%	July, 2015	—	3,258
AICEP Loan . . . . .	0.00%	January, 2016 to July 30, 2018	3,451	3,846
Total borrowings . . . . .			436,851	444,904
Less — unamortized discount and finance fees . . . . .			5,832	6,974
Total borrowings — net <sup>(1)(2)</sup> . . . . .			\$ 431,019	\$ 437,930

(1) See "Derivatives" below and note 13 to the Consolidated Financial Statements.

(2) Total borrowings-net includes long-term debt due within one year and long-term debt as stated on the Consolidated Balance Sheets.

(3) See "Contractual Obligations" below for scheduled payments by period.

We had total borrowings of \$436.9 million at December 31, 2015, compared to total borrowings of \$444.9 million at December 31, 2014. The \$8.1 million decrease in borrowings was primarily the result of the \$3.3 million repayment of the RMB Working Capital Loan and the quarterly repayments on our Term Loan B totaling \$4.4 million in 2015.

Of our total borrowings, \$433.4 million, or approximately 99.2 percent, was subject to variable interest rates at December 31, 2015. A change of one percentage point in such rates would result in a change in interest expense of approximately \$4.3 million on an annual basis. On April 1, 2015, we executed an interest rate swap on \$220.0 million of our Term Loan B to help mitigate the risk associated with holding a substantial percentage of variable rate debt. The swap is effective January 2016 through January 2020 and maintains a 4.85 percent fixed interest rate. For further discussion on the interest rate swap, see note 13 to the Consolidated Financial Statements.

Included in interest expense is the amortization of discounts and other financing fees. These items amounted to \$1.4 million, \$1.5 million and \$1.8 million for the years ended December 31, 2015, 2014 and 2013, respectively.

## Cash Flow

The following table presents key drivers to our Free Cash Flow for 2015, 2014 and 2013.

Year ended December 31, (dollars in thousands)	2015	2014	2013
Net cash provided by operating activities . . . . .	\$ 66,099	\$ 81,871	\$ 72,729
Capital expenditures <sup>(2)</sup> . . . . .	(48,136)	(54,393)	(49,407)
Proceeds from furnace malfunction insurance recovery . . . . .	—	2,350	—
Proceeds from asset sales and other . . . . .	7	24	81
Free Cash Flow <sup>(1)</sup> . . . . .	\$ 17,970	\$ 29,852	\$ 23,403

(1) We define Free Cash Flow as net cash provided by operating activities less capital expenditures plus proceeds from furnace malfunction insurance recovery and proceeds from asset sales. The most directly comparable U.S. GAAP financial measure is net cash provided by operating activities.

(2) Capital expenditures for the year ended December 31, 2015 includes \$2.7 million for capital expenditures paid in 2015 but incurred in a prior year. Capital expenditures for the year ended December 31, 2014 excludes \$2.3 million for capital expenditures incurred but not yet paid.

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

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

#### ***Discussion of 2015 vs. 2014 Cash Flow***

Our net cash provided by operating activities was \$66.1 million in 2015, compared to \$81.9 million in 2014, or a decrease of \$15.8 million. Contributing to the decrease in cash provided by operating activities were an unfavorable change in working capital (accounts receivable, inventories and accounts payable) of \$14.2 million, the non-repeating insurance proceeds related to the furnace malfunction of \$13.3 million, and higher pension and non-pension payments of \$2.2 million. These were partially offset by a favorable change in prepaids of \$8.1 million (primarily related to prepaid value added tax), lower interest payments of \$3.8 million, lower tax payments of \$1.7 million, and the non-repeating terminated interest rate swap payment of \$1.1 million.

Our net cash used in investing activities was (\$48.1) million and (\$52.0) million in 2015 and 2014, respectively, primarily representing capital expenditures. 2014 capital expenditures were partially offset by the receipt of proceeds from the furnace malfunction insurance recovery of \$2.4 million.

Net cash used in financing activities was (\$26.4) million in 2015, compared to (\$9.7) million in 2014, or a change of \$16.7 million. 2015 reflects the impact of treasury share purchases of (\$15.3) million, dividends of (\$9.6) million, Term Loan B payments of (\$4.4) million, and other debt repayments of (\$3.3) million, offset by proceeds from stock options exercised of \$3.3 million and the related excess tax benefit of \$2.8 million. 2014 reflects the impact of the refinancing of the Senior Secured Notes with the Term Loan B of (\$10.4) million, the Term Loan B payments of (\$2.2) million, the purchase of treasury shares of (\$1.1) million, and net other debt repayments of (\$0.6) million, offset by the proceeds from stock option exercises of \$4.6 million.

At December 31, 2015, our cash balance was \$49.0 million, a decrease of \$11.0 million from \$60.0 million at December 31, 2014.

Our Free Cash Flow was \$18.0 million during 2015, compared to \$29.9 million in 2014, a reduction of \$11.9 million. The primary contributors to this change were the \$15.8 million unfavorable cash flow impact from operating activities in 2015, partially offset by a favorable change of \$3.9 million in investing activities, as discussed above.

#### ***Discussion of 2014 vs. 2013 Cash Flow***

Our net cash provided by operating activities was \$81.9 million in 2014, compared to \$72.7 million in 2013, or an increase of \$9.1 million. Contributing to the improvement in cash provided by operating activities were a reduction in interest payments of \$9.7 million and insurance proceeds related to the furnace malfunction of \$13.3 million. These were partially offset by an unfavorable change in working capital (accounts receivable, inventories and accounts payable) of \$8.1 million and an increase in prepaid value added tax of \$6.8 million.

Our net cash used in investing activities was (\$52.0) million and (\$49.3) million in 2014 and 2013, respectively, primarily representing capital expenditures. 2014 capital expenditures were partially offset by the receipt of proceeds from the furnace malfunction insurance recovery of \$2.4 million.

Net cash used in financing activities was a use of (\$9.7) million in 2014, compared to a use of (\$49.1) million in 2013, or a change of \$39.4 million. 2014 reflects the impact of the refinancing of the Senior Secured Notes with the Term Loan B of (\$10.4) million, the Term Loan B payments of (\$2.2) million, the purchase of treasury shares of (\$1.1) million, and net other debt repayments of (\$0.6) million, offset by the proceeds from stock option exercises of \$4.6 million. 2013 reflects Senior Secured Note payments of (\$45.0) million and call premium payments of (\$1.4) million, (\$8.2) million in net other repayments, offset by proceeds from stock options exercised of \$5.4 million.

At December 31, 2014, our cash balance was \$60.0 million, an increase of \$17.8 million from \$42.2 million at December 31, 2013.

Our Free Cash Flow was \$29.9 million during 2014, compared to \$23.4 million in 2013, an improvement of \$6.4 million. The primary contributors to this change were the \$9.1 million favorable cash flow impact from operating activities in 2014, partially offset by an unfavorable change of \$2.7 million in investing activities, as discussed above.

## Derivatives

We use natural gas swap contracts related to forecasted future North American natural gas requirements. The objective of these commodity contracts is to limit the fluctuations in prices paid due to price movements in the underlying commodity. We consider our forecasted natural gas requirements in determining the quantity of natural gas to hedge. We combine the forecasts with historical observations to establish the percentage of forecast eligible to be hedged, typically ranging from 40 percent to 70 percent of our anticipated requirements up to eighteen months in the future. The fair values of these instruments are determined from market quotes. At December 31, 2015, we had commodity contracts for 3,000,000 million British Thermal Units (BTUs) of natural gas with a fair market value of a \$2.2 million liability. We have hedged a portion of our forecasted transactions through June 2017. At December 31, 2014, we had commodity futures contracts for 3,850,000 million BTUs of natural gas with a fair market value of a \$2.9 million liability. The counterparties for these derivatives were rated BBB+ or better as of December 31, 2015, by Standard & Poor's.

We have an interest rate swap agreement with respect to \$220.0 million of debt in order to fix a series of our future interest payments. The interest rate swap has an effective date of January 11, 2016, matures on January 9, 2020 and maintains a fixed interest rate of 4.85 percent, including the credit spread. At December 31, 2015, the Term Loan B debt held a floating interest rate of 3.75 percent. If the counterparty to the interest rate swap agreement were to fail to perform, the interest rate swap would no longer provide the desired results. However, we do not anticipate nonperformance by the counterparty. The counterparty held a Standard & Poor's rating of A+ as of December 31, 2015.

The fair market value of our interest rate agreement is based on the market standard methodology of netting the discounted expected future variable cash receipts and the discounted future fixed cash payments. The variable cash receipts are based on an expectation of future interest rates derived from observed market interest rate forward curves. The fair market value of the interest rate agreement at December 31, 2015 is a \$2.4 million liability.

## Contractual Obligations

The following table presents our existing contractual obligations at December 31, 2015 and related future cash requirements:

Contractual Obligations <sup>(1)</sup> (dollars in thousands)	Payments Due by Year				
	Total	2016	2017-2018	2019-2020	2021 and thereafter
Borrowings . . . . .	\$ 436,851	\$ 4,747	\$ 11,904	\$ 8,800	\$ 411,400
Interest payments <sup>(2)</sup> . . . . .	106,977	21,222	36,738	33,651	15,366
Long-term operating leases . . . . .	103,213	14,652	26,179	22,270	40,112
Pension and nonpension <sup>(3)</sup> . . . . .	7,526	7,526	—	—	—
Purchase obligations <sup>(4)</sup> . . . . .	34,588	22,968	10,303	1,174	143
Long-term incentive plans and CEO retention awards . . . . .	4,741	2,543	2,198	—	—
Total obligations . . . . .	<u>\$ 693,896</u>	<u>\$ 73,658</u>	<u>\$ 87,322</u>	<u>\$ 65,895</u>	<u>\$ 467,021</u>

(1) Amounts reported in local currencies have been translated at 2015 exchange rates.

(2) The obligations for interest payments are based on December 31, 2015 debt levels and interest rates.

(3) This amount represents 2016 expected contributions to our global pension and nonpension benefit plans. We have not estimated pension contributions beyond 2016 due to the significant impact that return on plan assets and changes in discount rates might have on such amounts.

(4) The purchase obligations consist principally of contracted amounts for energy, raw materials and fixed assets. The amount excludes purchase orders in the ordinary course of business that may be canceled. We do not believe such purchase orders will adversely affect our liquidity position.

In addition to the above, we have commercial commitments secured by letters of credit and guarantees. Our letters of credit outstanding at December 31, 2015, totaled \$6.6 million.

We are unable to make a reasonably reliable estimate as to when cash settlement with taxing authorities may occur for our unrecognized tax benefits. Therefore, our liability for unrecognized tax benefits of \$0.4 million at December 31, 2015 is not included in the table above. See note 8 to the Consolidated Financial Statements for additional information.

## CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements and related disclosures in conformity with U.S. generally accepted accounting principles requires us to make judgments, estimates and assumptions that affect the reported amounts in the Consolidated Financial Statements and accompanying notes. Note 2 to the Consolidated Financial Statements describes the significant accounting policies and methods used in their preparation. The areas described below are affected by critical accounting estimates and are impacted significantly by judgments and assumptions in the preparation of the Consolidated Financial Statements. Actual results could differ materially from the amounts reported based on these critical accounting estimates.

### Revenue Recognition

Revenue is recognized when products are shipped and title and risk of loss have passed to the customer. Revenue is recorded net of returns, discounts and sales incentive programs offered to customers. We offer various incentive programs to a broad base of customers, and we record accruals for these as sales occur. These programs typically offer incentives for purchase activities by customers that include growth objectives. Criteria for payment include the achievement by customers of certain purchase targets and the purchase by customers of particular product types. Management regularly reviews the adequacy of the accruals based on current customer purchases, targeted purchases and payout levels.

### Allowance for Doubtful Accounts

Our accounts receivable balance, net of reserves, was \$94.4 million in 2015, compared to \$91.1 million in 2014. The reserve balance was \$7.1 million in 2015, compared to \$5.6 million in 2014. The allowance for doubtful accounts is established through charges to the provision for bad debts. We regularly evaluate the adequacy of the allowance for doubtful accounts based on historical trends in collections and write-offs, our judgment as to the probability of collecting accounts and our evaluation of business risk. This evaluation is inherently subjective, as it requires estimates that are susceptible to revision as more information becomes available. Accounts are determined to be uncollectible when the debt is deemed to be worthless or only recoverable in part and are written off at that time through a charge against the allowance.

### Slow-Moving and Obsolete Inventory

We identify slow-moving or obsolete inventories and estimate appropriate loss provisions accordingly. We recognize inventory loss provisions based upon excess and obsolete inventories driven primarily by future demand forecasts. At December 31, 2015, our inventories were \$178.0 million, with loss provisions of \$5.3 million, compared to inventories of \$169.8 million and loss provisions of \$4.4 million at December 31, 2014.

### Asset Impairment

#### *Fixed Assets*

We assess our property, plant and equipment for possible impairment in accordance with FASB ASC Topic 360, "Property Plant and Equipment" ("FASB ASC 360"), whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable or a revision of remaining useful lives is necessary. Such indicators may include economic and competitive conditions, changes in our business plans or management's intentions regarding future utilization of the assets or changes in our commodity prices. An asset impairment would be indicated if the sum of the expected future net pretax cash flows from the use of an asset (undiscounted and without interest charges) is less than the carrying amount of the asset. An impairment loss would be measured based on the difference between the fair value of the asset and its carrying value. The determination of fair value is based on an expected present value technique in which multiple cash flow scenarios that reflect a range of possible outcomes and a risk-free rate of interest are used to estimate fair value or on a market appraisal. Projections used in the fair value determination are based on internal estimates for sales and production levels, capital expenditures necessary to maintain the projected production levels, and remaining useful life of the assets. These projections are prepared at the lowest level at which we have access to cash flow information and complete financial data for our operations, which is generally at the plant level.

Determination as to whether and how much an asset is impaired involves significant management judgment involving highly uncertain matters, including estimating the future success of product lines, future sales volumes, future selling prices and costs, alternative uses for the assets, and estimated proceeds from disposal of the assets. However, the impairment reviews and calculations are based on estimates and assumptions that take into account our business plans and long-term investment decisions. During 2013, we decided to reduce manufacturing capacity at our Shreveport, Louisiana, manufacturing facility, which represented an indicator of impairment for that asset group. Accordingly, our impairment analysis resulted in a write-



down of our carrying value for those assets to the estimated fair value less cost to sell, the impairment is disclosed in note 7 to the Consolidated Financial Statements. There were no indicators of impairment noted in 2015 and 2014 that required an impairment analysis to be performed for the Company's property, plant and equipment.

In accordance with FASB ASC 360, we also perform an impairment analysis for our definite useful lived intangible assets when factors indicating impairment are present. There were no indicators of impairment noted in 2015 or 2014 that would require an impairment analysis to be performed for our definite useful lived intangible assets.

### ***Goodwill and Indefinite Life Intangible Assets***

Goodwill at December 31, 2015 was \$164.1 million, representing approximately 19.3 percent of total assets. Goodwill represents the excess of cost over fair value of assets acquired for each reporting unit. Our reporting units represent the lowest level of the business for which financial statements are prepared internally, and may represent a single facility (operating component) or a group of plants under a common management team. Goodwill impairment tests are completed for each reporting unit as of October 1 of each year, or more frequently in certain circumstances where impairment indicators arise.

When performing our test for impairment in 2015, we measured each reporting unit's fair value using a blended analysis of the present value of future discounted cash flows and the market valuation approach. The discounted cash flow model calculates the fair value of the reporting unit based on a discounted cash flow analysis, incorporating the weighted average cost of capital of a hypothetical third party buyer. The market valuation approach calculates the fair value of the reporting unit based on a comparison of the reporting unit to comparable publicly traded companies. When performing our test for impairment in 2014, we measured each reporting unit's fair value based on a discounted cash flow analysis, incorporating the weighted average cost of capital of a hypothetical third party buyer. Under each approach, the fair value is then compared to the carrying value. To the extent that fair value exceeds the carrying value, no impairment exists. However, to the extent the carrying value exceeds the fair value, we compare the implied fair value of goodwill to its book value to determine if an impairment should be recorded.

The discount rates used in present value calculations are updated annually. We also use available market value information to evaluate fair value. The total of the fair values of the reporting units less debt was reconciled to end-of-year total market capitalization. For locations with recorded goodwill, the discount rates used in the 2015 goodwill impairment analysis ranged from 10.0 percent to 11.7 percent, as compared to a range of 10.8 percent to 13.0 percent used in the 2014 test. The cash flow terminal growth rates used in the 2015 and 2014 goodwill impairment analysis for all locations ranged from 2.0 percent to 4.0 percent. Management believes these rates are reasonable based upon historical growth rates and its expectations of future economic conditions in the markets in which we operate. Any changes in the discount rate or cash flow terminal growth rate would move in tandem. For example, the discount rate is higher in part due to increased uncertainty as to our ability to meet short term and long term forecasts. As such, if we were to increase the cash flow terminal growth rate, we would also increase the discount rate.

The discounted cash flow model used to determine fair value for the goodwill analysis is most sensitive to the discount rate and terminal cash flow growth rate assumptions. A sensitivity analysis was performed on these factors for all reporting units and it was determined, assuming all other assumptions remain constant, that the discount rate used could be increased by a factor of 30 percent of the discount rate or the terminal cash flow growth rate could decrease to zero and the fair value of all reporting units with goodwill would still exceed their carrying values. Significant changes in the estimates and assumptions used in calculating the fair value of the segments and the recoverability of goodwill or differences between estimates and actual results could result in impairment charges in the future. Significant estimates in the market valuation approach model include identifying similar companies with comparable business factors such as size, growth, profitability, risk and return on investment and assessing comparable multiples in estimating the fair value of the reporting unit.

Based on the results of our annual impairment test, the estimated fair values of all three reporting units that have goodwill were in excess of their carrying values, with the estimated fair values of each reporting unit exceeding its carrying value by at least 15 percent. As of October 1, 2015, 2014 and 2013, our review did not indicate an impairment of goodwill.

Individual indefinite life intangible assets are also evaluated for impairment on an annual basis, or more frequently in certain circumstances where impairment indicators arise. Total indefinite life intangible assets at December 31, 2015 were \$11.9 million, representing 1.4 percent of total assets. When performing our test for impairment, we use a discounted cash flow method (based on a relief from royalty calculation) to compute the fair value, which is then compared to the carrying value of the indefinite life intangible asset. To the extent that fair value exceeds the carrying value, no impairment exists. This was done as of October 1st for each year presented. As of October 1, 2015, 2014 and 2013, our review did not indicate an impairment of indefinite life intangible assets.

## Self-Insurance Reserves

We use self-insurance mechanisms to provide for potential liabilities related to workers' compensation and employee health care benefits that are not covered by third-party insurance. Workers' compensation accruals are recorded at the estimated ultimate payout amounts based on individual case estimates. In addition, we record estimates of incurred-but-not-reported losses based on actuarial models.

Although we believe that the estimated liabilities for self-insurance are adequate, the estimates described above may not be indicative of current and future losses. In addition, the actuarial calculations used to estimate self-insurance liabilities are based on numerous assumptions, some of which are subjective. We will continue to adjust our estimated liabilities for self-insurance, as deemed necessary, in the event that future loss experience differs from historical loss patterns.

## Pension Assumptions

The assumptions used to determine the benefit obligations were as follows:

	U.S. Plans		Non-U.S. Plans	
	2015	2014	2015	2014
Discount rate . . . . .	4.60% to 4.73%	4.17% to 4.29%	8.10%	2.30% to 7.60%
Rate of compensation increase . . . . .	—%	—%	4.30%	2.00% to 4.30%

The assumptions used to determine net periodic pension costs were as follows:

	U.S. Plans			Non-U.S. Plans		
	2015	2014	2013	2015	2014	2013
Discount rate . . . . .	4.17% to 4.29%	4.83% to 5.12%	3.98% to 4.97%	2.30% to 7.60%	3.70% to 8.50%	3.70% to 7.00%
Expected long-term rate of return on plan assets . . . . .	7.25%	7.25%	7.50%	4.00%	4.10%	3.60%
Rate of compensation increase . . . . .	—%	—%	—%	2.00% to 4.30%	2.00% to 4.30%	2.00% to 4.30%

Two critical assumptions, discount rate and expected long-term rate of return on plan assets, are important elements of plan expense and asset/liability measurement. We evaluate these critical assumptions on our annual measurement date of December 31. Other assumptions involving demographic factors such as retirement age, mortality and turnover are evaluated periodically and are updated to reflect our experience. Actual results in any given year often will differ from actuarial assumptions because of demographic, economic and other factors.

During 2014, the Society of Actuaries released a new mortality table, which is believed to better reflect current mortality expectations and is to be used in calculating pension obligations. We adopted these new tables for our U.S. pension plans for use in determining our projected benefit obligations. Adoption of the new mortality tables increased our projected benefit obligation by approximately \$22.1 million at December 31, 2014. In 2015, the Society of Actuaries published a new mortality project scale which reflected two additional years of mortality experience, and we adopted this 2015 update.

The discount rate enables us to estimate the present value of expected future cash flows on the measurement date. The rate used reflects a rate of return on high-quality fixed income investments that match the duration of expected benefit payments at our December 31 measurement date. The discount rate at December 31 is used to measure the year-end benefit obligations and the earnings effects for the subsequent year. A lower discount rate increases the present value of benefit obligations and increases pension expense.

To determine the expected long-term rate of return on plan assets, we consider the current and expected asset allocations, as well as historical and expected returns on various categories of plan assets. Our determination of the reasonableness of our expected long-term rate of return on plan assets at December 31 is highly quantitative by nature and used to measure the earnings effects for the subsequent year. We evaluate the current asset allocations and expected returns under four sets of conditions: a maximum time available for each asset class; a common history where all asset class returns are computed with the same overall start date of January 1990; a 10-year historical return; and forecasted returns using the Black-Litterman method. Based upon the current asset allocation mix and the Black-Litterman method, the forecasted return is 6.84 percent. The

actual return on plan assets from July 1, 1993 (inception) through December 31, 2015 was 8.37 percent and 8.21 percent for the U.S. hourly and salary pension plans, respectively.

Since over 85 percent of the plan assets are actively managed, we adjust the baseline forecasted return for the anticipated return differential from active over passive investment management and for any other items not already captured. We believe that the combination of long-term historical returns, along with the forecasted returns and manager alpha, supports the 7.25 percent rate of return assumption based on the current asset allocation.

Sensitivity to changes in key assumptions based on year-end data is as follows:

- A change of 1.0 percent in the discount rate would change our total pension expense by approximately \$4.1 million.
- A change of 1.0 percent in the expected long-term rate of return on plan assets would change total pension expense by approximately \$3.2 million.

### Nonpension Postretirement Assumptions

We use various actuarial assumptions, including the discount rate and the expected trend in health care costs, to estimate the costs and benefit obligations for our retiree welfare plan. The discount rate is determined based on high-quality fixed income investments that match the duration of expected retiree medical benefits at our December 31 measurement date. The discount rate at December 31 is used to measure the year-end benefit obligations and the earnings effects for the subsequent year. The discount rate used to determine the accumulated postretirement benefit obligation was:

	U.S. Plans		Non-U.S. Plans	
	2015	2014	2015	2014
Discount rate .....	4.56%	4.10%	3.69%	3.61%

The discount rate used to determine net postretirement benefit cost was:

	U.S. Plans			Non-U.S. Plans		
	2015	2014	2013	2015	2014	2013
Discount rate .....	4.10%	4.74%	3.85%	3.61%	4.36%	3.71%

The weighted average assumed health care cost trend rates at December 31 were as follows:

	U.S. Plans		Non-U.S. Plans	
	2015	2014	2015	2014
Initial health care trend .....	7.00%	7.25%	7.00%	7.25%
Ultimate health care trend .....	5.00%	5.00%	5.00%	5.00%
Years to reach ultimate trend rate .....	8	9	8	9

Sensitivity to change in key assumptions is as follows:

- A change of 1.0 percent in the discount rate would change the nonpension postretirement expense by \$0.2 million.
- A change of 1.0 percent in the health care trend rate would not have a material impact upon the nonpension postretirement expense.

### Income Taxes

We are subject to income taxes in the U.S. and various foreign jurisdictions. Management judgment is required in evaluating our tax positions and determining our provision for income taxes. Throughout the course of business, there are numerous transactions and calculations for which the ultimate tax determination is uncertain. When management believes certain tax positions may be challenged despite our belief that the tax return positions are supportable, we establish reserves for tax uncertainties based on estimates of whether additional taxes will be due. We adjust these reserves taking into consideration changing facts and circumstances, such as an outcome of a tax audit. The income tax provision includes the impact of reserve provisions and changes to reserves that are considered appropriate. Accruals for tax contingencies are provided for in accordance with the requirements of FASB ASC Topic 740 "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. FASB ASC 740 "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.

As of December 31, 2015, management has considered the evidence, both positive and negative, in assessing the realizability of our deferred tax assets in the U.S. The positive evidence, including achievement of cumulative income in recent years and expectations for sustainable future income, was strong enough to conclude that it is more likely than not that nearly all of our deferred tax assets are realizable and the valuation allowance was reduced accordingly.

Our European operations in the Netherlands and Portugal incurred operating losses in 2015, continue to be in cumulative loss positions in recent years, and have tax loss carry-forwards expiring unused. In addition, European economic conditions continue to be unfavorable. Accordingly, management believes it is not more likely than not that the deferred tax assets related to these operations will be realized and valuation allowances continue to be recorded for the Netherlands and Portugal as of December 31, 2015.

### **Derivatives and Hedging**

We use various derivative contracts to manage a variety of our risks, including risks related to changes in the fair market of debt, commodity prices and foreign currency rates. The requirements necessary to apply hedge accounting to these contracts are complex and must be documented at the inception as well as throughout the term of the contract. If we would fail to accurately document these requirements, the contract would not be eligible for hedge accounting treatment and any changes to the fair market value of the contract would be recorded directly to earnings.

One of the requirements that we must evaluate when determining whether a contract qualifies for hedge accounting treatment is whether or not the contract is deemed effective. A contract is deemed effective if the change in the fair value of the derivative contract offsets, within a specified range, the change in the fair value of the hedged item. At the inception of the contract, we first determine if the relationship between the hedged contract and the hedged item meets the strict criteria to qualify for an exemption to the effectiveness testing. If the relationship does not meet these criteria, then we must test the effectiveness at the inception of the contract and quarterly thereafter. If the relationship fails this test at any time, we are required to discontinue hedge accounting treatment prospectively. During the fourth quarter of 2014, we de-designated our Mexico natural gas derivatives due to ineffectiveness created by changes in the natural gas price. Effective October 1, 2014, we have not elected hedge accounting for new Mexican natural gas contracts that we enter into. As of July 1, 2013, we de-designated 10 percent, or \$4.5 million, of our interest rate agreement. As a result of these de-designations and not electing hedge accounting for our Mexican gas contracts, the mark-to-market adjustment of these derivatives is recorded in other income on the Consolidated Statements of Operations. See note 13 to the Consolidated Financial Statements.

### **Stock-Based Compensation Expense**

We account for stock-based compensation in accordance with FASB ASC 718, "Compensation - Stock Compensation" and FASB ASC 505-50, "Equity - Equity Based Payments to Non-Employees", which requires the measurement and recognition of compensation expense for all share-based payment awards made to our employees and directors. Share-based compensation cost is measured based on the fair value of the equity or liability instruments issued. Since our cash settled RSUs and stock appreciation rights will be settled in cash and are subject to liability accounting, the fair value of these awards are remeasured at the end of each reporting period until settled or expired. FASB ASC 718 and FASB ASC 505-50 apply to all of our outstanding unvested share-based payment awards.

We estimate the value of employee share-based compensation on the date of grant using the Black-Scholes model. The determination of fair value of share-based payment awards on the date of grant using an option-pricing model is affected by our stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, the expected stock price volatility over the term of the award, and actual and projected employee stock option exercise behaviors. The use of the Black-Scholes model requires extensive actual employee exercise behavior data and a number of complex assumptions including expected volatility, risk-free interest rate, and expected dividends. See note 12 of the Consolidated Financial Statements for additional information.

## **Legal and Other Contingencies**

We are involved from time to time in various legal proceedings and claims, including commercial or contractual disputes, product liability claims and environmental and other matters, that arise in the normal course of business. We routinely assess the likelihood of any adverse judgments or outcomes related to these matters, as well as ranges of probable losses, by consulting with internal personnel principally involved with such matters and with our outside legal counsel handling such matters. We have accrued for estimated losses in accordance with U.S. GAAP for those matters where we believe that the likelihood that a loss has occurred is probable and the amount of the loss is reasonably estimable. The determination of the amount of such reserves is based on knowledge and experience with regard to past and current matters and consultation with internal personnel principally involved with such matters and with our outside legal counsel handling such matters. The amount of such reserves may change in the future due to new developments or changes in circumstances. The inherent uncertainty related to the outcome of these matters can result in amounts materially different from any provisions made with respect to their resolution.

Syracuse China Company, our wholly-owned subsidiary, has been designated as one of eight potentially responsible parties with respect to the Lower Ley Creek sub-site of the Onondaga Lake Superfund site. In connection with this, an estimated environmental liability of \$1.1 million and a recoverable amount of \$0.6 million in other long term assets have been recorded in the Consolidated Balance Sheet at December 31, 2015. An estimated liability of \$1.0 million and a recoverable amount \$0.7 million in other long term assets have been recorded in the Consolidated Balance Sheet at December 31, 2014. Expense of \$0.2 million and \$0.3 million has been recorded in cost of sales in the Consolidated Statements of Operations for the years ended December 31, 2015 and 2014, respectively. Although we cannot predict the ultimate outcome of this proceeding, we believe that it will not have a material adverse impact on our financial condition, results of operations or liquidity.

In the fourth quarter of 2014, we received a settlement notification from our insurance company on our furnace malfunction insurance claim at our manufacturing facility in Toledo, Ohio. The total reimbursement for the claim and related expenses was \$15.7 million. \$5.0 million was recognized in 2013 in accounts receivable and received in the first quarter of 2014. The remaining \$10.7 million was received and recognized in the fourth quarter of 2014.

See note 18 of the Consolidated Financial Statements for additional information on the above matters.

## **New Accounting Standards**

See note 2 of the Consolidated Financial Statements for a summary of the new accounting standards.

## **Item 7A. 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, Canadian dollar, Euro, RMB or Mexican peso that could reduce the cost competitiveness of our products compared to foreign competition.

### **Interest Rates**

We are exposed to market risks associated with changes in interest rates on our debt. We had \$433.4 million of debt subject to variable interest rates at December 31, 2015. A change of one percentage point in such rates would result in a change in interest expense of approximately \$4.3 million on an annual basis.

We have an interest rate swap agreement with respect to \$220.0 million of debt in order to convert a portion of our floating rate Term Loan B debt into fixed rate debt and to fix a series of our future interest payments. The interest rate swap has an effective date of January 11, 2016, matures on January 9, 2020 and maintains a fixed interest rate of 4.85 percent when including the credit spread. At December 31, 2015, the Term Loan B debt held a floating interest rate of 3.75 percent. If the counterparty to the interest rate swap agreement were to fail to perform, the interest rate swap would no longer provide the desired results. However, we do not anticipate nonperformance by the counterparty. The counterparty was rated A+ as of December 31, 2015.

### **Natural Gas**

We are also exposed to market risks associated with changes in the price of natural gas. We use natural gas swap contracts related to forecasted future natural gas requirements of our manufacturing operations in North America. The objective of these commodity contracts is to limit the fluctuations in prices paid due to price movements in the underlying 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 to be hedged, typically ranging from 40 percent to 70 percent of our anticipated requirements up to six quarters in the future. For our natural gas requirements that are not hedged or have been de-designated, we are subject to changes in the price of natural gas, which affect our earnings. If the counterparties to these natural gas swap contracts were to fail to perform, we would no longer be protected from natural gas fluctuations by the futures contracts. However, we do not anticipate nonperformance by these counterparties. All counterparties were rated BBB+ or better by Standard and Poor's as of December 31, 2015.

### **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 1.0 percent in the discount rate would change our total annual pension and nonpension postretirement expense by approximately \$4.3 million.
- A change of 1.0 percent in the expected long-term rate of return on plan assets would change annual pension expense by approximately \$3.2 million.

## Item 8. Financial Statements and Supplementary Data

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## **Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Stockholders of Libbey Inc.  
Toledo, Ohio

We have audited the accompanying consolidated balance sheet of Libbey Inc. and subsidiaries (the "Company") as of December 31, 2015, and the related consolidated statements of operations, comprehensive income (loss), shareholders' equity, and cash flows for the year ended December 31, 2015. Our audit also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Libbey Inc. and subsidiaries as of December 31, 2015, and the results of their operations and their cash flows for the year ended December 31, 2015, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2015, based on the criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 29, 2016 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP

Detroit, Michigan  
February 29, 2016



## Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Libbey Inc.  
Toledo, Ohio

We have audited the internal control over financial reporting of Libbey Inc. and subsidiaries (the "Company") as of December 31, 2015, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report of Management. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended December 31, 2015 of the Company and our report dated February 29, 2016 expressed an unqualified opinion on those financial statements and financial statement schedule.

/s/ Deloitte & Touche LLP

Detroit, Michigan  
February 29, 2016

## **Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders of Libbey Inc.

We have audited the accompanying consolidated balance sheet of Libbey Inc. as of December 31, 2014, and the related consolidated statements of operations, comprehensive income (loss), shareholders' equity, and cash flows for each of the two years in the period ended December 31, 2014. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Libbey Inc. at December 31, 2014, and the consolidated results of its operations and its cash flows for each of the two years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

Toledo, Ohio

March 13, 2015 except for paragraph 27 of Note 2 and Note 19, as to which the date is February 29, 2016

**Libbey Inc.**  
**Consolidated Balance Sheets**

December 31, (dollars in thousands, except per share amounts)	Footnote Reference	2015	2014
<b>ASSETS</b>			
Cash and cash equivalents . . . . .		\$ 49,044	\$ 60,044
Accounts receivable — net . . . . .	(note 3)	94,379	91,106
Inventories — net . . . . .	(note 3)	178,027	169,828
Prepaid and other current assets . . . . .	(note 3)	19,326	27,701
Total current assets . . . . .		<u>340,776</u>	<u>348,679</u>
Pension asset . . . . .	(note 9)	977	848
Purchased intangible assets — net . . . . .	(note 4)	16,364	17,771
Goodwill . . . . .	(note 4)	164,112	164,112
Deferred income taxes . . . . .	(note 8)	48,662	5,566
Other assets . . . . .		9,019	7,984
Total other assets . . . . .		<u>239,134</u>	<u>196,281</u>
Property, plant and equipment — net . . . . .	(note 5)	272,534	277,978
Total assets . . . . .		<u>\$ 852,444</u>	<u>\$ 822,938</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Accounts payable . . . . .		\$ 71,560	\$ 82,485
Salaries and wages . . . . .		27,266	29,035
Accrued liabilities . . . . .	(note 3)	45,179	42,638
Accrued income taxes . . . . .	(note 8)	4,009	2,010
Pension liability (current portion) . . . . .	(note 9)	2,297	1,488
Non-pension postretirement benefits (current portion) . . . . .	(note 10)	4,903	4,800
Derivative liability . . . . .	(notes 13 & 15)	4,265	2,653
Deferred income taxes . . . . .	(note 8)	—	3,633
Long-term debt due within one year . . . . .	(note 6)	4,747	7,658
Total current liabilities . . . . .		<u>164,226</u>	<u>176,400</u>
Long-term debt . . . . .	(note 6)	426,272	430,272
Pension liability . . . . .	(note 9)	44,274	56,462
Non-pension postretirement benefits . . . . .	(note 10)	55,282	63,301
Deferred income taxes . . . . .	(note 8)	2,822	5,893
Other long-term liabilities . . . . .	(note 3)	11,186	13,156
Total liabilities . . . . .		<u>704,062</u>	<u>745,484</u>
<b>Shareholders' equity:</b>			
Common stock, par value \$.01 per share, 50,000,000 shares authorized, 21,843,851 shares issued in 2015 (21,843,851 shares issued in 2014) . . . . .		218	218
Capital in excess of par value . . . . .		330,756	331,391
Treasury stock . . . . .		(4,448)	(1,060)
Retained deficit . . . . .		(57,912)	(114,648)
Accumulated other comprehensive loss . . . . .	(note 14)	(120,232)	(138,447)
Total shareholders' equity . . . . .		<u>148,382</u>	<u>77,454</u>
Total liabilities and shareholders' equity . . . . .		<u>\$ 852,444</u>	<u>\$ 822,938</u>

See accompanying notes

**Libbey Inc.**  
**Consolidated Statements of Operations**

Year ended December 31, (dollars in thousands, except per share amounts)	Footnote Reference	2015	2014	2013
Net sales . . . . .	(note 2)	\$ 822,345	\$ 852,492	\$ 818,811
Freight billed to customers . . . . .		2,885	3,400	3,344
Total revenues . . . . .		<u>825,230</u>	<u>855,892</u>	<u>822,155</u>
Cost of sales . . . . .	(notes 2, 7 & 18)	<u>648,902</u>	<u>652,747</u>	<u>632,738</u>
Gross profit . . . . .		176,328	203,145	189,417
Selling, general and administrative expenses . . . . .		132,607	121,909	109,981
Restructuring charges . . . . .	(note 7)	<u>—</u>	<u>—</u>	4,859
Income from operations . . . . .		43,721	81,236	74,577
Loss on redemption of debt . . . . .	(note 6)	—	(47,191)	(2,518)
Other income . . . . .	(notes 17 & 18)	<u>2,880</u>	<u>2,351</u>	<u>1,647</u>
Earnings before interest and income taxes . . . . .		46,601	36,396	73,706
Interest expense . . . . .	(note 6)	<u>18,484</u>	<u>22,866</u>	<u>32,006</u>
Income before income taxes . . . . .		28,117	13,530	41,700
Provision (benefit) for income taxes . . . . .	(note 8)	<u>(38,216)</u>	<u>8,567</u>	<u>13,241</u>
Net income . . . . .		<u>\$ 66,333</u>	<u>\$ 4,963</u>	<u>\$ 28,459</u>
Net income per share:				
Basic . . . . .	(note 11)	<u>\$ 3.04</u>	<u>\$ 0.23</u>	<u>\$ 1.34</u>
Diluted . . . . .	(note 11)	<u>\$ 2.99</u>	<u>\$ 0.22</u>	<u>\$ 1.31</u>
Weighted average shares:				
Outstanding . . . . .	(note 11)	<u>21,817</u>	<u>21,716</u>	<u>21,217</u>
Diluted . . . . .	(note 11)	<u>22,159</u>	<u>22,184</u>	<u>21,742</u>
Dividends declared per share . . . . .		<u>\$ 0.44</u>	<u>\$ —</u>	<u>\$ —</u>

See accompanying notes

**Libbey Inc.**  
**Consolidated Statements of Comprehensive Income (Loss)**

Year ended December 31, (dollars in thousands)	Footnote Reference	2015	2014	2013
Net income . . . . .		\$ 66,333	\$ 4,963	\$ 28,459
Other comprehensive income (loss):				
Pension and other postretirement benefit adjustments, net of tax . .	(note 14)	33,201	(49,725)	60,953
Change in fair value of derivative instruments, net of tax . . . . .	(note 14)	(1,235)	(1,846)	732
Foreign currency translation adjustments . . . . .	(note 14)	(13,751)	(13,716)	6,195
Other comprehensive income (loss), net of tax . . . . .		<u>18,215</u>	<u>(65,287)</u>	<u>67,880</u>
Comprehensive income (loss) . . . . .		<u>\$ 84,548</u>	<u>\$ (60,324)</u>	<u>\$ 96,339</u>

See accompanying notes

**Libbey Inc.**  
**Consolidated Statements of Shareholders' Equity**

(dollars in thousands, except share amounts)	Common Stock Shares	Treasury Stock Shares	Common Stock Amount	Capital in Excess of Par Value	Treasury Stock Amount	Retained Deficit	Accumulated Other Comprehensive Loss (note 14)	Total
Balance December 31, 2012 . . . .	20,835,489	—	\$ 209	\$ 313,377	\$ —	\$ (148,070)	\$ (141,040)	\$ 24,476
Net income . . . . .						28,459		28,459
Other comprehensive income (loss) . . . . .							67,880	67,880
Stock compensation expense (note 12) . . . . .				5,063				5,063
Stock issued . . . . .	480,991		4	5,378				5,382
Stock withheld for employee taxes . . . . .				(451)				(451)
Balance December 31, 2013 . . . .	<u>21,316,480</u>	<u>—</u>	<u>213</u>	<u>323,367</u>	<u>—</u>	<u>(119,611)</u>	<u>(73,160)</u>	<u>130,809</u>
Net income . . . . .						4,963		4,963
Other comprehensive income (loss) . . . . .							(65,287)	(65,287)
Stock compensation expense (note 12) . . . . .				3,932				3,932
Stock issued . . . . .	527,371		5	4,409				4,414
Stock withheld for employee taxes . . . . .				(317)				(317)
Purchase of treasury shares . . . .		34,985			(1,060)			(1,060)
Balance December 31, 2014 . . . .	<u>21,843,851</u>	<u>34,985</u>	<u>218</u>	<u>331,391</u>	<u>(1,060)</u>	<u>(114,648)</u>	<u>(138,447)</u>	<u>77,454</u>
Net income . . . . .						66,333		66,333
Other comprehensive income (loss) . . . . .							18,215	18,215
Excess tax benefits from share- based compensation arrangements . . . . .				2,797				2,797
Stock compensation expense (note 12) . . . . .				5,873				5,873
Stock issued from treasury . . . .		(336,741)		(8,509)	11,887			3,378
Stock withheld for employee taxes . . . . .				(796)				(796)
Dividends . . . . .						(9,597)		(9,597)
Purchase of treasury shares . . . .		412,473			(15,275)			(15,275)
Balance December 31, 2015 . . . .	<u>21,843,851</u>	<u>110,717</u>	<u>\$ 218</u>	<u>\$ 330,756</u>	<u>\$ (4,448)</u>	<u>\$ (57,912)</u>	<u>\$ (120,232)</u>	<u>\$ 148,382</u>

See accompanying notes

**Libbey Inc.**  
**Consolidated Statements of Cash Flows**

Year ended December 31, (dollars in thousands)	Footnote Reference	2015	2014	2013
<b>Operating activities:</b>				
Net income		\$ 66,333	\$ 4,963	\$ 28,459
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	(notes 4 & 5)	42,712	40,388	43,969
Loss on asset sales and disposals		567	674	514
Change in accounts receivable		(6,312)	(1,808)	(12,674)
Change in inventories		(12,006)	(10,828)	(3,932)
Change in accounts payable		(3,466)	5,088	12,190
Accrued interest and amortization of discounts and finance fees		1,291	2,039	1,496
Call premium on senior notes	(note 6)	—	37,348	1,350
Write-off of finance fees on senior notes	(note 6)	—	9,086	1,168
Pension & non-pension postretirement benefits, net	(notes 9 & 10)	18,865	(879)	7,746
Restructuring	(note 7)	—	(289)	2,212
Accrued liabilities & prepaid expenses		4,140	(7,222)	(17,507)
Income taxes	(note 8)	(45,003)	885	(1,804)
Share-based compensation expense		5,917	5,283	5,063
Excess tax benefit from share-based compensation arrangements		(2,797)	—	—
Other operating activities		(4,142)	(2,857)	4,479
Net cash provided by operating activities		<u>66,099</u>	<u>81,871</u>	<u>72,729</u>
<b>Investing activities:</b>				
Additions to property, plant and equipment		(48,136)	(54,393)	(49,407)
Proceeds from furnace malfunction insurance recovery	(notes 17 & 18)	—	2,350	—
Proceeds from asset sales and other		7	24	81
Net cash used in investing activities		<u>(48,129)</u>	<u>(52,019)</u>	<u>(49,326)</u>
<b>Financing activities:</b>				
Borrowings on ABL credit facility	(note 6)	62,900	83,000	51,000
Repayments on ABL credit facility	(note 6)	(62,900)	(83,000)	(51,000)
Other repayments	(note 6)	(3,267)	(5,863)	(14,270)
Other borrowings	(note 6)	—	5,214	6,094
Payments on 6.875% senior notes	(note 6)	—	(405,000)	(45,000)
Proceeds from Term Loan B	(note 6)	—	438,900	—
Repayments on Term Loan B	(note 6)	(4,400)	(2,200)	—
Call premium on senior notes	(note 6)	—	(37,348)	(1,350)
Stock options exercised		3,338	4,571	5,384
Excess tax benefit from share-based compensation arrangements		2,797	—	—
Debt issuance costs and other	(note 6)	—	(6,959)	—
Dividends		(9,597)	—	—
Treasury shares purchased		(15,275)	(1,060)	—
Net cash used in financing activities		<u>(26,404)</u>	<u>(9,745)</u>	<u>(49,142)</u>
Effect of exchange rate fluctuations on cash		(2,566)	(2,271)	739
Increase (decrease) in cash		<u>(11,000)</u>	<u>17,836</u>	<u>(25,000)</u>
Cash & cash equivalents at beginning of year		60,044	42,208	67,208
Cash & cash equivalents at end of year		<u>\$ 49,044</u>	<u>\$ 60,044</u>	<u>\$ 42,208</u>
<b>Supplemental disclosure of cash flow information:</b>				
Cash paid during the year for interest, net of capitalized interest		<u>\$ 16,545</u>	<u>\$ 20,302</u>	<u>\$ 30,008</u>
Cash paid during the year for income taxes		<u>\$ 5,516</u>	<u>\$ 7,228</u>	<u>\$ 10,855</u>

See accompanying notes

**Libbey Inc.**  
**Notes to Consolidated Financial Statements**

**1. Description of the Business**

Libbey is a leading global manufacturer and marketer of glass tableware products. We produce glass tableware in five countries and sell to customers in over 100 countries. We design and market, under our Libbey<sup>®</sup>, Crisa<sup>®</sup>, Royal Leerdam<sup>®</sup>, World<sup>®</sup> Tableware, Syracuse<sup>®</sup> China and Crisal Glass<sup>®</sup> brand names (among others), an extensive line of high-quality glass tableware, ceramic dinnerware, metal flatware, hollowware and serveware items for sale primarily in the foodservice, retail and business-to-business markets. Our sales force presents our products to the global marketplace in a coordinated fashion. We own and operate two glass tableware manufacturing plants in the United States as well as glass tableware manufacturing plants in the Netherlands (Libbey Holland), Portugal (Libbey Portugal), China (Libbey China) and Mexico (Libbey Mexico). 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.

**2. Significant Accounting Policies**

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

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

**Revenue Recognition** Revenue is recognized 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. We estimate returns, discounts and incentives at the time of sale based on the terms of the agreements, historical experience and forecasted sales. We continually evaluate the adequacy of these methods used to estimate returns, discounts and incentives. Taxes collected from customers are excluded from revenues and credited directly to obligations to the appropriate governmental agencies.

**Cash and Cash Equivalents** We consider all highly liquid investments purchased with an original or remaining maturity of less than three months at the date of purchase to be cash equivalents. Cash and cash equivalents are maintained with various financial institutions.

**Accounts Receivable and Allowance for Doubtful Accounts** We record trade receivables when revenue is recorded in accordance with our revenue recognition policy and relieve accounts receivable when payments are received from customers. The allowance for doubtful accounts is established through charges to the provision for bad debts. We regularly evaluate the adequacy of the allowance for doubtful accounts based on historical trends in collections and write-offs, our judgment as to the probability of collecting accounts and our evaluation of business risk. This evaluation is inherently subjective, as it requires estimates that are susceptible to revision as more information becomes available. Accounts are determined to be uncollectible when the debt is deemed to be worthless or only recoverable in part and are written off at that time through a charge against the allowance. Generally, we do not require collateral on our accounts receivable.

**Inventory Valuation** Inventories are valued at the lower of cost or market. The last-in, first-out (LIFO) method is used for our U.S. glass inventories, which represented 32.0 percent and 29.0 percent of our total inventories in 2015 and 2014, respectively. The remaining inventories are valued using either the first-in, first-out (FIFO) or average cost method. For those inventories valued on the LIFO method, the excess of FIFO cost over LIFO, was \$12.3 million and \$13.6 million in 2015 and 2014, respectively. Cost includes the cost of materials, direct labor, in-bound freight and the applicable share of manufacturing overhead.

**Purchased Intangible Assets and Goodwill** Financial Accounting Standards Board Accounting Standards Codification<sup>™</sup> ("FASB ASC") Topic 350 - "Intangibles-Goodwill and other" ("FASB ASC 350") requires goodwill and purchased indefinite life intangible assets to be reviewed for impairment annually, or more frequently if impairment indicators arise. Intangible assets with lives restricted by contractual, legal or other means will continue to be amortized over their useful lives. As of



October 1st of each year, we update our separate impairment evaluations for both goodwill and indefinite life intangible assets. In 2015, 2014 and 2013, our October 1st assessment did not indicate any impairment of goodwill or indefinite life intangibles. There were also no indicators of impairment at December 31, 2015. For further disclosure on goodwill and intangibles, see note 4.

**Software** We account for software in accordance with FASB ASC 350. Software represents the costs of internally developed and purchased software packages for internal use. Capitalized costs include software packages, installation and/or internal labor costs. These costs generally are amortized over a five-year period.

**Property, Plant and Equipment** Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 3 to 14 years for equipment and furnishings and 10 to 40 years for buildings and improvements. Maintenance and repairs are expensed as incurred.

Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Measurement of an impairment loss for long-lived assets that we expect to hold and use is based on the fair value of the asset. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell. See note 5 for further disclosure.

**Self-Insurance Reserves** Self-insurance reserves reflect the estimated liability for group health and workers' compensation claims not covered by third-party insurance. We accrue estimated losses based on actuarial models and assumptions as well as our historical loss experience. Workers' compensation accruals are recorded at the estimated ultimate payout amounts based on individual case estimates. In addition, we record estimates of incurred-but-not-reported losses based on actuarial models.

**Pension and Nonpension Postretirement Benefits** We account for pension and nonpension postretirement benefits in accordance with FASB ASC Topic 758 - "Compensation-Retirement Plans" ("FASB ASC 758"). FASB ASC 758 requires recognition of the over-funded or under-funded status of pension and other postretirement benefit plans on the balance sheet. Under FASB ASC 758, gains and losses, prior service costs and credits and any remaining prior transaction amounts that have not yet been recognized through net periodic benefit cost are recognized in accumulated other comprehensive loss, net of tax effect where appropriate.

The U.S. pension plans cover most hourly U.S.-based employees (excluding new hires at Shreveport after 2008 and at Toledo after September 30, 2010) and those salaried U.S.-based employees hired before January 1, 2006. U.S. salaried employees were not eligible for additional company contribution credits after December 31, 2012. The non-U.S. pension plans cover the employees of our wholly-owned subsidiaries in the Netherlands and Mexico. In December 2015, we unwound direct ownership of our defined benefit pension plan in the Netherlands. For further discussion see note 9.

We also provide certain postretirement health care and life insurance benefits covering substantially all U.S. and Canadian salaried employees hired before January 1, 2004 and a majority of our union hourly employees (excluding employees hired at Shreveport after 2008 and at Toledo after September 30, 2010). Employees are generally eligible for benefits upon reaching a certain age and completion of a specified number of years of creditable service. Benefits for most hourly retirees are determined by collective bargaining. Under a cross-indemnity agreement, Owens-Illinois, Inc. assumed liability for the nonpension postretirement benefit of our retirees who had retired as of June 24, 1993. Therefore, the benefits related to these retirees are not included in our liability. For further discussion see note 10.

**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. FASB ASC Topic 740, "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 paying component in which we conduct our operations or otherwise incur taxable income or losses. For further discussion see note 8.

**Derivatives** We account for derivatives in accordance with FASB ASC Topic 815 "Derivatives and Hedging" ("FASB ASC 815"). We hold derivative financial instruments to hedge certain of our interest rate risks associated with long-term debt, commodity price risks associated with forecasted future natural gas requirements and foreign exchange rate risks associated with occasional transactions denominated in a currency other than the U.S. dollar. These derivatives (except for the foreign currency contracts and natural gas hedges in Mexico) qualify for hedge accounting since the hedges are highly effective, and

we have designated and documented contemporaneously the hedging relationships involving these derivative instruments. While we intend to continue to meet the conditions for hedge accounting, if hedges do not qualify as highly effective or if we do not believe that forecasted transactions would occur, the changes in the fair value of the derivatives used as hedges would be reflected in earnings. Cash flows from hedges of debt, short-term forward exchange contracts, currency swaps, interest rate swaps, and natural gas contracts are classified as operating activities. See additional discussion at note 13.

**Environmental** In accordance with U.S. GAAP accounting standards, we recognize environmental clean-up liabilities on an undiscounted basis when loss is probable and can be reasonably estimated. The cost of the clean-up is estimated by financial and legal specialists based on current law. Such estimates are based primarily upon the estimated cost of investigation and remediation required, and the likelihood that, where applicable, other potentially responsible parties will not be able to fulfill their commitments at the sites where the Company may be jointly and severally liable.

**Foreign Currency Translation** Assets and liabilities of non-U.S. subsidiaries that operate in a local currency environment, where that local currency is the functional currency, are translated to U.S. dollars at exchange rates in effect at the balance sheet date, with the resulting translation adjustments directly recorded to a separate component of accumulated other comprehensive loss. Income and expense accounts are translated at average exchange rates during the year. The effect of exchange rate changes on transactions denominated in currencies other than the functional currency is recorded in other income. Gain (loss) on currency translation was \$2.6 million, \$1.9 million and \$(0.3) million for the years ended December 31, 2015, 2014 and 2013, respectively.

**Stock-Based Compensation Expense** We account for stock-based compensation expense in accordance with FASB ASC Topic 718, "Compensation — Stock Compensation," ("FASB ASC 718") and FASB ASC Topic 505-50, "Equity-Based Payments to Non-Employees" ("FASB ASC 505-50"). Stock-based compensation cost is measured based on the fair value of the equity instruments issued. FASB ASC Topics 718 and 505-50 apply to all of our outstanding unvested stock-based payment awards.

**Treasury Stock** Treasury Stock purchases are recorded at cost. During 2015 and 2014, we purchased 412,473 and 34,985 shares of treasury stock at an average price of \$37.03 and \$30.30, respectively. During 2013, we did not purchase any treasury stock. At December 31, 2015, we had 1,052,542 shares of common stock available for repurchase, as authorized by our Board of Directors.

**Research and Development** Research and development costs are charged to selling, general and administrative expense in the Consolidated Statements of Operations when incurred. Expenses for 2015, 2014 and 2013, respectively, were \$6.1 million, \$6.2 million and \$3.4 million.

**Advertising Costs** We expense all advertising costs as incurred. The expenses for 2015, 2014 and 2013, respectively, were \$10.7 million, \$4.1 million and \$3.6 million.

**Computation of Income Per Share of Common Stock** Basic net income per share of common stock is computed using the weighted average number of shares of common stock outstanding during the period. Diluted net income per share of common stock is computed using the weighted average number of shares of common stock outstanding and dilutive potential common share equivalents during the period.

**Reclassifications** Certain amounts in prior years' financial statements have been reclassified to conform to the presentation used in the year ended December 31, 2015, including the reclassifications of financing fees in the Consolidated Balance Sheet at December 31, 2014 and segment data.

### ***New Accounting Standards***

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, "Revenue From Contracts With Customers" (ASU 2014-09), which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. ASU 2014-09 is based on the principle that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to fulfill a contract. Entities have the option of using either a full retrospective or a modified retrospective approach for the adoption of the new standard. This update is effective for interim and annual reporting periods beginning after December 15, 2016; early adoption is not permitted. In August 2015, the FASB issued ASU 2015-14 which defers the effective date one year

from January 1, 2017 to January 1, 2018, but early adoption as of January 1, 2017 is permitted. We are currently assessing the impact that this standard will have on our Consolidated Financial Statements.

In August 2014, the FASB issued Accounting Standards Update No. 2014-15, "Presentation of Financial Statements-Going Concern" (ASU 2014-15), which establishes management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern in connection with preparing financial statements for each annual and interim reporting period. ASU 2014-15 also provides guidance to determine whether to disclose information about relevant conditions and events when there is substantial doubt about an entity's ability to continue as a going concern. This update is effective for interim and annual reporting periods beginning after December 15, 2016; early adoption is permitted. We are currently evaluating the impact that this standard will have on our Consolidated Financial Statements.

In April 2015, the FASB issued Accounting Standards Update No. 2015-03, "Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs" (ASU 2015-03), which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. Prior to the issuance of ASU 2015-03, debt issuance costs were required to be presented in the balance sheet as an asset. In August 2015, the FASB issued Accounting Standards Update No. 2015-15, "Interest—Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements" (ASU 2015-15), which states that entities may continue presenting unamortized debt issuance costs for line-of-credit arrangements as an asset. ASU 2015-15 is effective immediately. ASU 2015-03 is effective for interim and annual reporting periods beginning after December 15, 2015; early adoption is permitted. We adopted ASU 2015-03 and ASU 2015-15 retrospectively in our Consolidated Financial Statements at December 31, 2015. Finance fees related to our Term Loan B are now presented as a deduction against long-term debt while the finance fees related to our ABL Facility are still shown as an other asset. As a result, long-term debt and finance fees within other assets have both decreased by \$6.0 million in the Consolidated Balance Sheet at December 31, 2014.

In May 2015, the FASB issued Accounting Standards Update 2015-07, "Disclosures for Investments in Certain Entities that Calculate Net Asset Value Per Share (or its Equivalent)" (ASU 2015-07), which removes the requirement to categorize within the fair value hierarchy investments for which fair values are estimated using the net asset value practical expedient provided by FASB ASC Topic 820, Fair Value Measurement. Disclosures about investments in certain entities that calculate net asset value per share are limited under ASU 2015-07 to those investments for which the entity has elected to estimate the fair value using the net asset value practical expedient. ASU 2015-07 is effective for entities for fiscal years beginning after December 15, 2015 and interim periods within, with retrospective application to all periods presented. Early application is permitted. We are currently assessing the impact that this standard will have on our Consolidated Financial Statements.

In July 2015, the FASB issued Accounting Standards Update No. 2015-11, "Inventory (Topic 330): Simplifying the Measurement of Inventory" (ASU 2015-11), which requires that inventory be measured at the lower of its cost or the estimated sale price, minus the costs of completing the sale, which the FASB calls the net realizable value. This update is effective for interim and annual reporting periods beginning after December 15, 2016; early adoption is permitted. We are currently evaluating the impact that this standard will have on our Consolidated Financial Statements.

In November 2015, the FASB issued Accounting Standards Update No. 2015-17, "Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes" (ASU 2015-17), which requires that deferred tax liabilities and assets be classified as non-current in a classified statement of financial position. This update is effective for interim and annual reporting periods beginning after December 15, 2016 with early adoption permitted. We have adopted ASU 2015-17 at December 31, 2015 to align with the FASB's overall simplification initiative aimed at reducing complexity in accounting standards. As allowed by ASU 2015-17, we have prospectively adopted this standard; thus, prior periods have not been restated.

### 3. Balance Sheet Details

The following table provides detail of selected balance sheet items:

December 31, (dollars in thousands)	2015	2014
<b>Accounts receivable:</b>		
Trade receivables . . . . .	\$ 91,324	\$ 87,700
Other receivables . . . . .	3,055	3,406
Total accounts receivable, less allowances of \$7,066 and \$5,586. . . . .	<u>\$ 94,379</u>	<u>\$ 91,106</u>
<b>Inventories:</b>		
Finished goods . . . . .	\$ 159,998	\$ 151,698
Work in process . . . . .	1,183	1,153
Raw materials. . . . .	4,944	4,708
Repair parts . . . . .	10,763	10,840
Operating supplies . . . . .	1,139	1,429
Total inventories, less loss provisions of \$5,313 and \$4,370. . . . .	<u>\$ 178,027</u>	<u>\$ 169,828</u>
<b>Prepaid and other current assets</b>		
Value added tax . . . . .	\$ 11,467	\$ 13,512
Prepaid expenses . . . . .	6,310	6,947
Deferred income taxes . . . . .	—	4,888
Prepaid income taxes . . . . .	1,304	1,951
Derivative asset . . . . .	245	403
Total prepaid and other current assets . . . . .	<u>\$ 19,326</u>	<u>\$ 27,701</u>
<b>Accrued liabilities:</b>		
Accrued incentives. . . . .	\$ 21,450	\$ 17,648
Workers compensation. . . . .	6,700	7,121
Medical liabilities. . . . .	4,002	3,887
Interest . . . . .	3,808	3,876
Commissions payable . . . . .	776	1,068
Withholdings and other non-income tax accruals . . . . .	2,184	3,078
Other accrued liabilities. . . . .	6,259	5,960
Total accrued liabilities . . . . .	<u>\$ 45,179</u>	<u>\$ 42,638</u>
<b>Other long-term liabilities:</b>		
Deferred liability . . . . .	\$ 7,131	\$ 8,081
Derivative liability . . . . .	315	215
Environmental obligation (see note 18). . . . .	1,085	1,000
Other long-term liabilities . . . . .	2,655	3,860
Total other long-term liabilities. . . . .	<u>\$ 11,186</u>	<u>\$ 13,156</u>

#### 4. Purchased Intangible Assets and Goodwill

##### *Purchased Intangibles*

Changes in purchased intangibles balances are as follows:

<u>(dollars in thousands)</u>	<u>2015</u>	<u>2014</u>
Beginning balance .....	\$ 17,771	\$ 19,325
Amortization .....	(1,039)	(1,069)
Foreign currency impact .....	(368)	(485)
Ending balance .....	<u>\$ 16,364</u>	<u>\$ 17,771</u>

Purchased intangible assets are composed of the following:

<u>December 31, (dollars in thousands)</u>	<u>2015</u>	<u>2014</u>
Indefinite life intangible assets .....	\$ 11,949	\$ 12,148
Definite life intangible assets, net of accumulated amortization of \$16,758 and \$15,975.	<u>4,415</u>	<u>5,623</u>
Total .....	<u>\$ 16,364</u>	<u>\$ 17,771</u>

Amortization expense for definite life intangible assets was \$1.0 million, \$1.1 million and \$1.1 million for years 2015, 2014 and 2013, respectively.

Indefinite life intangible assets are composed of trade names and trademarks that have an indefinite life and are therefore individually tested for impairment on an annual basis, or more frequently in certain circumstances where impairment indicators arise, in accordance with FASB ASC 350. Our measurement date for impairment testing is October 1st of each year. When performing our test for impairment of individual indefinite life intangible assets, we use a relief from royalty method to determine the fair market value that is compared to the carrying value of the indefinite life intangible asset. The inputs used for this analysis are considered as Level 3 inputs in the fair value hierarchy. See note 15 for further discussion of the fair value hierarchy. Our October 1<sup>st</sup> review for 2015 and 2014 did not indicate impairment of our indefinite life intangible assets. There were also no indicators of impairment at December 31, 2015.

The remaining definite life intangible assets at December 31, 2015 consist of customer relationships that are amortized over a period ranging from 13 to 20 years. The weighted average remaining life on the definite life intangible assets is 4.3 years at December 31, 2015.

Future estimated amortization expense of definite life intangible assets is as follows (dollars in thousands):

<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
\$1,036	\$1,036	\$1,036	\$556	\$150

## Goodwill

Changes in goodwill balances are as follows:

(dollars in thousands)	2015				2014			
	U.S. & Canada	Latin America	EMEA	Total	U.S. & Canada	Latin America	EMEA	Total
Beginning balance:								
Goodwill . . . . .	\$ 43,872	\$ 125,681	\$ 9,434	\$ 178,987	\$ 43,872	\$ 128,948	\$ 9,434	\$ 182,254
Accumulated impairment losses . . .	(5,441)	—	(9,434)	(14,875)	(5,441)	—	(9,434)	(14,875)
Net beginning balance . . .	38,431	125,681	—	164,112	38,431	128,948	—	167,379
Other . . . . .	—	—	—	—	—	(3,267)	—	(3,267)
Ending balance:								
Goodwill . . . . .	43,872	125,681	9,434	178,987	43,872	125,681	9,434	178,987
Accumulated impairment losses . . .	(5,441)	—	(9,434)	(14,875)	(5,441)	—	(9,434)	(14,875)
Net ending balance . . .	\$ 38,431	\$ 125,681	\$ —	\$ 164,112	\$ 38,431	\$ 125,681	\$ —	\$ 164,112

In 2014, we adjusted goodwill to correct property, plant and equipment acquired in connection with the acquisition of Libbey Mexico. As a result of application of the provisions of FASB ASC Topic 805, Business Combinations, in June 2006, the adjustment should have been reflected in our purchase accounting related to this acquisition. As of December 31, 2014, we decreased goodwill by \$3.3 million, increased property, plant and equipment by \$4.7 million and recorded a corresponding deferred tax liability of \$1.4 million to reflect this adjustment.

Goodwill impairment tests are completed for each reporting unit on an annual basis, or more frequently in certain circumstances where impairment indicators arise. The inputs used for this analysis are considered as Level 2 and Level 3 inputs in the fair value hierarchy. See note 15 for further discussion of the fair value hierarchy.

When performing our test for impairment in 2015, we measured each reporting unit's fair value using a blended analysis of the present value of future discounted cash flows and the market valuation approach. The discounted cash flow model calculates the fair value of the reporting unit based on a discounted cash flow analysis, incorporating the weighted average cost of capital of a hypothetical third party buyer. Significant estimates in the discounted cash flows model include the following: discount rate, long-term growth rate and profitability of the reporting unit's business, and working capital effects (all Level 3 inputs). The market valuation approach calculates the fair value of the reporting unit based on a comparison of the reporting unit to comparable publicly traded companies. Significant estimates in the market valuation approach model include identifying similar companies with comparable business factors such as size, growth, profitability, risk and return on investment and assessing comparable multiples in estimating the fair value of the reporting unit (Level 2 inputs). When performing our test for impairment in 2014, we measured each reporting unit's fair value using a discounted cash flow analysis, incorporating the weighted average cost of capital of a hypothetical third party buyer.

The fair value is then compared to the carrying value. To the extent that fair value exceeds the carrying value, no impairment exists. However, to the extent the carrying value exceeds the fair value, we compare the implied fair value of goodwill to its book value to determine if an impairment should be recorded. Our annual review was performed as of October 1st for each year presented, and our review for 2015 and 2014 did not indicate an impairment of goodwill. There were also no indicators of impairment at December 31, 2015.

## 5. Property, Plant and Equipment

Property, plant and equipment consists of the following:

<u>December 31, (dollars in thousands)</u>	<u>2015</u>	<u>2014</u>
Land . . . . .	\$ 19,871	\$ 20,353
Buildings . . . . .	102,236	97,485
Machinery and equipment . . . . .	470,862	448,241
Furniture and fixtures . . . . .	14,313	15,431
Software . . . . .	23,630	19,950
Construction in progress . . . . .	9,137	34,134
Gross property, plant and equipment . . . . .	<u>640,049</u>	<u>635,594</u>
Less accumulated depreciation . . . . .	<u>367,515</u>	<u>357,616</u>
Net property, plant and equipment . . . . .	<u>\$ 272,534</u>	<u>\$ 277,978</u>

Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 3 to 14 years for equipment and furnishings and 10 to 40 years for buildings and improvements. Software consists of internally developed and purchased software packages for internal use. Capitalized costs include software packages, installation, and/or certain internal labor costs. These costs are generally amortized over a five-year period. Depreciation expense was \$41.4 million, \$39.1 million and \$42.8 million for the years 2015, 2014 and 2013, respectively.

## 6. Borrowings

On April 9, 2014, we completed the refinancing of substantially all of the existing indebtedness of our wholly-owned subsidiaries Libbey Glass and Libbey Europe B.V. The refinancing included:

- the entry into an amended and restated credit agreement with respect to our ABL Facility;
- the entry into a \$440.0 million in aggregate principal amount of Senior Secured Term Loan B of Libbey Glass due 2021 (Term Loan B); and
- the repurchase and cancellation of all Libbey Glass's then outstanding \$405.0 million in aggregate principal amount Senior Secured Notes (\$360.0 million on April 9, 2014 and \$45.0 million on May 9, 2014).

We used the proceeds of the Term Loan B, together with cash on hand and borrowings under the ABL Facility, to repurchase \$360.0 million of the Senior Secured Notes, redeem the remaining \$45.0 million of the Senior Secured Notes, and pay certain related fees and expenses.

The above transactions included charges of \$37.3 million for an early call premium and \$9.1 million for the write off of the remaining financing fees from the Senior Secured Notes. These charges were considered in the computation of the loss on redemption of debt in the year-ended December 31, 2014.

Borrowings consist of the following:

<u>(dollars in thousands)</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Borrowings under ABL Facility. .	floating	April 9, 2019	\$ —	\$ —
Term Loan B . . . . .	floating <sup>(1)</sup>	April 9, 2021	433,400	437,800
RMB Working Capital Loan . . . .	6.78%	July, 2015	—	3,258
AICEP Loan. . . . .	0.00%	January, 2016 to July 30, 2018	3,451	3,846
Total borrowings. . . . .			<u>436,851</u>	<u>444,904</u>
Less — unamortized discount and finance fees . . . . .			5,832	6,974
Total borrowings — net . . . . .			<u>431,019</u>	<u>437,930</u>
Less — long term debt due within one year . . . . .			4,747	7,658
Total long-term portion of borrowings — net. . . . .			<u>\$ 426,272</u>	<u>\$ 430,272</u>

(1) - See interest rate swap under "Term Loan B" below and note 13.

Annual maturities for all of our total borrowings for the next five years and beyond are as follows:

<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>Thereafter</u>
\$4,747	\$5,031	\$6,873	\$4,400	\$4,400	\$411,400

### ***Amended and Restated ABL Credit Agreement***

Libbey Glass and Libbey Europe entered into an Amended and Restated Credit Agreement, dated as of February 8, 2010 and amended as of April 29, 2011, May 18, 2012 and April 9, 2014 (as amended, the ABL Facility), with a group of four financial institutions. The ABL Facility provides for borrowings of up to \$100.0 million, subject to certain borrowing base limitations, reserves and outstanding letters of credit.

All borrowings under the ABL Facility are secured by:

- a first-priority security interest in substantially all of the existing and future personal property of Libbey Glass and its domestic subsidiaries (ABL Priority Collateral);
- a first-priority security interest in:
  - 100 percent of the stock of Libbey Glass and 100 percent of the stock of substantially all of Libbey Glass's present and future direct and indirect domestic subsidiaries;
  - 100 percent of the non-voting stock of substantially all of Libbey Glass's first-tier present and future foreign subsidiaries; and
  - 65 percent of the voting stock of substantially all of Libbey Glass's first-tier present and future foreign subsidiaries



- a first-priority security interest in substantially all proceeds and products of the property and assets described above; and
- a second-priority security interest in substantially all of the owned real property, equipment and fixtures in the United States of Libbey Glass and its domestic subsidiaries, subject to certain exceptions and permitted liens (Term Priority Collateral).

Additionally, borrowings by Libbey Europe under the ABL Facility are secured by:

- a first-priority lien on substantially all of the existing and future real and personal property of Libbey Europe and its Dutch subsidiaries; and
- a first-priority security interest in:
  - 100 percent of the stock of Libbey Europe and 100 percent of the stock of substantially all of the Dutch subsidiaries; and
  - 100 percent (or a lesser percentage in certain circumstances) of the outstanding stock issued by the first-tier foreign subsidiaries of Libbey Europe and its Dutch subsidiaries.

Swingline borrowings are limited to \$15.0 million, with swingline borrowings for Libbey Europe being limited to the U.S. equivalent of \$7.5 million. Loans comprising each CBFR (CB Floating Rate) Borrowing, including each Swingline Loan, bear interest at the CB Floating Rate plus the Applicable Rate, and euro-denominated swingline borrowings (Eurocurrency Loans) bear interest calculated at the Netherlands swingline rate, as defined in the ABL Facility. The Applicable Rates for CBFR Loans and Eurocurrency Loans vary depending on our aggregate remaining availability. The Applicable Rates for CBFR Loans and Eurocurrency Loans were 0.50 percent and 1.50 percent, respectively, at December 31, 2015. Libbey pays a quarterly Commitment Fee, as defined by the ABL Facility, on the total credit provided under the ABL Facility. The Commitment Fee was 0.25 percent at December 31, 2015. No compensating balances are required by the ABL Facility. The ABL Facility does not require compliance with a fixed charge coverage ratio covenant, unless aggregate unused availability falls below \$10.0 million. If our aggregate unused ABL availability were to fall below \$10.0 million, the fixed charge coverage ratio requirement would be 1:00 to 1:00. Libbey Glass and Libbey Europe have the option to increase the ABL Facility by \$25.0 million. There were no Libbey Glass or Libbey Europe borrowings under the facility at December 31, 2015 or at December 31, 2014. Interest is payable on the last day of the interest period, which can range from one month to six months depending on the maturity of each individual borrowing on the ABL facility.

The borrowing base under the ABL Facility is determined by a monthly analysis of the eligible accounts receivable and inventory. The borrowing base is the sum of (a) 85 percent of eligible accounts receivable and (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.

At December 31, 2015, the available total borrowing base is offset by a \$0.3 million rent reserve and a \$2.1 million mark-to-market reserve for natural gas contracts. The ABL Facility also provides for the issuance of up to \$30.0 million of letters of credit, which are applied against the \$100.0 million limit; at December 31, 2015, \$6.6 million in letters of credit were outstanding. Remaining unused availability under the ABL Facility was \$91.0 million at December 31, 2015, compared to \$82.3 million under the ABL Facility at December 31, 2014.

### ***Term Loan B***

On April 9, 2014, Libbey Glass consummated its \$440.0 million Term Loan B. The net proceeds of the Term Loan B were \$438.9 million, after the 0.25 percent original issue discount of \$1.1 million. The Term Loan B had related fees of approximately \$6.7 million that will be amortized to interest expense over the life of the loan.

The Term Loan B is evidenced by a Senior Secured Credit Agreement, dated April 9, 2014 (Credit Agreement), between Libbey Glass, the Company, the domestic subsidiaries of Libbey Glass listed as guarantors therein (Subsidiary Guarantors and together with the Company, Guarantors), and the lenders. Under the terms of the Credit Agreement, aggregate principal of \$1.1 million is due on the last business day of each quarter. The Term Loan B bears interest at the rate of LIBOR plus 3.0 percent, subject to a LIBOR "floor" of 0.75 percent. The interest rate was 3.75 percent per year at December 31, 2015 and 2014, and will mature on April 9, 2021. Although the Credit Agreement does not contain financial covenants, the Credit Agreement contains other covenants that restrict the ability of Libbey Glass and the Guarantors to, among other things:

- incur, assume or guarantee additional indebtedness;
- pay dividends, make certain investments or other restricted payments;
- create liens;
- enter into affiliate transactions;
- merge or consolidate, or otherwise dispose of all or substantially all the assets of Libbey Glass and the Guarantors; and
- transfer or sell assets.

We may voluntarily prepay, in whole or in part, the Term Loan B without premium or penalty but with accrued interest. Beginning with the year-ended December 31, 2015, the Credit Agreement requires us to make an annual mandatory prepayment offer to lenders of 0.0 to 50.0 percent of our excess cash flow, depending on our excess cash flow and leverage ratios as defined in the Credit Agreement. The calculation is made at the end of each year and the mandatory prepayment offer to lenders is made no later than ten business days after the filing of our annual compliance certificate to the lenders. The amount of any required mandatory prepayment offer is reduced by the amounts of any optional prepayments we made during the applicable year or prior to the prepayment offer in the year the offer is required to be made.

The Credit Agreement provides for customary events of default. In the case of an event of default as defined in the Credit Agreement, all of the outstanding Term Loan B will become due and payable immediately without further action or notice. The Term Loan B and the related guarantees under the Credit Agreement are secured by (i) first priority liens on the Term Priority Collateral and (ii) second priority liens on the ABL Collateral.

On April, 1, 2015, we executed an interest rate swap on our Term Loan B as part of our risk management strategy to mitigate the risks involved with fluctuating interest rates. The interest rate swap will effectively convert \$220.0 million of our Term Loan B debt from a variable interest rate to a 4.85 percent fixed interest rate, thus reducing the impact of interest rate changes on future income. The fixed rate swap is effective January 2016 through January 2020. The interest rate swap is designated as a cash flow hedge and is accounted for under FASB ASC 815 "Derivatives and Hedging". See note 13 for further discussion on the interest rate swap.

### ***Senior Secured Notes***

The 6.875 percent Senior Secured Notes were issued at par and had related fees of approximately \$13.2 million. These fees were amortized to interest expense over the life of the notes until the notes were refinanced in 2014. The Senior Secured Notes were issued pursuant to an Indenture, dated May 18, 2012 (Notes Indenture), between Libbey Glass, the Company, the domestic subsidiaries of Libbey Glass listed as guarantors therein (Subsidiary Guarantors and together with the Company, Guarantors), and The Bank of New York Mellon Trust Company, N.A., as trustee (Notes Trustee) and collateral agent.

Prior to May 15, 2015, but not more than once in any twelve-month period, we were able to redeem up to 10 percent of the Senior Secured Notes at a redemption price of 103 percent. On May 7, 2013, Libbey Glass redeemed an aggregate principal amount of \$45.0 million of the Senior Secured Notes in accordance with the terms of the Notes Indenture. Pursuant to the terms of the Notes Indenture, the redemption price for the Senior Secured Notes was 103 percent of the principal amount of the redeemed Senior Secured Notes, plus accrued and unpaid interest. In conjunction with this redemption, we recorded \$2.5 million of expense, representing \$1.3 million for an early call premium and \$1.2 million for the write off of a pro rata amount of financing fees.

We had an interest rate agreement in place through May 9, 2014 with respect to \$45.0 million of our Senior Secured Notes as a means to manage our fixed to variable interest rate ratio. The interest rate agreement effectively converted this portion of our long-term borrowings from fixed rate debt to variable rate debt. The variable interest rate for our borrowings related to the agreement at May 9, 2014, excluding applicable fees, was 5.5 percent. Total remaining Senior Secured Notes not covered by the interest rate agreement had a fixed interest rate of 6.875 percent per year. We settled the swap at fair value, resulting in a payment of \$1.1 million on May 13, 2014. Upon the redemption of the Senior Secured Notes, the unamortized balance of \$0.8 million of the carrying value adjustment on debt related to the interest rate agreement was recognized as expense in loss on redemption of debt on the Consolidated Statements of Operations. See note 13 for further discussion and the net impact recorded on the Consolidated Statements of Operations.

### ***AICEP Loan***

In July 2012, Libbey Portugal entered into a loan agreement with Agencia para Investimento Comercio Externo de Portugal, EPE (AICEP), the Portuguese Agency for investment and external trade. The amount of the loan is €3.2 million (approximately \$3.5 million) at December 31, 2015 and has an interest rate of 0.0 percent. Semi-annual installments of principal are due beginning in January 2016 through the maturity date in July 2018.

### ***RMB Working Capital Loan***

On September 2, 2013, Libbey China entered into a RMB 31.5 million (approximately \$5.2 million) working capital loan with China Construction Bank (CCB) to cover seasonal working capital needs. The 364-day loan was set to mature on September 1, 2014, and had a variable interest rate as announced by the People's Bank of China. On July 14, 2014, Libbey China prepaid the

working capital loan along with accrued and unpaid interest. The loan held an annual interest rate of 6.3 percent at the repayment date. This obligation was secured by a mortgage lien on the Libbey China facility.

On July 24, 2014, Libbey China entered into a RMB 20.0 million (approximately \$3.3 million) working capital loan with CCB to cover seasonal working capital needs. The working capital loan was set to mature on July 23, 2015, and had a fixed interest rate of 6.78 percent, which was paid monthly. On March 4, 2015, Libbey China prepaid the working capital loan along with accrued and unpaid interest. This obligation was secured by a mortgage lien on the Libbey China facility.

#### ***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 eight-year 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 \$40.9 million, for the construction of our production facility in China and the purchase of related equipment, materials and services. The obligations of Libbey China were secured by a guarantee executed by Libbey Inc. for the benefit of CCB and a mortgage lien on the Libbey China facility. The loan held a variable interest rate as announced by the People's Bank of China. Interest with respect to the loan was paid quarterly. In 2013, Libbey China repaid the final RMB 60.0 million (approximately \$9.5 million) due on the loan.

#### ***BES Euro Line***

In January 2007, Crisal entered into a seven-year, €11.0 million line of credit (approximately \$15.1 million) with Banco Espírito Santo, S.A. (BES). On August 14, 2013, Libbey Portugal paid in full the final €3.3 million (approximately \$4.5 million) principal payment along with accrued and unpaid interest on its BES Euro Line, which was scheduled to expire in December 2013.

#### ***Promissory Note***

In September 2001, we issued a \$2.7 million promissory note at an interest rate of 6.0 percent in connection with the purchase of our Laredo, Texas warehouse facility. On December 10, 2014, we paid in full the remaining principal and unpaid interest due on the note, totaling \$0.4 million. Principal and interest with respect to the promissory note were paid monthly.

#### ***Notes Payable***

We have an overdraft line of credit for a maximum of €0.8 million. At December 31, 2015 and 2014, there were no borrowings under the facility, which had an interest rate of 5.80 percent. Interest with respect to the note is paid monthly.

#### ***Fair Value of Borrowings***

The fair value of our debt has been calculated based on quoted market prices (Level 2 in the fair value hierarchy) for the same or similar issues. The Term Loan B had an estimated fair value of \$425.8 million at December 31, 2015 and \$430.1 million at December 31, 2014. The fair value of the other immaterial debt approximates carrying value at December 31, 2015. The fair value of the remainder of our debt at December 31, 2014 approximates carrying value due to the short term nature of the RMB Working Capital Loan and other immaterial debt.

#### ***Capital Resources and Liquidity***

Historically, cash flows generated from operations, cash on hand and our borrowing capacity under our ABL Facility have enabled us to meet our cash requirements, including capital expenditures and working capital requirements. Under the ABL Facility at December 31, 2015, we had no borrowings, issued letters of credit of \$6.6 million, and had \$0.3 million in rent reserves and \$2.1 million in mark-to-market reserves for natural gas contracts. As a result, we had \$91.0 million of unused availability. In addition, we had \$49.0 million of cash on hand at December 31, 2015, compared to \$60.0 million of cash on hand at December 31, 2014.

## 7. Restructuring Charges

### Capacity Realignment

In February 2013, we announced plans to discontinue production of certain glassware in North America and reduce manufacturing capacity at our Shreveport, Louisiana, manufacturing facility. As a result, on May 30, 2013, we ceased production of certain glassware in North America, discontinued the use of a furnace at our Shreveport, Louisiana, manufacturing plant and began relocating a portion of the production from the idled furnace to our Toledo, Ohio, and Monterrey, Mexico, locations. In connection with this plan, we incurred pretax charges of approximately \$7.5 million. For the year end December 31, 2014 and 2013, we recorded a pretax charge of \$1.0 million and \$6.5 million, respectively. These charges included employee termination costs, fixed asset impairment charges, depreciation expense and other restructuring expenses. Employee termination costs include severance, medical benefits and outplacement services for the terminated employees. The write-down of fixed assets was to adjust certain machinery and equipment to the estimated fair market value. These activities are within the U.S. and Canada and Latin America segments and were completed by March 31, 2014.

The following table summarizes the pretax charges incurred in 2014 and 2013:

(dollars in thousands)	2014	2013	Total Charges to Date
	Latin America	U.S. & Canada	
Accelerated depreciation . . . . .	\$ —	\$ 1,699	\$ 1,699
Other restructuring expenses . . . . .	985	(14)	971
Included in cost of sales . . . . .	985	1,685	2,670
Employee termination cost & other . . . . .	—	1,794	1,794
Fixed asset write-down . . . . .	—	1,924	1,924
Other restructuring expenses . . . . .	—	1,141	1,141
Included in restructuring charges . . . . .	—	4,859	4,859
Total pretax charge . . . . .	<u>\$ 985</u>	<u>\$ 6,544</u>	<u>\$ 7,529</u>

The following is the capacity realignment reserve activity for the year ended December 31, 2014:

(dollars in thousands)	Reserve Balance at January 1, 2014	Total Charge to Earnings	Cash (payments) receipts	Non-cash Utilization	Reserve Balance at December 31, 2014
Employee termination cost & other . .	\$ 289	\$ —	\$ (289)	\$ —	\$ —
Other restructuring expenses . . . . .	—	985	(985)	—	—
Total . . . . .	<u>\$ 289</u>	<u>\$ 985</u>	<u>\$ (1,274)</u>	<u>\$ —</u>	<u>\$ —</u>

## 8. Income Taxes

The provisions for income taxes were calculated based on the following components of income (loss) before income taxes:

Year ended December 31, (dollars in thousands)	2015	2014	2013
United States . . . . .	\$ 27,146	\$ (15,488)	\$ 23,211
Non-U.S. . . . .	971	29,018	18,489
Total income before income taxes . . . . .	<u>\$ 28,117</u>	<u>\$ 13,530</u>	<u>\$ 41,700</u>

The current and deferred provisions (benefit) for income taxes were:

Year ended December 31, (dollars in thousands)	2015	2014	2013
<b>Current:</b>			
U.S. federal . . . . .	\$ 300	\$ 59	\$ 988
Non-U.S. . . . .	9,142	10,180	8,548
U.S. state and local . . . . .	162	157	617
Total current income tax provision (benefit) . . . . .	<u>9,604</u>	<u>10,396</u>	<u>10,153</u>
<b>Deferred:</b>			
U.S. federal . . . . .	(44,068)	227	564
Non-U.S. . . . .	(3,078)	(2,066)	2,517
U.S. state and local . . . . .	(674)	10	7
Total deferred income tax provision (benefit) . . . . .	<u>(47,820)</u>	<u>(1,829)</u>	<u>3,088</u>
<b>Total:</b>			
U.S. federal . . . . .	(43,768)	286	1,552
Non-U.S. . . . .	6,064	8,114	11,065
U.S. state and local . . . . .	(512)	167	624
Total income tax provision (benefit) . . . . .	<u>\$ (38,216)</u>	<u>\$ 8,567</u>	<u>\$ 13,241</u>

Deferred income tax assets and liabilities result from temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes and from income tax carryovers and credits. The significant components of our deferred income tax assets and liabilities are as follows:

December 31, (dollars in thousands)	2015	2014
<b>Deferred income tax assets:</b>		
Pension . . . . .	\$ 9,644	\$ 12,317
Non-pension postretirement benefits . . . . .	21,751	24,326
Other accrued liabilities . . . . .	20,432	18,726
Receivables . . . . .	2,341	1,798
Net operating loss and charitable contribution carry forwards . . . . .	25,754	33,531
Tax credits . . . . .	10,245	10,320
Total deferred income tax assets . . . . .	<u>90,167</u>	<u>101,018</u>
<b>Deferred income tax liabilities:</b>		
Property, plant and equipment . . . . .	22,882	20,986
Inventories . . . . .	2,378	5,037
Intangibles and other . . . . .	7,883	7,581
Total deferred income tax liabilities . . . . .	<u>33,143</u>	<u>33,604</u>
Net deferred income tax asset before valuation allowance . . . . .	57,024	67,414
Valuation allowance . . . . .	(11,184)	(66,486)
Net deferred income tax asset (liability) . . . . .	<u>\$ 45,840</u>	<u>\$ 928</u>

At December 31, 2015, we have prospectively adopted ASU 2015-17 which requires that deferred tax assets and liabilities be classified as non-current in the statement of financial position. The net deferred income tax assets and liabilities at December 31 of the respective year-ends were included in the Consolidated Balance Sheets as follows:

<u>December 31, (dollars in thousands)</u>	<u>2015</u>	<u>2014</u>
Current deferred income tax asset . . . . .	\$ —	\$ 4,888
Non-current deferred income tax asset . . . . .	48,662	5,566
Current deferred income tax liability . . . . .	—	(3,633)
Non-current deferred income tax liability . . . . .	(2,822)	(5,893)
Net deferred income tax asset (liability). . . . .	<u>\$ 45,840</u>	<u>\$ 928</u>

The 2015 deferred income tax asset for net operating loss carry forwards of \$25.5 million relates to cumulative pre-tax losses incurred in the Netherlands of \$16.9 million, in Portugal of \$1.8 million, in China of \$1.3 million, and in the U.S. of \$53.8 million for federal and \$68.5 million for state and local jurisdictions. Our foreign net operating loss carry forwards of \$20.0 million will expire between 2016 and 2027. Our U.S. federal net operating loss carry forward of \$53.8 million will expire between 2031 and 2034. This amount is lower than the actual amount reported on our U.S. federal income tax return by \$7.4 million. The difference is attributable to tax deductions in excess of financial statement amounts for stock based compensation. When these amounts are realized, we will record a credit to additional paid in capital. The U.S. state and local net operating loss carry forward of \$68.5 million will expire between 2016 and 2034. The 2014 deferred income tax asset for net operating loss carry forwards of \$33.5 million related to pre-tax losses incurred in the Netherlands of \$10.3 million, in Portugal of \$4.2 million, in China of \$2.9 million, and in the U.S. of \$75.6 million for federal and \$99.1 million for state and local jurisdictions.

The 2015 deferred tax credits of \$10.2 million consist of \$2.6 million U.S. federal tax credits and \$7.6 million non-U.S. credits. The U.S. federal tax credits consist of \$2.0 million of general business research and development credits which will expire between 2024 and 2035 and \$0.6 million of alternative minimum tax credits which do not expire. The non-U.S. credit of \$7.6 million, which is related to withholding tax on inter-company debt in the Netherlands, can be carried forward indefinitely. The 2014 deferred tax credits of \$10.3 million consisted of \$2.3 million U.S. federal tax credits and \$8.0 million non-U.S. credits.

In assessing the need for a valuation allowance, management considers on a quarterly basis whether it is more likely than not that some portion or all of the deferred income tax assets will be realized. The ultimate realization of deferred income tax assets is dependent upon the generation of future taxable income (including reversals of deferred income tax liabilities) during the periods in which those deductible temporary differences reverse. As a result, we consider the historical and projected financial results of the tax paying component recording the net deferred income tax asset as well as all other positive and negative evidence. Examples of the evidence we consider are cumulative losses in recent years, losses expected in early future years, a history of potential tax benefits expiring unused and whether there were unusual, infrequent, or extraordinary items to be considered. We currently have valuation allowances in place on our deferred income tax assets in Portugal and the Netherlands. We intend to maintain these allowances until a period of sustainable income is achieved and management concludes it is more likely than not that those deferred income tax assets will be realized.

As of December 31, 2015, management has considered the evidence, both positive and negative, in assessing the realizability of our deferred tax assets in the U.S. The positive evidence, including achievement of cumulative income in recent years and expectations for sustainable future income, was strong enough to conclude that it is more likely than not that nearly all of our deferred tax assets are realizable and the valuation allowance was reduced accordingly.

Our European operations in the Netherlands and Portugal incurred operating losses in 2015, continue to be in cumulative loss positions in recent years, and have tax loss carry-forwards expiring unused. In addition, European economic conditions continue to be unfavorable. Accordingly, management believes it is not more likely than not that the deferred tax assets related to these operations will be realized and valuation allowances continue to be recorded for the Netherlands and Portugal as of December 31, 2015.

The valuation allowance activity for the years ended December 31 is as follows:

Year ended December 31, (dollars in thousands)	2015	2014	2013
Beginning balance . . . . .	\$ 66,486	\$ 46,048	\$ 77,629
Charge (benefit) to provision for income taxes . . . . .	(49,877)	3,507	(9,302)
Charge (benefit) to other comprehensive income . . . . .	(5,425)	16,931	(22,279)
Ending balance . . . . .	\$ 11,184	\$ 66,486	\$ 46,048

The valuation allowance decreased \$55.3 million in 2015 from \$66.5 million at December 31, 2014 to \$11.2 million at December 31, 2015. The 2015 decrease of \$55.3 million is primarily attributable to the reversal of substantially all of the U.S. valuation allowance, partially offset by changes in deferred tax assets in foreign jurisdictions where full valuation allowances are recorded. The 2015 valuation allowance of \$11.2 million consists of \$0.1 million related to U.S. foreign tax credits and \$11.1 million related primarily to net operating losses and foreign tax credits in the Netherlands and Portugal. The valuation allowance increased \$20.4 million in 2014 from \$46.0 million at December 31, 2013 to \$66.5 million at December 31, 2014. The 2014 increase of \$20.4 million was attributable to the 2014 change in deferred tax assets, primarily related to the U.S. operating loss and other comprehensive losses related to pensions. The 2013 decrease in valuation allowance of \$31.6 million was attributable to the 2013 change in deferred tax assets, primarily related to the U.S. federal net operating loss carry forward and pension.

Reconciliation from the statutory U.S. federal income tax rate to the consolidated effective income tax rate was as follows:

Year ended December 31,	2015	2014	2013
Statutory U.S. federal income tax rate . . . . .	35.0 %	35.0 %	35.0 %
Increase (decrease) in rate due to:			
Non-U.S. income tax differential . . . . .	(0.9)	(25.9)	(6.4)
U.S. state and local income taxes, net of related U.S. federal income taxes .	(2.0)	0.8	1.0
Permanent adjustments . . . . .	7.5	20.1	0.1
Foreign withholding taxes . . . . .	4.7	14.8	4.8
Valuation allowance . . . . .	(174.8)	42.9	(16.8)
Unrecognized tax benefits . . . . .	(0.3)	(9.3)	(0.7)
Impact of foreign exchange . . . . .	(19.8)	(14.0)	2.6
Tax effect of intercompany capitalization . . . . .	11.7	—	—
Impact of legislative changes . . . . .	—	—	10.2
Other . . . . .	3.0	(1.1)	2.0
Consolidated effective income tax rate . . . . .	(135.9) %	63.3 %	31.8 %

U.S. income and foreign withholding taxes have not been recognized on the excess of the amount for financial reporting over the tax basis of investments in foreign subsidiaries that is indefinitely reinvested outside of the United States. This amount becomes taxable upon a repatriation of assets from the subsidiary or a sale or liquidation of the subsidiary. The amount of such temporary differences totaled \$35.0 million as of December 31, 2015 and \$33.5 million as of December 31, 2014.

Determination of the amount of any unrecognized deferred income tax liability on this temporary difference is not practicable because of the complexities of the hypothetical calculation.

We are subject to income taxes in the U.S. and various foreign jurisdictions. Management judgment is required in evaluating our tax positions and determining our provision for income taxes. Throughout the course of business, there are numerous transactions and calculations for which the ultimate tax determination is uncertain. When management believes uncertain tax positions may be challenged despite our belief that the tax return positions are supportable, we record unrecognized tax benefits as liabilities in accordance with the requirements of ASC 740. When our judgment with respect to these uncertain tax positions changes as a result of a change in facts and circumstances, such as the outcome of a tax audit, we adjust these liabilities through increases or decreases to the income tax provision.

A reconciliation of the beginning and ending gross unrecognized tax benefits, excluding interest and penalties, is as follows:

<b>(dollars in thousands)</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
Beginning balance . . . . .	\$ 378	\$ 1,312	\$ 1,496
Additions based on tax positions related to the current year . . . . .	293	—	325
Reductions for tax positions of prior years . . . . .	—	(325)	—
Changes due to lapse of statute of limitations . . . . .	(240)	(609)	(509)
Ending balance . . . . .	<u>\$ 431</u>	<u>\$ 378</u>	<u>\$ 1,312</u>

We recognize interest and penalties related to unrecognized tax benefits in the provision for income taxes. Other disclosures relating to unrecognized tax benefits are as follows:

<b>December 31, (dollars in thousands)</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
Impact on the effective tax rate, if unrecognized tax benefits were recognized. . . . .	\$ 378	\$ 306	\$ 1,198
Interest and penalties, net of tax benefit, accrued in the Consolidated Balance Sheets . . . . .	\$ 28	\$ 174	\$ 537
Interest and penalties expense (benefit) recognized in the Consolidated Statements of Operations . . . . .	\$ (146)	\$ (363)	\$ (124)

Based upon the outcome of tax examinations, judicial proceedings, or expiration of statutes of limitations, it is reasonably possible that the ultimate resolution of these unrecognized tax benefits may result in a payment that is materially different from the current estimate of the tax liabilities. It is also reasonably possible that gross unrecognized tax benefits related to U.S. exposures may decrease within the next twelve months by approximately \$0.1 million due to expiration of statutes of limitations.

We file income tax returns in the U.S. federal jurisdiction, and various state and foreign jurisdictions. As of December 31, 2015, the tax years that remained subject to examination by major tax jurisdictions were as follows:

<b>Jurisdiction</b>	<b>Open Years</b>
Canada . . . . .	2011 – 2015
China . . . . .	2012 – 2015
Mexico . . . . .	2010 – 2015
Netherlands . . . . .	2014 – 2015
Portugal . . . . .	2008 – 2015
United States (excluding 2009 which is closed) . . . . .	2008 – 2015



## 9. Pension

We have pension plans covering the majority of our employees. Benefits generally are based on compensation and service for salaried employees and job grade and length of service for hourly employees. In addition, we have an unfunded supplemental employee retirement plan (SERP) that covers salaried U.S.-based employees of Libbey hired before January 1, 2006. The U.S. pension plans cover the salaried U.S.-based employees of Libbey hired before January 1, 2006 and most hourly U.S.-based employees (excluding employees hired at Shreveport after 2008 and at Toledo after September 30, 2010). Effective January 1, 2013, we ceased annual company contribution credits to the cash balance accounts in our Libbey U.S. Salaried Pension Plan and SERP. The non-U.S. pension plans cover the employees of our wholly owned subsidiaries in the Netherlands and Mexico. The plan in Mexico is primarily unfunded.

In the fourth quarter of 2015, we executed an agreement with Pensioenfonds voor de Grafische Bedrijven (“PGB”), an industry wide pension fund, and unwound direct ownership of our defined benefit pension plan in the Netherlands. In accordance with this agreement, we transferred all assets of the plan and made a cash contribution of \$5.2 million to PGB. In return, PGB assumed the related liabilities and administrative responsibilities of the plan. As a result, there is no longer a pension liability on the Consolidated Balance Sheet at December 31, 2015. This event also resulted in a settlement charge of \$21.6 million being recorded in the Consolidated Statement of Operations in the fourth quarter of 2015. Beginning in 2016, Libbey Holland will continue to make cash contributions to PGB as participating employees earn pension benefits. These related costs will be expensed as incurred, similar to the accounting associated with a defined contribution retirement plan.

### *Effect on Operations*

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

Year ended December 31, (dollars in thousands)	U.S. Plans			Non-U.S. Plans			Total		
	2015	2014	2013	2015	2014	2013	2015	2014	2013
Service cost (benefits earned during the period) . . . . .	\$ 4,365	\$ 3,664	\$ 4,739	\$ 2,965	\$ 2,264	\$ 2,862	\$ 7,330	\$ 5,928	\$ 7,601
Interest cost on projected benefit obligation . . . . .	14,715	15,378	14,093	4,332	5,566	4,981	19,047	20,944	19,074
Expected return on plan assets . .	(22,661)	(22,387)	(22,374)	(2,447)	(2,447)	(1,995)	(25,108)	(24,834)	(24,369)
Amortization of unrecognized:									
Prior service cost . . . . .	417	1,059	1,172	(244)	164	164	173	1,223	1,336
Actuarial loss . . . . .	7,291	4,057	8,604	1,599	1,012	919	8,890	5,069	9,523
Transition obligations . . . . .	—	—	—	—	60	84	—	60	84
Settlement charge . . . . .	13	483	1,805	21,574	291	447	21,587	774	2,252
Curtailed charge (credit) . . . . .	—	—	—	(14)	—	—	(14)	—	—
Pension expense . . . . .	<u>\$ 4,140</u>	<u>\$ 2,254</u>	<u>\$ 8,039</u>	<u>\$ 27,765</u>	<u>\$ 6,910</u>	<u>\$ 7,462</u>	<u>\$ 31,905</u>	<u>\$ 9,164</u>	<u>\$ 15,501</u>

In 2015, 2014 and 2013, we incurred pension settlement charges of \$21.6 million, \$0.8 million and \$2.3 million, respectively. The pension settlement charges in 2015 were triggered primarily by the liquidation of the Dutch pension fund in 2015. The pension settlement charges in 2014 and 2013 were triggered by excess lump sum distributions taken by employees, which required us to record unrecognized gains and losses in our pension plan accounts.

### *Actuarial Assumptions*

The assumptions used to determine the benefit obligations were as follows:

	U.S. Plans		Non-U.S. Plans	
	2015	2014	2015	2014
Discount rate . . . . .	4.60% to 4.73%	4.17% to 4.29%	8.10%	2.30% to 7.60%
Rate of compensation increase . . . . .	—%	—%	4.30%	2.00% to 4.30%

The assumptions used to determine net periodic pension costs were as follows:

	U.S. Plans			Non-U.S. Plans		
	2015	2014	2013	2015	2014	2013
Discount rate . . . . .	4.17% to 4.29%	4.83% to 5.12%	3.98% to 4.97%	2.30% to 7.60%	3.70% to 8.50%	3.70% to 7.00%
Expected long-term rate of return on plan assets . . . . .	7.25%	7.25%	7.50%	4.00%	4.10%	3.60%
Rate of compensation increase . . . . .	—%	—%	—%	2.00% to 4.30%	2.00% to 4.30%	2.00% to 4.30%

The discount rate enables us to estimate the present value of expected future cash flows on the measurement date. The rate used reflects a rate of return on high-quality fixed income investments that match the duration of expected benefit payments at our December 31 measurement date. The discount rate at December 31 is used to measure the year-end benefit obligations and the earnings effects for the subsequent year. A higher discount rate decreases the present value of benefit obligations and decreases pension expense.

To determine the expected long-term rate of return on plan assets for our funded plans, we consider the current and expected asset allocations, as well as historical and expected returns on various categories of plan assets. The expected long-term rate of return on plan assets at December 31<sup>st</sup> is used to measure the earnings effects for the subsequent year.

Future benefits are assumed to increase in a manner consistent with past experience of the plans except for the Libbey U.S. Salaried Pension Plan and SERP as discussed above, which, to the extent benefits are based on compensation, includes assumed compensation increases as presented above. Amortization included in net pension expense is based on the average remaining service of employees.

We account for our defined benefit pension plans on an expense basis that reflects actuarial funding methods. The actuarial valuations require significant estimates and assumptions to be made by management, primarily with respect to the discount rate and expected long-term return on plan assets. These assumptions are all susceptible to changes in market conditions. The discount rate is based on a selected settlement portfolio from a universe of high quality bonds. In determining the expected long-term rate of return on plan assets, we consider historical market and portfolio rates of return, asset allocations and expectations of future rates of return. We evaluate these critical assumptions on our annual measurement date of December 31<sup>st</sup>. Other assumptions involving demographic factors such as retirement age, mortality and turnover are evaluated periodically and are updated to reflect our experience. Actual results in any given year often will differ from actuarial assumptions because of demographic, economic and other factors.

During 2014, the Society of Actuaries released a new mortality table, which is believed to better reflect current mortality expectations and is to be used in calculating pension obligations. In 2014, we adopted these new tables for our U.S. pension plans for use in determining our projected benefit obligations. Adoption of the new mortality tables increased our projected benefit obligation by approximately \$22.1 million at December 31, 2014. In 2015, the Society of Actuaries published a new mortality projection scale which reflected two additional years of mortality experience. We adopted this 2015 update.

## Projected Benefit Obligation (PBO) and Fair Value of Assets

The changes in the projected benefit obligations and fair value of plan assets are as follows:

Year ended December 31, (dollars in thousands)	U.S. Plans		Non-U.S. Plans		Total	
	2015	2014	2015	2014	2015	2014
Change in projected benefit obligation:						
Projected benefit obligation, beginning of year . . . . .	\$351,477	\$310,109	\$119,986	\$102,719	\$471,463	\$412,828
Service cost . . . . .	4,365	3,664	2,965	2,264	7,330	5,928
Interest cost . . . . .	14,715	15,378	4,332	5,566	19,047	20,944
Exchange rate fluctuations . . . . .	—	—	(13,948)	(14,668)	(13,948)	(14,668)
Actuarial (gain) loss . . . . .	(26,796)	51,066	11,105	28,051	(15,691)	79,117
Plan participants' contributions . . . . .	—	—	1,359	1,249	1,359	1,249
Plan amendments . . . . .	—	—	(4,354)	(780)	(4,354)	(780)
Curtailement effect . . . . .	—	—	(7,414)	—	(7,414)	—
Settlements paid . . . . .	(96)	(12,825)	(74,485)	—	(74,581)	(12,825)
Benefits paid . . . . .	(17,802)	(15,915)	(3,631)	(4,415)	(21,433)	(20,330)
Projected benefit obligation, end of year . . . . .	<u>\$325,863</u>	<u>\$351,477</u>	<u>\$ 35,915</u>	<u>\$119,986</u>	<u>\$361,778</u>	<u>\$471,463</u>
Change in fair value of plan assets:						
Fair value of plan assets, beginning of year . . . . .	\$340,082	\$332,827	\$ 74,279	\$ 70,422	\$414,361	\$403,249
Actual return on plan assets . . . . .	(6,096)	33,342	(213)	12,643	(6,309)	45,985
Exchange rate fluctuations . . . . .	—	—	(7,761)	(9,328)	(7,761)	(9,328)
Employer contributions . . . . .	96	2,653	10,452	3,708	10,548	6,361
Plan participants' contributions . . . . .	—	—	1,359	1,249	1,359	1,249
Settlements paid . . . . .	(96)	(12,825)	(74,485)	—	(74,581)	(12,825)
Benefits paid . . . . .	(17,802)	(15,915)	(3,631)	(4,415)	(21,433)	(20,330)
Fair value of plan assets, end of year . . . . .	<u>\$316,184</u>	<u>\$340,082</u>	<u>\$ —</u>	<u>\$ 74,279</u>	<u>\$316,184</u>	<u>\$414,361</u>
Funded ratio . . . . .	97.0%	96.8%	—%	61.9%	87.4%	87.9%
Funded status and net accrued pension benefit asset (cost) . . . . .	<u>\$ (9,679)</u>	<u>\$ (11,395)</u>	<u>\$ (35,915)</u>	<u>\$ (45,707)</u>	<u>\$ (45,594)</u>	<u>\$ (57,102)</u>

The non-U.S. settlements paid in 2015 relate to us unwinding our direct ownership of the defined benefit pension plan in the Netherlands.

The current portion of the pension liability reflects the amount of expected benefit payments that are greater than the plan assets on a plan-by-plan basis. The net accrued pension benefit liability at December 31 of the respective year-ends were included in the Consolidated Balance Sheets as follows:

December 31, (dollars in thousands)	2015	2014
Non-current asset . . . . .	\$ 977	\$ 848
Current liability . . . . .	(2,297)	(1,488)
Long-term liability . . . . .	(44,274)	(56,462)
Net accrued pension liability . . . . .	<u>\$ (45,594)</u>	<u>\$ (57,102)</u>

The pre-tax amounts recognized in accumulated other comprehensive loss as of December 31, 2015 and 2014, are as follows:

Year ended December 31, (dollars in thousands)	U.S. Plans		Non-U.S. Plans		Total	
	2015	2014	2015	2014	2015	2014
Net actuarial loss . . . . .	\$ 96,983	\$ 102,328	\$ 16,988	\$ 38,843	\$ 113,971	\$ 141,171
Prior service cost (credit) . .	500	918	(3,472)	16	(2,972)	934
Total cost . . . . .	<u>\$ 97,483</u>	<u>\$ 103,246</u>	<u>\$ 13,516</u>	<u>\$ 38,859</u>	<u>\$ 110,999</u>	<u>\$ 142,105</u>

The pre-tax amounts in accumulated other comprehensive loss as of December 31, 2015, that are expected to be recognized as components of net periodic benefit cost during 2016 are as follows:

(dollars in thousands)	U.S. Plans	Non-U.S. Plans	Total
Net actuarial loss. . . . .	\$ 4,482	\$ 848	\$ 5,330
Prior service cost (credit) . . . . .	263	(224)	39
Total cost. . . . .	<u>\$ 4,745</u>	<u>\$ 624</u>	<u>\$ 5,369</u>

Estimated contributions for 2016, as well as, contributions made in 2015 and 2014 to the pension plans are as follows:

(dollars in thousands)	U.S. Plans	Non-U.S. Plans	Total
Estimated contributions in 2016 . . . . .	\$ 125	\$ 2,388	\$ 2,513
Contributions made in 2015 . . . . .	\$ 96	\$ 10,452	\$ 10,548
Contributions made in 2014 . . . . .	\$ 2,653	\$ 3,708	\$ 6,361

Included in the above table, related to the non-U.S. plans, we paid \$5.2 million in connection with unwinding the direct ownership of our defined benefit pension plan in the Netherlands in the fourth quarter of 2015. It is difficult to estimate future cash contributions to the pension plans, as such amounts are a function of actual investment returns, withdrawals from the plans, changes in interest rates and other factors uncertain at this time. It is possible that greater cash contributions may be required in 2016 than the amounts in the above table. Although a decline in market conditions, changes in current pension law and uncertainties regarding significant assumptions used in the actuarial valuations may have a material impact in future required contributions to our pension plans, we currently do not expect funding requirements to have a material adverse impact on current or future liquidity.

Pension benefit payment amounts are anticipated to be paid from the plans (including the SERP) as follows:

Year (dollars in thousands)	U.S. Plans	Non-U.S. Plans	Total
2016 . . . . .	\$ 18,715	\$ 2,388	\$ 21,103
2017 . . . . .	\$ 19,165	\$ 1,929	\$ 21,094
2018 . . . . .	\$ 20,198	\$ 2,065	\$ 22,263
2019 . . . . .	\$ 20,357	\$ 2,526	\$ 22,883
2020 . . . . .	\$ 20,840	\$ 2,335	\$ 23,175
2021-2025 . . . . .	\$ 107,972	\$ 13,859	\$ 121,831

**Accumulated Benefit Obligation in Excess of Plan Assets**

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for pension plans with an accumulated benefit obligation in excess of plan assets at December 31, 2015 and 2014 were as follows:

December 31, (dollars in thousands)	U.S. Plans		Non-U.S. Plans		Total	
	2015	2014	2015	2014	2015	2014
Projected benefit obligation . . . . .	\$ 268,218	\$ 289,157	\$ 35,915	\$ 44,271	\$ 304,133	\$ 333,428
Accumulated benefit obligation . . . .	\$ 268,218	\$ 289,157	\$ 29,102	\$ 33,645	\$ 297,320	\$ 322,802
Fair value of plan assets . . . . .	\$ 257,562	\$ 276,914	\$ —	\$ 475	\$ 257,562	\$ 277,389

## Plan Asset Allocation

The asset allocation for our U.S. pension plans at the end of 2015 and 2014 and the target allocation for 2016, by asset category, are as follows:

U.S. Plans Asset Category	Target Allocation	Percent of Plan Assets at Year End	
	2016	2015	2014
Equity securities . . . . .	45%	44%	44%
Debt and fixed income securities . . . . .	32%	32%	33%
Real estate . . . . .	5%	6%	5%
Other . . . . .	18%	18%	18%
Total . . . . .	100%	100%	100%

In connection with the unwinding our defined benefit pension plan in the Netherlands in the fourth quarter of 2015, all related plan assets were transferred to PGB, an industry wide pension fund. The asset allocation for our Dutch pension plan at the end of 2014, by asset category, was as follows:

Non-U.S. Plan Asset Category	Percent of Plan Assets at Year End 2014
Equity securities . . . . .	28%
Debt securities . . . . .	61%
Real estate . . . . .	6%
Other . . . . .	5%
Total . . . . .	100%

Our investment strategy is to control and manage investment risk through diversification across asset classes and investment styles, within established target asset allocation ranges. The investment risk of the assets is limited by appropriate diversification both within and between asset classes. Assets will be diversified among a mix of traditional investments in equity and fixed income instruments, as well as alternative investments including real estate and hedge funds. It would be anticipated that a modest allocation to cash would exist within the plans, since each investment manager is likely to hold some cash in the portfolio with the goal of ensuring that sufficient liquidity will be available to meet expected cash flow requirements.

Our investment valuation policy is to value the investments at fair value. All investments are valued at their respective net asset values as calculated by the Trustee. Underlying equity securities, for which market quotations are readily available, are valued at the last reported readily available sales price on their principal exchange on the valuation date or official close for certain markets. Fixed income investments are valued on a basis of valuations furnished by a trustee-approved pricing service, which determines valuations for normal institutional-size trading units of such securities which are generally recognized at fair value as determined in good faith by the Trustee. Short-term investments, if any, are stated at amortized cost, which approximates fair value. The fair value of investments in real estate funds is based on valuation of the fund as determined by periodic appraisals of the underlying investments owned by the respective fund. The fair value of hedge funds is based on the net asset values provided by the fund manager. Investments in registered investment companies or collective pooled funds, if any, are valued at their respective net asset value.

The following table sets forth by level, within the fair value hierarchy established by FASB ASC Topic 820, our pension plan assets at fair value (see note 15 for further discussion of the fair value hierarchy) as of December 31, 2015 and 2014:

December 31, 2015 (dollars in thousands)	Level One	Level Two	Level Three	Total
Cash & cash equivalents . . . . .	\$ —	\$ 9,558	\$ —	\$ 9,558
Real estate . . . . .	—	17,376	—	17,376
Equity securities . . . . .	—	138,497	—	138,497
Debt securities . . . . .	—	101,895	—	101,895
Hedge funds . . . . .	—	—	48,858	48,858
Total . . . . .	\$ —	\$ 267,326	\$ 48,858	\$ 316,184

December 31, 2014 (dollars in thousands)	Level One	Level Two	Level Three	Total
Cash & cash equivalents . . . . .	\$ —	\$ 10,327	\$ —	\$ 10,327
Real estate . . . . .	—	17,332	4,224	21,556
Equity securities . . . . .	—	170,324	—	170,324
Debt securities . . . . .	—	157,846	—	157,846
Hedge funds . . . . .	—	—	54,308	54,308
Total . . . . .	<u>\$ —</u>	<u>\$ 355,829</u>	<u>\$ 58,532</u>	<u>\$ 414,361</u>

The realized gain (loss) on disposition of Level 3 pension plan assets was a gain of \$2.6 million in 2015 and immaterial in 2014. The following is a reconciliation for which Level 3 inputs were used in determining fair value:

Year ended December 31, (dollars in thousands)	2015	2014
Assets classified as Level 3 at the beginning of the year . . . . .	\$ 58,532	\$ 60,231
Change in unrealized appreciation (depreciation) . . . . .	218	801
Net purchases (sales) . . . . .	(9,892)	(2,500)
Assets classified as Level 3 at the end of the year . . . . .	<u>\$ 48,858</u>	<u>\$ 58,532</u>

## 10. Nonpension Postretirement Benefits

We provide certain retiree health care and life insurance benefits covering our U.S. and Canadian salaried employees hired before January 1, 2004 and a majority of our union hourly employees (excluding employees hired at Shreveport after 2008 and at Toledo after September 30, 2010). 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 (excluding those mentioned above). 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.

### Effect on Operations

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

Year ended December 31, (dollars in thousands)	U.S. Plans			Non-U.S. Plans			Total		
	2015	2014	2013	2015	2014	2013	2015	2014	2013
Service cost (benefits earned during the period) . . . . .	\$ 855	\$ 1,007	\$ 1,190	\$ 1	\$ 1	\$ 2	\$ 856	\$ 1,008	\$ 1,192
Interest cost on projected benefit obligation . . . . .	2,537	2,840	2,622	52	108	110	2,589	2,948	2,732
Amortization of unrecognized:									
Prior service cost . . . . .	140	140	140	—	—	—	140	140	140
Loss (gain) . . . . .	592	267	857	(56)	—	—	536	267	857
Nonpension postretirement benefit expense . . . . .	<u>\$ 4,124</u>	<u>\$ 4,254</u>	<u>\$ 4,809</u>	<u>\$ (3)</u>	<u>\$ 109</u>	<u>\$ 112</u>	<u>\$ 4,121</u>	<u>\$ 4,363</u>	<u>\$ 4,921</u>

### Actuarial Assumptions

The discount rate used to determine the accumulated postretirement benefit obligation was:

	U.S. Plans		Non-U.S. Plans	
	2015	2014	2015	2014
Discount rate . . . . .	4.56%	4.10%	3.69%	3.61%

The discount rate used to determine net postretirement benefit cost was:

	U.S. Plans			Non-U.S. Plans		
	2015	2014	2013	2015	2014	2013
Discount rate . . . . .	4.10%	4.74%	3.85%	3.61%	4.36%	3.71%

The weighted average assumed health care cost trend rates at December 31 were as follows:

	U.S. Plans		Non-U.S. Plans	
	2015	2014	2015	2014
Initial health care trend . . . . .	7.00%	7.25%	7.00%	7.25%
Ultimate health care trend . . . . .	5.00%	5.00%	5.00%	5.00%
Years to reach ultimate trend rate . . . . .	8	9	8	9

We use various actuarial assumptions, including the discount rate and the expected trend in health care costs, to estimate the costs and benefit obligations for our retiree health plan. The discount rate is determined based on high-quality fixed income investments that match the duration of expected retiree medical benefits at our December 31 measurement date to establish the discount rate. The discount rate at December 31 is used to measure the year-end benefit obligations and the earnings effects for the subsequent year.

The health care cost trend rate represents our expected annual rates of change in the cost of health care benefits. The trend rate noted above represents a forward projection of health care costs as of the measurement date. A 1.0 percent change in the health care trend rate would not have a material impact upon the nonpension postretirement expense.

**Accumulated Postretirement Benefit Obligation**

The components of our nonpension postretirement benefit obligation are as follows:

Year ended December 31, (dollars in thousands)	U.S. Plans		Non-U.S. Plans		Total	
	2015	2014	2015	2014	2015	2014
Change in accumulated nonpension postretirement benefit obligation:						
Benefit obligation, beginning of year . . . . .	\$ 65,565	\$ 61,117	\$ 2,536	\$ 2,706	\$ 68,101	\$ 63,823
Service Cost . . . . .	855	1,007	1	1	856	1,008
Interest cost . . . . .	2,537	2,840	52	108	2,589	2,948
Plan participants' contributions . . . . .	610	699	—	—	610	699
Actuarial (gain) loss . . . . .	(7,287)	5,466	(740)	29	(8,027)	5,495
Exchange rate fluctuations . . . . .	—	—	(346)	(219)	(346)	(219)
Benefits paid . . . . .	(3,485)	(5,564)	(113)	(89)	(3,598)	(5,653)
Benefit obligation, end of year . . . . .	<u>\$ 58,795</u>	<u>\$ 65,565</u>	<u>\$ 1,390</u>	<u>\$ 2,536</u>	<u>\$ 60,185</u>	<u>\$ 68,101</u>
Funded status and accrued benefit cost . . . . .	<u>\$ (58,795)</u>	<u>\$ (65,565)</u>	<u>\$ (1,390)</u>	<u>\$ (2,536)</u>	<u>\$ (60,185)</u>	<u>\$ (68,101)</u>

The net accrued postretirement benefit liability at December 31 of the respective year-ends were included in the Consolidated Balance Sheets as follows:

December 31, (dollars in thousands)	2015	2014
Current liability . . . . .	\$ 4,903	\$ 4,800
Long-term liability . . . . .	55,282	63,301
Total accrued postretirement benefit liability . . . . .	<u>\$ 60,185</u>	<u>\$ 68,101</u>

The pre-tax amounts recognized in accumulated other comprehensive loss as of December 31, 2015 and 2014, are as follows:

Year ended December 31, (dollars in thousands)	U.S. Plans		Non-U.S. Plans		Total	
	2015	2014	2015	2014	2015	2014
Net actuarial loss (gain) . . . . .	\$ 5,080	\$ 12,959	\$ (654)	\$ (30)	\$ 4,426	\$ 12,929
Prior service cost . . . . .	(1,323)	(1,183)	—	—	(1,323)	(1,183)
Total cost (credit) . . . . .	<u>\$ 3,757</u>	<u>\$ 11,776</u>	<u>\$ (654)</u>	<u>\$ (30)</u>	<u>\$ 3,103</u>	<u>\$ 11,746</u>

The pre-tax amounts in accumulated other comprehensive loss at December 31, 2015, that are expected to be recognized as components of net periodic benefit cost during 2016 are as follows:

Year ended December 31, (dollars in thousands)	U.S. Plans	Non-U.S. Plans	Total
Net actuarial loss (gain) . . . . .	\$ 81	\$ (45)	\$ 36
Prior service cost . . . . .	140	—	140
Total cost (credit) . . . . .	<u>\$ 221</u>	<u>\$ (45)</u>	<u>\$ 176</u>

Nonpension postretirement benefit payments net of estimated future Medicare Part D subsidy payments and future retiree contributions, are anticipated to be paid as follows:

Fiscal Year (dollars in thousands)	U.S. Plans	Non-U.S. Plans	Total
2016 . . . . .	\$ 4,861	\$ 152	\$ 5,013
2017 . . . . .	\$ 5,041	\$ 149	\$ 5,190
2018 . . . . .	\$ 5,166	\$ 148	\$ 5,314
2019 . . . . .	\$ 5,065	\$ 142	\$ 5,207
2020 . . . . .	\$ 4,926	\$ 137	\$ 5,063
2021-2025 . . . . .	\$ 21,031	\$ 500	\$ 21,531

## 11. Net Income per Share of Common Stock

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

Year ended December 31, (dollars in thousands, except earnings per share)	2015	2014	2013
<b>Numerator for earnings per share:</b>			
Net income that is available to common shareholders . . . . .	\$ 66,333	\$ 4,963	\$ 28,459
<b>Denominator for basic earnings per share:</b>			
Weighted average shares outstanding . . . . .	21,816,935	21,716,288	21,216,780
<b>Denominator for diluted earnings per share:</b>			
Effect of stock options and restricted stock units . . . . .	342,214	467,249	525,393
Adjusted weighted average shares and assumed conversions . . . . .	<u>22,159,149</u>	<u>22,183,537</u>	<u>21,742,173</u>
<b>Basic earnings per share</b> . . . . .	<u>\$ 3.04</u>	<u>\$ 0.23</u>	<u>\$ 1.34</u>
<b>Diluted earnings per share</b> . . . . .	<u>\$ 2.99</u>	<u>\$ 0.22</u>	<u>\$ 1.31</u>
<b>Shares excluded from diluted earnings per share due to:</b>			
Inclusion would have been anti-dilutive (excluded from calculation) . . .	105,201	168,557	202,375

When applicable, diluted shares outstanding include the dilutive impact of restricted stock units. Diluted shares also include the impact of eligible employee stock options, which are calculated based on the average share price for each fiscal period using the treasury stock method. Under the treasury stock method, the tax-effected proceeds that hypothetically would be received from the exercise of all in-the-money options are assumed to be used to repurchase shares.



## 12. Employee Stock Benefit Plans

We have a stock-based employee compensation plan. We account for stock-based compensation in accordance with FASB ASC Topic 718, "Compensation - Stock Compensation" and FASB ASC Topic 505-50, "Equity - Equity Based Payment to Non-Employees", which requires the measurement and recognition of compensation expense for all share-based awards to our employees and directors. Share-based compensation cost is measured based on the fair value of the equity or liability instruments issued. FASB ASC 718 and FASB ASC 505-50 apply to all of our outstanding unvested share-based payment awards.

### *Equity Participation Plan Program Description*

We have an equity participation plan, the Amended and Restated Libbey Inc. 2006 Omnibus Incentive Plan, which we refer to as the Omnibus Plan. Up to a total of 2,960,000 shares of Libbey Inc. common stock are authorized for issuance as equity-based compensation under the Omnibus Plan. Under the Omnibus Plan, grants of equity-based compensation may take the form of stock options, stock appreciation rights, performance shares or units, restricted stock or restricted stock units or other stock-based awards. Employees and directors are eligible for awards under this plan. During 2015, there were grants of 108,297 stock options, 219,010 restricted stock units, and 1,025 cash settled restricted stock units. During 2014, there were grants of 233,054 stock options, 123,782 restricted stock units, 115,687 cash settled restricted stock units, and 2,600 stock appreciation rights. All option grants have an exercise price equal to the fair market value of the underlying stock on the grant date. The vesting period of options, stock appreciation rights, restricted stock units and cash settled restricted stock units outstanding as of December 31, 2015, is generally four years. Awards are subject to alternate vesting plans for death, disability, retirement eligibility and involuntary termination. Dividends are not payable on shares underlying options, stock appreciation rights or unvested restricted stock units. All grants of equity-based compensation are amortized over the vesting period in accordance with FASB ASC 718 expense attribution methodology. Pre-tax compensation expense of \$5.9 million, \$5.3 million and \$5.1 million in selling, general and administrative expenses in the Consolidated Statements of Operations for 2015, 2014 and 2013, respectively.

### *Non-Qualified Stock Option Information*

The Black-Scholes option-pricing model was used to estimate the grant-date fair value for stock options. The exercise price of each stock option equals the closing market price of our common stock on the date of grant. The maximum term is ten years. The following table summarizes non-qualified stock option disclosures for 2015, 2014 and 2013:

<b>Year ended December 31, (dollars in thousands, except options and assumptions)</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
Stock options granted . . . . .	108,297	233,054	203,825
Stock option compensation expense included in the Consolidated Statements of Operations . . . . .	\$ 1,674	\$ 1,591	\$ 1,689
Weighted-average grant-date fair value of options granted using the Black-Scholes model . . . . .	\$ 14.72	\$ 10.86	\$ 8.42
Weighted average assumptions for stock option grants:			
Risk-free interest . . . . .	1.68%	1.90%	1.12%
Expected term . . . . .	6.4 years	6.5 years	6.3 years
Expected volatility . . . . .	39.92%	42.81%	44.51%
Dividend yield . . . . .	1.16%	0.00%	0.00%

- The risk-free interest rate is based on the U.S. Treasury yield curve at the time of grant and has a term equal to the expected life.
- The expected term represents the period of time the options are expected to be outstanding. Prior to October 2013, the expected term was developed based on the Simplified Method defined by the SEC Staff Accounting Bulletin No. 107, "Share-Based Payment" (SAB 107) due to limited exercise activity over the past years given the volatility in the stock price. As a result of market stabilization and increased exercise activity, we changed our method for determining the expected term and now use the actual historical exercise activity.
- Expected volatility is calculated based on a rolling average of the daily stock closing prices of a peer group of companies with a period equal to the expected life of the award. The peer group was used due to the Company having a period of

history when we were more highly leveraged which is not relevant in evaluating expected volatility. The peer group was established using the criteria of similar industry, size, leverage and length of history.

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

Information with respect to our stock option activity for 2015, 2014 and 2013 is as follows:

<b>Stock Options</b>	<b>Shares</b>	<b>Weighted-Average Exercise Price per Share</b>	<b>Weighted-Average Remaining Contractual Life (In Years)</b>	<b>Aggregate Intrinsic Value (in thousands)</b>
Outstanding balance at January 1, 2013.....	1,311,634	\$ 14.47	4	\$ 7,651
Granted.....	203,825	\$ 19.05		
Exercised.....	(397,369)	\$ 13.56		\$ 3,257
Canceled.....	(129,310)	\$ 27.58		
Outstanding balance at December 31, 2013.....	988,780	\$ 14.07	5	\$ 6,856
Granted.....	233,054	\$ 23.92		
Exercised.....	(363,459)	\$ 12.57		\$ 5,218
Canceled.....	(24,365)	\$ 20.58		
Outstanding balance at December 31, 2014.....	834,010	\$ 17.28	6.7	\$ 11,808
Granted.....	108,297	\$ 36.90		
Exercised.....	(241,122)	\$ 13.85		\$ 5,722
Canceled.....	(44,514)	\$ 25.43		
Outstanding balance at December 31, 2015.....	656,671	\$ 21.22	6.8	\$ 2,103
Exercisable at December 31, 2015.....	314,669	\$ 16.52	5.5	\$ 1,659

Intrinsic value for share-based instruments is defined as the difference between the current market value and the exercise price.

As of December 31, 2015, \$1.5 million of unrecognized compensation expense related to nonvested stock options is expected to be recognized within the next 2.0 years on a weighted-average basis. The total fair value of shares vested during 2015, 2014 and 2013 is \$1.7 million, \$1.1 million and \$1.7 million, respectively. Shares issued for exercised options are issued from treasury stock, when available.

The following table summarizes our nonvested stock option activity for 2015, 2014 and 2013:

<b>Nonvested Stock Options</b>	<b>Shares</b>	<b>Weighted-Average Value (per Share)</b>
Nonvested at January 1, 2013.....	347,591	\$ 9.11
Granted.....	203,825	\$ 8.42
Vested.....	(201,865)	\$ 8.47
Forfeited.....	(7,275)	\$ 9.78
Nonvested at December 31, 2013.....	342,276	\$ 9.07
Granted.....	233,054	\$ 10.86
Vested.....	(113,550)	\$ 9.37
Forfeited.....	(23,265)	\$ 9.73
Nonvested at December 31, 2014.....	438,515	\$ 9.91
Granted.....	108,297	\$ 14.72
Vested.....	(161,923)	\$ 10.55
Forfeited.....	(42,887)	\$ 11.32
Nonvested at December 31, 2015.....	342,002	\$ 10.95

### Stock Appreciation Rights Information

The exercise price of each stock appreciation right equals the closing market price of our common stock on the date of grant. The maximum term is ten years. Stock appreciation rights are settled in cash for the difference between the market price on the date of exercise and the exercise price. Awards that are settled in cash are subject to liability accounting. Accordingly, the fair value of such awards is remeasured at the end of each reporting period until settled or expired. The Company entered into a CEO Retention Award Agreement pursuant to which the Company issued 240,829 stock appreciation rights to our CEO on December 16, 2013. On January 11, 2016, vesting of all unvested retention stock appreciation rights otherwise scheduled to vest on December 31, 2018 was accelerated as a result of the departure of our CEO.

The Black-Scholes option-pricing model was used to estimate the grant-date fair value. The following table summarizes stock appreciation rights disclosures for 2015, 2014 and 2013:

Year ended December 31, (dollars in thousands, except stock appreciation rights and assumptions)	2015	2014	2013
Stock appreciation rights granted	—	2,600	244,229
Stock appreciation rights compensation expense included in the Consolidated Statements of Operations	\$ (273)	\$ 736	\$ 59
Weighted-average grant-date fair value of stock appreciation rights granted using the Black-Scholes model		\$ 10.45	\$ 10.35
Weighted average assumptions for stock appreciation rights granted:			
Risk-free interest		1.92%	1.95%
Expected term		6.5 years	6.5 years
Expected volatility		43.14%	43.52%
Dividend yield		0.00%	0.00%

The risk-free interest rate, expected term, expected volatility and dividend yield assumptions are calculated consistent with our non-qualified stock option awards.

Information with respect to our stock appreciation right activity for 2015, 2014 and 2013 is as follows:

Stock Appreciation Rights	Shares	Weighted Average Exercise Price	Weighted-Average Remaining Contractual Life (In Years)	Aggregate Intrinsic Value (in thousands)
Outstanding Balance at January 1, 2013	6,750	\$ 14.37		
Granted	244,229	\$ 21.26		
Outstanding balance at December 31, 2013	250,979	\$ 21.07	10	\$ —
Granted	2,600	\$ 23.02		
Exercised	(6,475)	\$ 14.98		
Canceled	(2,875)	\$ 16.99		
Outstanding balance at December 31, 2014	244,229	\$ 21.27	9	\$ 2,483
Outstanding balance at December 31, 2015	244,229	\$ 21.27	8	\$ 14
Exercisable at December 31, 2015	1,250	\$ 18.88	6.9	\$ 4

As of December 31, 2015, \$0.7 million of unrecognized compensation expense related to nonvested stock appreciation rights is expected to be recognized within the next 3.0 years on a weighted-average basis. However, as a result of the acceleration of vesting on January 11, 2016, as mentioned above, we expect to recognize substantially all of the expense related to the CEO Retention Award Agreement in 2016. The total fair value of shares vested during 2015, 2014 and 2013 was immaterial.

The following table summarizes our non-vested stock appreciation rights for 2015, 2014 and 2013:

<u>Nonvested Stock Appreciation Rights</u>	<u>Shares</u>	<u>Weighted-Average Value (per Share)</u>
Nonvested at January 1, 2013 . . . . .	5,500	\$ 10.86
Granted . . . . .	244,229	\$ 10.35
Vested . . . . .	(1,688)	\$ 10.73
Nonvested at December 31, 2013 . . . . .	<u>248,041</u>	\$ 10.36
Granted . . . . .	2,600	\$ 10.45
Vested . . . . .	(3,537)	\$ 10.10
Forfeited . . . . .	<u>(2,875)</u>	\$ 9.66
Nonvested at December 31, 2014 . . . . .	<u>244,229</u>	\$ 10.37
Vested . . . . .	<u>(1,250)</u>	\$ 10.33
Nonvested at December 31, 2015 . . . . .	<u><u>242,979</u></u>	\$ 10.37

### ***Stock and Restricted Stock Unit Information***

Under the Omnibus Plan, we grant non-employee members of our Board of Directors shares of stock. The shares granted to Directors are immediately vested and all compensation expense is recognized in our Consolidated Statements of Operations in the year the grants are made. In addition, we grant restricted stock units to select executives and key employees. Compensation expense for restricted stock is measured based on the closing market price of the stock at date of grant less the present value of expected dividends over the vesting period, as dividends are not payable on unvested restricted stock units.

A summary of the activity for stock and restricted stock units under the Omnibus Plan for 2015, 2014 and 2013 is presented below:

<u>Year ended December 31, (dollars in thousands, except share amounts)</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Beginning nonvested balance . . . . .	232,824	208,460	263,181
Granted . . . . .	219,010	123,782	131,555
Vested . . . . .	(113,319)	(92,070)	(186,276)
Forfeited . . . . .	(23,081)	(7,348)	—
Ending nonvested balance . . . . .	<u><u>315,434</u></u>	<u><u>232,824</u></u>	<u><u>208,460</u></u>
Weighted-average grant-date fair value per restricted stock unit . . . . .	<u>\$ 35.93</u>	<u>\$ 24.24</u>	<u>\$ 19.33</u>
Compensation expense . . . . .	<u>\$ 4,199</u>	<u>\$ 2,340</u>	<u>\$ 3,315</u>

The total fair value for shares vested during the years ended December 31, 2015, 2014 and 2013 was \$4.2 million, \$2.2 million and \$4.0 million, respectively. As of December 31, 2015, there was \$5.0 million of unrecognized compensation cost related to nonvested restricted stock units granted. That cost is expected to be recognized over a weighted average period of 2.1 years. Shares issued for unrestricted stock and restricted stock unit awards were issued from treasury stock.

### ***Cash Settled Restricted Stock Unit Information***

Under the terms of the CEO Retention Award Agreement dated December 16, 2013, 115,687 cash settled restricted stock units were granted during the first quarter of 2014. Accordingly, awards that will be settled in cash are subject to liability accounting and the fair value of these awards will be remeasured at the end of each reporting period until settled. On January 11, 2016, vesting of all unvested retention cash settled restricted stock units otherwise scheduled to vest on December 31, 2018 was accelerated as a result of the departure of our CEO.

A summary of the activity for cash settled restricted stock units is presented below:

Year ended December 31, (dollars in thousands, except share amounts)	2015	2014
Beginning nonvested balance . . . . .	115,687	—
Granted . . . . .	1,025	115,687
Ending nonvested balance . . . . .	116,712	115,687
Weighted-average grant-date fair value per restricted stock unit . . . . .	\$ 36.96	\$ 23.02
Compensation expense . . . . .	\$ 317	\$ 616

As of December 31, 2015, there was \$1.5 million of unrecognized compensation cost related to nonvested cash settled restricted stock units granted. That cost is expected to be recognized over a weighted average period of 3.0 years. However, as a result of the acceleration of vesting on January 11, 2016, as mentioned above, we expect to recognize substantially all of the expense related to the CEO Retention Award Agreement in 2016.

***Employee 401(k) Plan Retirement Fund and Non-Qualified Deferred Executive Compensation Plans***

We sponsor the Libbey Inc. salary and hourly 401(k) plans (the Plan) to provide retirement benefits for our U.S. employees. As allowed under Section 401(k) of the Internal Revenue Code, the Plan provides tax-deferred salary contributions for eligible employees.

For the Salary Plan, employees can contribute from 1 percent to 50 percent of their annual salary, up to the annual IRS limits. We match 100 percent on the first 6 percent of pretax contributions. For the Hourly Plan, employees can contribute from 1 percent to 25 percent of their eligible annual pay up to the annual IRS limits. We match 50 percent of the first 6 percent of eligible earnings that are contributed by employees on a pretax basis. Therefore, the maximum matching contribution that we may allocate to each participant's account did not exceed \$15,900 for the Salary Plan or \$7,950 for the Hourly Plan for the 2015 calendar year due to the \$265,000 annual limit on eligible earnings imposed by the Internal Revenue Code. All matching contributions are invested according to the employees' deferral elections and vest immediately.

Effective January 1, 2009, we have a non-qualified Executive Deferred Compensation Plan (EDCP). Under the EDCP, executives and other members of senior management may elect to defer base salary, annual incentive compensation and equity-based compensation. We provide matching contributions on excess contributions (above the qualified 401(k) plan limits) in the same manner as we provide matching contributions under our 401(k) plan.

Our matching contributions to all Plans totaled \$3.4 million, \$3.1 million and \$3.1 million in 2015, 2014 and 2013, respectively.

### 13. Derivatives

We utilize derivative financial instruments to hedge certain interest rate risks associated with our long-term debt, commodity price risks associated with forecasted future natural gas requirements and foreign exchange rate risks associated with transactions denominated in a currency other than the U.S. dollar. These derivatives, except for the foreign currency contracts and the natural gas contracts used in our Mexican manufacturing facility, qualify for hedge accounting since the hedges are highly effective, and we have designated and documented contemporaneously the hedging relationships involving these derivative instruments. While we intend to continue to meet the conditions for hedge accounting, if hedges do not qualify as highly effective (as is the case for natural gas contracts used in our Mexico manufacturing facility) 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. All of these contracts were accounted for under FASB ASC 815 "Derivatives and Hedging."

#### *Fair Values*

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

(dollars in thousands)	Asset Derivatives:			
	December 31, 2015		December 31, 2014	
Derivatives not designated as hedging instruments under FASB ASC 815:	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Currency contracts . . . . .	Prepaid and other current assets	245	Prepaid and other current assets	403
Total undesignated . . . . .		245		403
Total . . . . .		\$ 245		\$ 403
	Liability Derivatives:			
(dollars in thousands)	December 31, 2015		December 31, 2014	
Derivatives designated as hedging instruments under FASB ASC 815:	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Natural gas contracts . . . . .	Derivative liability - current	\$ 1,069	Derivative liability - current	\$ 1,222
Natural gas contracts . . . . .	Other long-term liabilities	34	Other long-term liabilities	103
Interest rate contract . . . . .	Derivative liability - current	2,132	Derivative liability - current	—
Interest rate contract . . . . .	Other long-term liabilities	246	Other long-term liabilities	—
Total designated . . . . .		3,481		1,325
Derivatives not designated as hedging instruments under FASB ASC 815:				
Natural gas contracts . . . . .	Derivative liability - current	1,064	Derivative liability - current	1,431
Natural gas contracts . . . . .	Other long-term liabilities	35	Other long-term liabilities	112
Total undesignated . . . . .		1,099		1,543
Total . . . . .		\$ 4,580		\$ 2,868

#### *Natural Gas Contracts*

We use natural gas swap contracts related to forecasted future North American natural gas requirements. The objective of these commodity contracts is to limit the fluctuations in prices paid due to price movements in the underlying commodity. We consider our forecasted natural gas requirements in determining the quantity of natural gas to hedge. We combine the forecasts with historical observations to establish the percentage of forecast eligible to be hedged, typically ranging from 40 percent to 70 percent of our anticipated requirements, up to eighteen months in the future. The fair values of these instruments are determined from market quotes. As of December 31, 2015, we had commodity contracts for 3,000,000 million British Thermal Units (BTUs) of natural gas. At December 31, 2014, we had commodity contracts for 3,850,000 million BTUs of natural gas.

All of our derivatives for natural gas in the U.S. qualify and are designated as cash flow hedges at December 31, 2015. 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. Changes in the effective portion of the fair value of these hedges are recorded in other comprehensive income (loss). The ineffective portion of the change in the fair value of a derivative designated as a cash flow hedge is recognized in other income. As the natural gas contracts mature, the accumulated gains (losses) for the respective contracts are reclassified from accumulated other comprehensive loss to current expense in cost of sales in our Consolidated Statements of Operations.

In the years ended December 31, 2015 and 2014, we recognized a gain (loss) of \$0.9 million and \$(1.2) million, respectively, in other income in the Consolidated Statements of Operations related to the marked-to-market change in our de-designated Mexico natural gas derivatives. These natural gas derivatives were de-designated in the fourth quarter of 2014 due to ineffectiveness created by changes in the natural gas price resulting from a fluctuating surcharge initiated by the Mexican government on the price of natural gas. As instructed under FASB ASC 815 "Derivatives and Hedging", all marked-to-market changes on these derivatives are being reflected in other income. The accumulated balance in other comprehensive income (loss) for these de-designated contracts remained until the hedging contracts were utilized or expired. Since we have not elected hedge accounting for any new Mexico natural gas contracts entered into beginning October 1, 2014, all marked-to-market changes on these derivatives are being reflected in other income. We recognized a loss of \$0.7 million and \$0.1 million in other income in the year ended December 31, 2015 and 2014, respectively, related to the contracts where hedge accounting was not elected. In the year ended December 31, 2013, we recognized a loss of \$0.3 million in other income in the Consolidated Statements of Operations for certain contracts at our Mexico facility related to ineffectiveness caused by the fluctuating surcharge on the Mexican natural gas price.

We received (paid) additional cash of \$(4.6) million, \$0.6 million and \$(0.1) million in the years ended December 31, 2015, 2014 and 2013, respectively, due to the difference between the fixed unit rate of our natural gas contracts and the variable unit rate of our natural gas cost from suppliers. Based on our current valuation, we estimate that accumulated losses currently carried in accumulated other comprehensive loss that will be reclassified into earnings over the next twelve months will result in \$1.1 million of loss in our Consolidated Statements of Operations.

The following table provides a summary of the effective portion of derivative gain (loss) recognized in other comprehensive income (loss):

<u>Year ended December 31, (dollars in thousands)</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Derivatives in Cash Flow Hedging relationships:			
Natural gas contracts . . . . .	\$ (1,909)	\$ (1,392)	\$ 777
Total . . . . .	<u>\$ (1,909)</u>	<u>\$ (1,392)</u>	<u>\$ 777</u>

The following table provides a summary of the effective portion of derivative gain (loss) reclassified from accumulated other comprehensive loss to the Consolidated Statements of Operations:

<u>Year ended December 31, (dollars in thousands)</u>	<u>Location:</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Natural gas contracts . . . . .	Cost of sales	\$ 2,131	\$ 573	\$ (57)
Total impact on net income (loss) . . .		<u>\$ 2,131</u>	<u>\$ 573</u>	<u>\$ (57)</u>

The ineffective portion of derivative gain (loss) related to the de-designated Mexico contracts reclassified from accumulated other comprehensive loss to cost of sales in the Consolidated Statements of Operations was \$0.2 million of income and an immaterial amount in the years ended December 31, 2015 and 2014, respectively.

The following table provides a summary of the gain (loss) recognized in other income in the Consolidated Statements of Operations from our natural gas contracts:

<u>Year ended December 31, (dollars in thousands)</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Designated contracts with ineffectiveness . . . . .	\$ —	\$ —	\$ (276)
De-designated contracts . . . . .	932	(1,236)	—
Contracts where hedge accounting was not elected . . . . .	(714)	(81)	—
Total . . . . .	<u>\$ 218</u>	<u>\$ (1,317)</u>	<u>\$ (276)</u>

### ***Interest Rate Swaps as Cash Flow Hedges***

On April 1, 2015, we executed an interest rate swap on our Term Loan B as part of our risk management strategy to mitigate the risks involved with fluctuating interest rates. The interest rate swap will effectively convert \$220.0 million of our Term Loan B debt from a variable interest rate to a 4.85 percent fixed interest rate, thus reducing the impact of interest rate changes on future income. The fixed rate swap will be effective January 2016 through January 2020. This interest rate swap is valued using the market standard methodology of netting the discounted expected future variable cash receipts and the discounted future fixed cash payments. The variable cash receipts are based on an expectation of future interest rates derived from observed market interest rate forward curves.

Our interest rate swap qualifies and is designated as a cash flow hedge at December 31, 2015 and accounted for under FASB ASC 815 "Derivatives and Hedging". 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. Changes in the effective portion of the fair value of these hedges are recorded in other comprehensive income (loss). The ineffective portion, if any, of the change in the fair value of a derivative designated as a cash flow hedge is recognized in other income. Based on our current valuation, we estimate that accumulated losses currently carried in accumulated other comprehensive loss that will be reclassified into earnings over the next twelve months will result in \$2.1 million of additional interest expense in our Consolidated Statements of Operations.

The following table provides a summary of the effective portion of derivative gain (loss) recognized in other comprehensive income (loss):

Year ended December 31, (dollars in thousands)	2015	2014	2013
Derivatives in Cash Flow Hedging relationships:			
Interest Rate Swap . . . . .	\$ (2,378)	\$ —	\$ —
Total . . . . .	\$ (2,378)	\$ —	\$ —

### ***Interest Rate Swaps as Fair Value Hedges***

On June 18, 2012, we entered into an interest rate swap agreement with a notional amount of \$45.0 million that was to mature in 2020. The swap agreement was executed in order to convert a portion of the fixed rate debt under the Senior Secured Notes into floating rate debt and maintain a capital structure containing fixed and floating rate debt. Upon the refinancing of the Senior Secured Notes, the swap was settled at fair value on May 9, 2014, resulting in a payment of \$1.1 million. The remaining balance of the carrying value adjustment on debt related to the interest rate swap agreement was recognized as a loss in loss on redemption of debt on the Consolidated Statements of Operations. See note 6 for further discussion.

Prior to the 2014 refinancing of the Senior Secured Notes, \$40.5 million of our interest rate swap agreement was designated and qualified as a fair value hedge. The change in the fair value of the derivative instrument related to the future cash flows (gain or loss on the derivative) and the offsetting change in the fair value of the hedged long-term debt attributable to the hedged risk were recognized in other income. We included the gain or loss on the hedged long-term debt, along with the offsetting loss or gain on the related interest rate swap, in other income, on the Consolidated Statements of Operations.

As of July 1, 2013, we de-designated 10 percent, or \$4.5 million, of our interest rate swap. As a result, the mark-to-market of the \$4.5 million portion of the swap was recorded in other income on the Consolidated Statement of Operations.

The following table provides a summary of the gain (loss) recognized in the Consolidated Statements of Operations from the de-designated portion of our interest rate swap agreement:

Year ended December 31, (dollars in thousands)	2014	2013
Interest rate swap . . . . .	\$ 140	\$ (208)
Related long-term debt . . . . .	(589)	—
Net impact . . . . .	\$ (449)	\$ (208)



The following table provides a summary of the gain (loss) recognized in the Consolidated Statements of Operations from the designated portion of our interest rate swap agreement:

Year ended December 31, (dollars in thousands)	2014	2013
Interest rate swap . . . . .	\$ 497	\$ 1,732
Related long-term debt . . . . .	(735)	(2,164)
Net impact . . . . .	\$ (238)	\$ (432)

The gain or loss on the hedged long-term debt netted with the offsetting gain or loss on the related designated and de-designated interest rate swap was recorded on the Consolidated Statements of Operations as follows:

Year ended December 31, (dollars in thousands)	2014	2013
Loss on redemption of debt . . . . .	\$ (757)	\$ —
Other income (expense) . . . . .	70	(640)
Net impact . . . . .	\$ (687)	\$ (640)

**Currency Contracts**

Our foreign currency exposure arises from transactions denominated in a currency other than the U.S. dollar primarily associated with our Canadian dollar denominated accounts receivable. From time to time, we enter into a series of foreign currency contracts to sell Canadian dollars. We had contracts for C\$6.2 million and C\$6.3 million at December 31, 2015 and 2014, respectively. The fair values of these instruments are determined from market quotes. The values of these derivatives will change over time as cash receipts and payments are made and as market conditions change.

Gains (losses) on currency derivatives that were not designated as hedging instruments are recorded in other income as follows:

Year ended December 31, (dollars in thousands)	Location:	2015	2014	2013
Currency contracts . . . . .	Other income (expense)	\$ (158)	\$ 403	\$ (41)
Total . . . . .		\$ (158)	\$ 403	\$ (41)

We do not believe we are exposed to more than a nominal amount of credit risk in our interest rate swap, natural gas hedges and currency contracts as the counterparties are established financial institutions. The counterparties for the derivative agreements are rated BBB+ or better as of December 31, 2015, by Standard and Poor's.

#### 14. Comprehensive Income (Loss)

Accumulated other comprehensive loss, net of tax, is as follows:

(dollars in thousands)	Foreign Currency Translation	Derivative Instruments	Pension and Other Postretirement Benefits	Total Accumulated Comprehensive Loss
Balance on December 31, 2012. . . . .	\$ (1,641)	\$ 489	\$ (139,888)	\$ (141,040)
Other comprehensive income (loss) . . . . .	6,195	777	—	6,972
Actuarial gain (loss) . . . . .	—	—	47,704	47,704
Currency impact . . . . .	—	—	(298)	(298)
Amounts reclassified from accumulated other comprehensive income (loss):				
Amortization of actuarial loss <sup>(1)</sup> . . . . .	—	—	12,185	12,185
Amortization of prior service cost <sup>(1)</sup> . . . . .	—	—	1,476	1,476
Amortization of transition obligation <sup>(1)</sup> . . . . .	—	—	84	84
Cost of sales. . . . .	—	57	—	57
Current-period other comprehensive income (loss) . .	<u>6,195</u>	<u>834</u>	<u>61,151</u>	<u>68,180</u>
Tax effect. . . . .	—	(102)	(198)	(300)
Balance on December 31, 2013. . . . .	<u>4,554</u>	<u>1,221</u>	<u>(78,935)</u>	<u>(73,160)</u>
Other comprehensive income (loss) . . . . .	(13,716)	(1,392)	—	(15,108)
Actuarial gain (loss) . . . . .	—	—	(62,689)	(62,689)
Currency impact . . . . .	—	—	4,655	4,655
Amounts reclassified from accumulated other comprehensive income (loss):				
Amortization of actuarial loss <sup>(1)</sup> . . . . .	—	—	5,331	5,331
Amortization of prior service cost <sup>(1)</sup> . . . . .	—	—	2,142	2,142
Amortization of transition obligation <sup>(1)</sup> . . . . .	—	—	60	60
Cost of sales. . . . .	—	(573)	—	(573)
Current-period other comprehensive income (loss) . .	<u>(13,716)</u>	<u>(1,965)</u>	<u>(50,501)</u>	<u>(66,182)</u>
Tax effect. . . . .	—	119	776	895
Balance on December 31, 2014. . . . .	<u>(9,162)</u>	<u>(625)</u>	<u>(128,660)</u>	<u>(138,447)</u>
Other comprehensive income (loss) . . . . .	(13,751)	(4,287)	—	(18,038)
Actuarial gain (loss) . . . . .	—	—	21,438	21,438
Currency impact . . . . .	—	—	4,233	4,233
Amounts reclassified from accumulated other comprehensive income (loss):				
Amortization of actuarial loss <sup>(1)</sup> . . . . .	—	—	9,426	9,426
Amortization of prior service cost <sup>(1)</sup> . . . . .	—	—	4,652	4,652
Cost of sales. . . . .	—	2,357	—	2,357
Current-period other comprehensive income (loss) . .	<u>(13,751)</u>	<u>(1,930)</u>	<u>39,749</u>	<u>24,068</u>
Tax effect. . . . .	—	695	(6,548)	(5,853)
Balance on December 31, 2015. . . . .	<u>\$ (22,913)</u>	<u>\$ (1,860)</u>	<u>\$ (95,459)</u>	<u>\$ (120,232)</u>

<sup>(1)</sup> These accumulated other comprehensive income components are included in the computation of net periodic benefit cost within the cost of sales and selling, general and administrative expenses on the Consolidated Statements of Operations.

## 15. Fair Value

FASB ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. FASB ASC 820 establishes a fair value hierarchy that 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.

The fair value of our derivative financial instruments by level is as follows:

Asset / (Liability) (dollars in thousands)	Fair Value at December 31, 2015				Fair Value at December 31, 2014			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Commodity futures natural gas contracts . . . . .	\$ —	\$ (2,202)	\$ —	\$ (2,202)	\$ —	\$ (2,868)	\$ —	\$ (2,868)
Currency contracts . . . . .	—	245	—	245	—	403	—	403
Interest rate agreements . . . . .	—	(2,378)	—	(2,378)	—	—	—	—
Net derivative asset (liability) . .	<u>\$ —</u>	<u>\$ (4,335)</u>	<u>\$ —</u>	<u>\$ (4,335)</u>	<u>\$ —</u>	<u>\$ (2,465)</u>	<u>\$ —</u>	<u>\$ (2,465)</u>

The fair values of our commodity futures natural gas contracts and currency contracts are determined using observable market inputs. The fair value of our interest rate agreement is based on the market standard methodology of netting the discounted expected future variable cash receipts and the discounted future fixed cash payments. The variable cash receipts are based on an expectation of future interest rates derived from observed market interest rate forward curves. Since these inputs are observable in active markets over the terms that the instruments are held, the derivatives are classified as Level 2 in the hierarchy. We also evaluate Company and counterparty risk in determining fair values. The commodity futures natural gas contracts, interest rate agreement and currency contracts 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.

The total derivative position is recorded on the Consolidated Balance Sheets as follows:

Asset / (Liability) (dollars in thousands)	December 31, 2015	December 31, 2014
Prepaid and other current assets . . . . .	\$ 245	\$ 403
Derivative liability . . . . .	(4,265)	(2,653)
Other long-term liabilities . . . . .	(315)	(215)
Net derivative asset (liability) . . . . .	<u>\$ (4,335)</u>	<u>\$ (2,465)</u>

## 16. Operating Leases

Rental expense for all non-cancelable operating leases, primarily for warehouses, was \$17.5 million, \$19.6 million and \$18.1 million for the years ended December 31, 2015, 2014 and 2013, respectively.

Future minimum rentals under operating leases are as follows (dollars in thousands):

<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021 and thereafter</u>
\$14,652	\$13,621	\$12,558	\$11,547	\$10,723	\$40,112

## 17. Other Income

Items included in other income in the Consolidated Statements of Operations are as follows:

Year ended December 31, (dollars in thousands)	2015	2014	2013
Gain (loss) on currency translation . . . . .	\$ 2,641	\$ 1,905	\$ (293)
Hedge ineffectiveness. . . . .	218	(1,247)	(916)
Insurance recovery on furnace malfunction, net (see note 18) . .	—	—	1,844
Other non-operating income. . . . .	21	1,693	1,012
Other income . . . . .	<u>\$ 2,880</u>	<u>\$ 2,351</u>	<u>\$ 1,647</u>

## 18. Contingencies

### *Legal Proceedings*

From time to time, we are identified as a "potentially responsible party" (PRP) under the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA) and/or similar state laws that impose liability without regard to fault for costs and damages relating to the investigation and clean-up of contamination resulting from releases or threatened releases of hazardous substances. We are also subject to similar laws in some of the countries where our facilities are located. Our environmental, health, and safety department monitors compliance with applicable laws on a global basis.

On October 30, 2009, the United States Environmental Protection Agency ("U.S. EPA") designated Syracuse China Company ("Syracuse China"), our wholly-owned subsidiary, as one of eight PRPs with respect to the Lower Ley Creek sub-site of the Onondaga Lake Superfund site located near the ceramic dinnerware manufacturing facility that Syracuse China operated from 1995 to 2009 in Syracuse, New York. As a PRP, we may be required to pay a share of the costs of investigation and remediation of the Lower Ley Creek sub-site.

U.S. EPA has completed its Remedial Investigation (RI), Feasibility Study (FS), Risk Assessment (RA) and Proposed Remedial Action Plan (PRAP). U.S. EPA issued its Record of Decision (RoD) on September 30, 2014. The RoD indicates that U.S. EPA's estimate of the undiscounted cost of remediation ranges between approximately \$17.0 million (assuming local disposal of contaminated sediments is feasible) and approximately \$24.8 million (assuming local disposal is not feasible). However, the RoD acknowledges that the final cost of the cleanup will depend upon the actual volume of contaminated material, the degree to which it is contaminated, and where the excavated soil and sediment is properly disposed. In connection with the General Motors Corporation bankruptcy, U.S. EPA recovered \$22.0 million from Motors Liquidation Company (MLC), the successor to General Motors Corporation. If the cleanup costs do not exceed the amount recovered by U.S. EPA from MLC, Syracuse China may suffer no loss. If and to the extent the cleanup costs exceed the amount recovered by U.S. EPA from MLC, it is not yet known whether other PRPs will be added to the current group of PRPs or how any excess costs may be allocated among the PRPs.

On March 3, 2015, the EPA issued to the PRPs notices and requests to negotiate performance of the remedial design, or RD, work. The notices contemplate that any agreement to perform the RD work would be memorialized in an Administrative Order on Consent, or AOC. The EPA and PRPs currently are discussing entering into an AOC pursuant to which some or all of the PRPs would agree to perform the RD work. The EPA and PRPs anticipate that the RD work will produce additional information from which the feasibility of a local disposal option and the cleanup costs can be better determined. The EPA has declined to advance the GM Settlement Funds for the RD work, instead conditioning use of those funds to reimburse for the RD work upon the successful completion of the RD work and the finalization of an AOC to perform the remedial action work.

To the extent that Syracuse China has a liability with respect to the Lower Ley Creek sub-site, including without limitation costs to fund the RD work, and to the extent the liability arose prior to our 1995 acquisition of the Syracuse China assets, the liability would be subject to the indemnification provisions contained in the Asset Purchase Agreement between the Company and The Pfaltzgraff Co. (now known as TPC-York, Inc. ("TPC York")) and certain of its subsidiaries. Accordingly, Syracuse China has notified TPC York of its claim for indemnification under the Asset Purchase Agreement.

In connection with the above proceedings, an estimated environmental liability of \$1.1 million and a recoverable amount of \$0.6 million in other long term assets have been recorded in the Consolidated Balance Sheet at December 31, 2015. An estimated liability of \$1.0 million and a recoverable amount \$0.7 million in other long term assets have been recorded in the Consolidated Balance Sheet at December 31, 2014. Expense of \$0.2 million and \$0.3 million has been recorded in cost of sales in the Consolidated Statements of Operations for the years ended December 31, 2015 and 2014, respectively. Although we

cannot predict the ultimate outcome of this proceeding, we believe that it will not have a material adverse impact on our financial condition, results of operations or liquidity.

### ***Insurance claim***

In September of 2013, Libbey had a furnace malfunction at our manufacturing facility in Toledo, Ohio, resulting in an insurance claim with the final settlement received in the fourth quarter of 2014. The total reimbursement for the claim and related expenses was \$15.7 million. \$5.0 million was recognized in 2013 in accounts receivable and received in the first quarter of 2014. The remaining \$10.7 million was received in the fourth quarter of 2014 and recognized as a reduction to cost of sales in the Consolidated Statements of Operations for business interruption. On the Consolidated Statements of Cash Flows for the year ended December 31, 2014, \$2.4 million was recorded as an investing activity and \$13.3 million was recorded as cash from operations.

### ***Abandoned Property Audit***

We have completed an unclaimed property audit. The property subject to review in this audit process generally included unclaimed wages, vendor payments and customer refunds. State escheat laws generally require entities to report and remit abandoned and unclaimed property. Failure to timely report and remit the property can result in assessments that include interest and penalties, in addition to the payment of the escheat liability itself. At the completion of the audit in the second quarter of 2013, we paid \$4.5 million, which resulted in additional expense of \$1.8 million in selling, general and administrative expenses on the Consolidated Statement of Operations.

## **19. Segments and Geographic Information**

In the fourth quarter of 2015, we revised our reporting segments in connection with the transition of all regional business units reporting to our Chief Operating Officer who is also the Chief Operating Decision Maker. Under the new structure, our U.S. and Canada glass tableware business is combined with our U.S. and Canada sourcing business in order to be consistent with the way we manage and report our other segments. Our reporting segments continue to align with our regionally focused organizational structure, which we believe enables us to better serve customers across the globe. We now report financial results for U.S. and Canada; Latin America; Europe, the Middle East and Africa (EMEA); and Other. Sales and segment EBIT continue to reflect end market reporting pursuant to which sales and related costs are included in segment EBIT based on the geographical destination of the sale. The revised segment results do not affect any previously reported consolidated financial results. Our three reportable segments are defined below. Our operating segment that does not meet the criteria to be a reportable segment is disclosed as Other.

U.S. & Canada—includes worldwide sales of manufactured and sourced glass tableware and sourced ceramic dinnerware, metal tableware, hollowware and serveware having an end market destination in the U.S and Canada excluding glass products for Original Equipment Manufacturers (OEM), which remain in the Latin America segment.

Latin America—includes primarily worldwide sales of manufactured and sourced glass tableware having an end market destination in Latin America including glass products for OEMs that have an end market destination outside of Latin America.

EMEA—includes primarily worldwide sales of manufactured and sourced glass tableware having an end market destination in Europe, the Middle East and Africa.

Other—includes primarily worldwide sales of manufactured and sourced glass tableware having an end market destination in Asia Pacific.

Our measure of profit for our reportable segments is Segment Earnings before Interest and Taxes (Segment EBIT) and excludes amounts related to certain items we consider not representative of ongoing operations as well as certain retained corporate costs and other allocations that are not considered by management when evaluating performance. We use Segment EBIT, along with net sales and selected cash flow information, to evaluate performance and to allocate resources. Segment EBIT for reportable segments includes an allocation of some corporate expenses based on the costs of services performed.

Certain activities not related to any particular reportable segment are reported within retained corporate costs. These costs include certain headquarter, administrative and facility costs, and other costs that are global in nature and are not allocable to the reporting segments.

The accounting policies of the reportable segments are the same as those described in note 2. We do not have any customers who represent 10 percent or more of total sales. Inter-segment sales are consummated at arm's length and are reflected at end market reporting below.

Year ended December 31, (dollars in thousands)	2015	2014	2013
<b>Net Sales:</b>			
U.S. & Canada .....	\$ 497,728	\$ 482,094	\$ 459,575
Latin America .....	167,069	190,079	179,567
EMEA .....	122,664	147,587	146,455
Other .....	34,884	32,732	33,214
Consolidated .....	<u>\$ 822,345</u>	<u>\$ 852,492</u>	<u>\$ 818,811</u>
<b>Segment EBIT:</b>			
U.S. & Canada .....	\$ 80,406	\$ 72,546	\$ 76,445
Latin America .....	22,017	32,909	33,841
EMEA .....	1,251	5,726	874
Other .....	4,390	2,378	3,374
Total Segment EBIT .....	<u>\$ 108,064</u>	<u>\$ 113,559</u>	<u>\$ 114,534</u>
<b>Reconciliation of Segment EBIT to Net Income:</b>			
Segment EBIT .....	\$ 108,064	\$ 113,559	\$ 114,534
Retained corporate costs .....	(34,645)	(30,558)	(21,653)
Loss on redemption of debt (note 6) .....	—	(47,191)	(2,518)
Pension settlement charges (note 9) .....	(21,693)	(774)	(2,252)
Furnace malfunction (note 18) .....	—	4,782	(4,428)
Environmental obligation (note 18) .....	(157)	(315)	—
Restructuring charges (note 7) .....	—	(985)	(6,544)
Reorganization charges <sup>(1)</sup> .....	(4,316)	—	—
Derivatives <sup>(2)</sup> .....	218	(1,247)	(916)
Abandoned property (note 18) .....	—	—	(1,781)
Executive termination .....	(870)	(875)	(736)
Interest expense .....	(18,484)	(22,866)	(32,006)
(Provision) benefit for income taxes .....	38,216	(8,567)	(13,241)
Net income .....	<u>\$ 66,333</u>	<u>\$ 4,963</u>	<u>\$ 28,459</u>
<b>Depreciation &amp; Amortization:</b>			
U.S. & Canada .....	\$ 12,214	\$ 10,319	\$ 12,685
Latin America .....	14,738	12,562	12,301
EMEA .....	8,510	10,061	10,449
Other .....	5,855	6,179	7,275
Corporate .....	1,395	1,267	1,259
Consolidated .....	<u>\$ 42,712</u>	<u>\$ 40,388</u>	<u>\$ 43,969</u>
<b>Capital Expenditures:</b>			
U.S. & Canada .....	\$ 25,106	\$ 21,927	\$ 9,022
Latin America .....	11,944	22,517	22,412
EMEA .....	6,773	6,471	7,787
Other .....	1,855	1,983	7,437
Corporate .....	2,458	1,495	2,749
Consolidated .....	<u>\$ 48,136</u>	<u>\$ 54,393</u>	<u>\$ 49,407</u>

<sup>(1)</sup> Management reorganization to support our growth strategy.

<sup>(2)</sup> Derivatives relate to hedge ineffectiveness on our natural gas contracts and interest rate swap, as well as, mark-to-market adjustments on our natural gas contracts that have been de-designated and those for which we did not elect hedge accounting.

December 31, (dollars in thousands)	2015	2014	2013
<b>Segment Assets<sup>(1)</sup>:</b>			
U.S. & Canada . . . . .	\$ 140,840	\$ 129,676	\$ 115,184
Latin America . . . . .	68,599	66,726	70,149
EMEA . . . . .	48,924	48,557	50,115
Other . . . . .	14,043	15,975	17,222
Consolidated . . . . .	<u>\$ 272,406</u>	<u>\$ 260,934</u>	<u>\$ 252,670</u>

<sup>(1)</sup> Segment assets are defined as net accounts receivable, excluding insurance claim receivable resulting from the furnace malfunction, plus net inventory.

Net sales to customers and long-lived assets located in the U.S., Mexico, and Other regions for 2015, 2014 and 2013 are presented below. Intercompany sales to affiliates represent products that are transferred to those geographic areas on a basis intended to reflect as nearly as possible the market value of the products. The long-lived assets include net property, plant and equipment.

(dollars in thousands)	United States	Mexico	All Other	Eliminations	Consolidated
<b>2015</b>					
Net sales:					
Customers . . . . .	\$ 488,582	\$ 107,386	\$ 226,377		\$ 822,345
Intercompany . . . . .	68,388	11,573	37,612	\$ (117,573)	—
Total net sales . . . . .	<u>\$ 556,970</u>	<u>\$ 118,959</u>	<u>\$ 263,989</u>	<u>\$ (117,573)</u>	<u>\$ 822,345</u>
Long-lived assets . . . . .	<u>\$ 94,206</u>	<u>\$ 93,573</u>	<u>\$ 84,755</u>	<u>\$ —</u>	<u>\$ 272,534</u>
<b>2014</b>					
Net sales:					
Customers . . . . .	\$ 465,820	\$ 126,699	\$ 259,973		\$ 852,492
Intercompany . . . . .	80,525	14,960	35,058	\$ (130,543)	—
Total net sales . . . . .	<u>\$ 546,345</u>	<u>\$ 141,659</u>	<u>\$ 295,031</u>	<u>\$ (130,543)</u>	<u>\$ 852,492</u>
Long-lived assets . . . . .	<u>\$ 82,702</u>	<u>\$ 97,960</u>	<u>\$ 97,316</u>	<u>\$ —</u>	<u>\$ 277,978</u>
<b>2013</b>					
Net sales:					
Customers . . . . .	\$ 444,176	\$ 125,752	\$ 248,883		\$ 818,811
Intercompany . . . . .	51,521	12,747	22,423	\$ (86,691)	—
Total net sales . . . . .	<u>\$ 495,697</u>	<u>\$ 138,499</u>	<u>\$ 271,306</u>	<u>\$ (86,691)</u>	<u>\$ 818,811</u>
Long-lived assets . . . . .	<u>\$ 68,114</u>	<u>\$ 84,703</u>	<u>\$ 112,845</u>	<u>\$ —</u>	<u>\$ 265,662</u>

## Selected Quarterly Financial Data (unaudited)

The following table presents selected quarterly financial data for the years ended December 31, 2015 and 2014:

(dollars in thousands, except per-share amounts)	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
	2015	2014	2015	2014	2015	2014	2015	2014
Net sales . . . . .	\$ 187,365	\$ 181,581	\$ 214,051	\$ 223,536	\$ 201,784	\$ 215,957	\$ 219,145	\$ 231,418
Gross profit . . . . .	\$ 42,495	\$ 32,339	\$ 56,890	\$ 60,267	\$ 47,691	\$ 50,315	\$ 29,252	\$ 60,224
Net income (loss) . . . . .	\$ 3,112	\$ (3,384)	\$ 14,394	\$ (25,168)	\$ 16,719	\$ 13,758	\$ 32,108	\$ 19,757
Earnings (loss) per share:								
Basic . . . . .	\$ 0.14	\$ (0.16)	\$ 0.66	\$ (1.16)	\$ 0.77	\$ 0.63	\$ 1.47	\$ 0.90
Diluted. . . . .	\$ 0.14	\$ (0.16)	\$ 0.65	\$ (1.16)	\$ 0.75	\$ 0.62	\$ 1.45	\$ 0.88



The following table contains 2015 segment information by quarter on an end market basis presented to conform with our new segment structure effective in the fourth quarter of 2015.

(dollars in thousands)	2015 Quarter Ending				Total 2015
	March 31	June 30	September 30	December 31	
<b>Net Sales:</b>					
U.S. & Canada <sup>(1)</sup>	\$ 109,919	\$ 127,435	\$ 120,600	\$ 139,774	\$ 497,728
Latin America <sup>(2)</sup>	39,852	44,614	42,372	40,231	167,069
EMEA <sup>(3)</sup>	28,509	32,126	30,572	31,457	122,664
Other <sup>(4)</sup>	9,085	9,876	8,240	7,683	34,884
Consolidated	<u>\$ 187,365</u>	<u>\$ 214,051</u>	<u>\$ 201,784</u>	<u>\$ 219,145</u>	<u>\$ 822,345</u>
<b>Segment EBIT <sup>(5)</sup>:</b>					
U.S. & Canada <sup>(1)</sup>	\$ 10,860	\$ 25,315	\$ 20,842	\$ 23,389	\$ 80,406
Latin America <sup>(2)</sup>	7,088	5,003	6,280	3,646	22,017
EMEA <sup>(3)</sup>	(766)	1,786	254	(23)	1,251
Other <sup>(4)</sup>	1,870	1,076	905	539	4,390
Total Segment EBIT	<u>\$ 19,052</u>	<u>\$ 33,180</u>	<u>\$ 28,281</u>	<u>\$ 27,551</u>	<u>\$ 108,064</u>
<b>Depreciation &amp; Amortization:</b>					
U.S. & Canada <sup>(1)</sup>	\$ 2,792	\$ 2,987	\$ 3,010	\$ 3,425	\$ 12,214
Latin America <sup>(2)</sup>	3,285	3,430	3,662	4,361	14,738
EMEA <sup>(3)</sup>	2,177	2,137	2,131	2,065	8,510
Other <sup>(4)</sup>	1,491	1,481	1,462	1,421	5,855
Corporate	439	434	368	154	1,395
Consolidated	<u>\$ 10,184</u>	<u>\$ 10,469</u>	<u>\$ 10,633</u>	<u>\$ 11,426</u>	<u>\$ 42,712</u>
<b>Capital Expenditures:</b>					
U.S. & Canada <sup>(1)</sup>	\$ 10,837	\$ 9,931	\$ 2,666	\$ 1,672	\$ 25,106
Latin America <sup>(2)</sup>	3,681	4,329	3,160	774	11,944
EMEA <sup>(3)</sup>	1,437	1,338	1,726	2,272	6,773
Other <sup>(4)</sup>	183	357	451	864	1,855
Corporate	521	622	241	1,074	2,458
Consolidated	<u>\$ 16,659</u>	<u>\$ 16,577</u>	<u>\$ 8,244</u>	<u>\$ 6,656</u>	<u>\$ 48,136</u>

<sup>(1)</sup> U.S. & Canada—includes worldwide sales of manufactured and sourced glass tableware and sourced ceramic dinnerware, metal tableware, hollowware and serveware having an end market destination in the U.S and Canada excluding glass products for Original Equipment Manufacturers (OEM), which remain in the Latin America segment.

<sup>(2)</sup> Latin America—includes primarily worldwide sales of manufactured and sourced glass tableware having an end market destination in Latin America including glass products for OEMs that have an end market destination outside of Latin America.

<sup>(3)</sup> EMEA—includes primarily worldwide sales of manufactured and sourced glass tableware having an end market destination in Europe, the Middle East and Africa.

<sup>(4)</sup> Other—includes primarily worldwide sales of manufactured and sourced glass tableware having an end market destination in Asia Pacific.

<sup>(5)</sup> Segment EBIT represents earnings before interest and taxes and excludes amounts related to certain items we consider not representative of ongoing operations as well as certain retained corporate costs and other allocations that are not considered by management when evaluating performance.

## **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

### **Item 9A. Controls and Procedures**

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's 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 the Company's management, including its 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), the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and the Company's Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based on the foregoing, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective at the reasonable assurance level.

### **Report of Management**

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting refers to the process designed by, or under the supervision of, our Chief Executive Officer and Chief Financial Officer, and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles, and includes those policies and procedures that:

- (1) Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- (2) Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- (3) Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk. Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company.

Management has assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2015. In making this assessment management used the criteria for effective internal control over financial reporting as described in "Internal Control - Integrated Framework" issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission (the COSO framework) in 2013. Management has concluded that the Company's internal control over financial reporting was effective as of the end of the most recent fiscal year. The Company's independent registered public accounting firm, Deloitte & Touche LLP, that audited the Company's Consolidated Financial Statements, has issued an attestation report on the Company's internal control over financial reporting.

## **Changes in Internal Control**

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

## **Item 9B. Other Information**

None.

## **PART III**

### **Item 10. Directors, Executive Officers and Corporate Governance**

Information with respect to executive officers of Libbey is incorporated herein by reference to Item 1 of this report under the caption "Executive Officers of the Registrant." Information with respect to directors of Libbey is incorporated herein by reference to the information set forth under the caption "Libbey Corporate Governance-Who are the members of our Board of Directors?" in the Proxy Statement. Certain information regarding compliance with Section 16(a) of the Exchange Act is incorporated herein by reference to the information set forth under the caption "Stock Ownership" in the Proxy Statement. Information with respect to the Audit Committee members, the Audit Committee financial experts, and material changes in the procedures by which shareholders can recommend nominees to the Board of Directors is incorporated herein by reference to the information set forth under the captions "Libbey Corporate Governance-Who are the members of our Board of Directors?", "- What are the roles of the Board's committees?" and "- How does our Board select nominees for the Board?" in the Proxy Statement.

Libbey's Code of Business Ethics and Conduct applicable to its Directors, Officers (including Libbey's principal executive officer and principal financial and accounting officer) and employees, as well as the Audit Committee Charter, Nominating and Governance Committee Charter, Compensation Committee Charter and Corporate Governance Guidelines are posted on Libbey's website at [www.libbey.com](http://www.libbey.com). Libbey's Code of Business Ethics and Conduct is also available to any shareholder who submits a request in writing addressed to Susan A. Kovach, Vice President, General Counsel and Secretary, Libbey Inc., 300 Madison Avenue, P.O. Box 10060, Toledo, Ohio 43699-0060. If Libbey amends or waives any of the provisions of the Code of Business Ethics and Conduct applicable to the principal executive officer or principal financial and accounting officer, Libbey intends to disclose the subsequent information on Libbey's website.

### **Item 11. Executive Compensation**

Information regarding executive compensation is incorporated herein by reference to the information set forth under the caption "Compensation Discussion and Analysis" in the Proxy Statement.

## Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information regarding security ownership of certain beneficial owners and management is incorporated herein by reference to the information set forth under the captions “Stock Ownership - Who are the largest owners of Libbey stock?” and “-How much stock do our directors and officers own?” in the Proxy Statement.

### *Equity Compensation Plan Information*

Following are the number of securities and weighted average exercise price thereof under our compensation plans approved and not approved by security holders as of December 31, 2015:

<u>Plan Category</u>	<u>Number of Securities to be Issued Upon Exercise of Outstanding Options and Rights <sup>(1)</sup></u>	<u>Weighted Average Exercise Price of Outstanding Options and Rights</u>	<u>Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans</u>
Equity compensation plans approved by security holders . . . . .	1,059,284	\$ 21.22	654,010
Equity compensation plans not approved by security holders . . . . .	—	—	—
Total . . . . .	<u>1,059,284</u>	<u>\$ 21.22</u>	<u>654,010</u>

(1) This number includes 402,613 restricted stock units awarded under Libbey's equity compensation plans.

## Item 13. Certain Relationships and Related Transactions and Director Independence

Information regarding certain relationships and related transactions and director independence is incorporated herein by reference to the information set forth under the caption “Libbey Corporate Governance-Certain Relationships and Related Transactions - What transactions involved directors or other related parties?” and “-How does our Board determine which directors are considered independent?” in the Proxy Statement.

## Item 14. Principal Accounting Fees and Services

Information regarding principal accounting fees and services is incorporated herein by reference to the information set forth under the caption “Audit-Related Matters - Who are Libbey's auditors?” and “-What fees did Libbey pay to its auditors for Fiscal 2015 and 2014?” in the Proxy Statement.

**PART IV**

**Item 15. Exhibits, Financial Statement Schedules**

- a) Index of Financial Statements and Financial Statement Schedule Covered by Reports of Independent Registered Public Accounting Firms.

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All other schedules have been omitted since the required information is not present or not present in amounts sufficient to require submission of the schedule or because the information required is included in the Consolidated Financial Statements or the accompanying notes.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

by: /s/ Sherry L. Buck

\_\_\_\_\_  
Sherry L. Buck

Vice President, Chief Financial Officer

Date: February 29, 2016

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated.

<u>Signature</u>	<u>Title</u>
William A. Foley	Chief Executive Officer & Chairman of the Board of Directors
Peter C. McC. Howell	Director
Carol B. Moerdyk	Director
Ginger M. Jones	Director
Carlos V. Duno	Director
Deborah G. Miller	Director
John C. Orr	Lead Director
Theo Killion	Director

By: /s/ Sherry L. Buck

\_\_\_\_\_  
Sherry L. Buck

Attorney-In-Fact

Date: February 29, 2016

/s/ Sherry L. Buck

\_\_\_\_\_  
Sherry L. Buck

Vice President, Chief Financial Officer

(Principal Accounting Officer)

Date: February 29, 2016

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**Libbey Inc.**

**Schedule II -- Valuation and Qualifying Accounts (Consolidated)  
Years ended December 31, 2015, 2014 and 2013**

<u>(dollars in thousands)</u>	<u>Allowance for Doubtful Accounts &amp; Discounts</u>	<u>Valuation Allowance for Deferred Tax Asset</u>
Balance at December 31, 2012 .....	\$ 5,703	\$ 77,629
Charged to expense or other accounts .....	198	2,235
Deductions .....	(55) <sup>(1)</sup>	(33,816) <sup>(2)</sup>
Balance at December 31, 2013 .....	<u>5,846</u>	<u>46,048</u>
Charged to expense or other accounts .....	1,040	21,420
Deductions .....	(1,300) <sup>(1)</sup>	(982) <sup>(2)</sup>
Balance at December 31, 2014 .....	<u>5,586</u>	<u>66,486</u>
Charged to expense or other accounts .....	2,719	6,093
Deductions .....	(1,239) <sup>(1)</sup>	(61,395) <sup>(2)</sup>
Balance at December 31, 2015 .....	<u><u>\$ 7,066</u></u>	<u><u>\$ 11,184</u></u>

(1) Uncollectible accounts written off, net of recoveries.

(2) The net decrease in valuation allowance is primarily a result of net changes in cumulative book/tax timing differences and, with respect to activity for the year ended December 31, 2015, changes in judgment regarding the realizability of U.S. deferred tax assets.



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

I, William A. Foley, certify that:

1. I have reviewed this annual report on Form 10-K of Libbey Inc.
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 29, 2016

By: /s/ William A. Foley  
William A. Foley,  
Chief Executive Officer

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

I, Sherry L. Buck, certify that:

1. I have reviewed this annual report on Form 10-K of Libbey Inc.
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 29, 2016

By: /s/ Sherry L. Buck

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Sherry L. Buck,

Vice President, Chief Financial Officer

**Certification of Chief Executive Officer**

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

- (i) the accompanying Annual Report on Form 10-K of the Company for the year ended December 31, 2015 (the “Report”) fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 29, 2016

By: /s/ William A. Foley  
William A. Foley,  
Chief Executive Officer

**Certification of Chief Financial Officer**

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

- (i) the accompanying Annual Report on Form 10-K of the Company for the year ended December 31, 2015 (the “Report”) fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 29, 2016

By: /s/ Sherry L. Buck  
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Sherry L. Buck,  
Vice President, Chief Financial Officer

# GENERAL INFORMATION

## CORPORATE HEADQUARTERS

Libbey Inc.  
300 Madison Avenue  
Toledo, Ohio 43604  
419-325-2100  
[www.libbey.com](http://www.libbey.com)

## TRANSFER AGENT AND REGISTRAR

Computershare  
P. O. Box 30170  
College Station, Texas 77842-3170

Overnight correspondence should be sent to:  
Computershare  
211 Quality Circle, Suite 210  
College Station, Texas 77845

For shareholder inquires, call 866-252-0125  
[www.computershare.com/investor](http://www.computershare.com/investor)

## AUDITORS

Deloitte & Touche LLP are the independent auditors for the Company.

## FORM 10-K

Copies of the Company's Annual Report on Form 10-K are available at no charge through the Company's website: [www.libbey.com](http://www.libbey.com). In addition the Company will provide without charge to any person who is a beneficial owner of its shares a copy of Libbey's 2015 Annual Report on Form 10-K as filed with the Securities and Exchange Commission.

Requests should be addressed to:  
Libbey Inc.  
Investor Relations  
300 Madison Avenue  
Toledo, Ohio 43604  
Email: [stock@libbey.com](mailto:stock@libbey.com)

## ANNUAL MEETING

The annual shareholders meeting of Libbey Inc. will be held at 2:00 p.m. on May 10, 2016, in Toledo, Ohio, at:  
Libbey Corporate Showroom  
335 N. St. Clair Street  
Toledo, Ohio 43604

## STOCK EXCHANGE

Libbey Inc. stock is listed for trading on the New York Stock Exchange under NYSE MKT: LBY.

## DIVIDENDS

The Company pays a regular quarterly cash dividend. The declaration of future dividends is within the discretion of the Board of Directors of the Company.

## STOCK PURCHASE AND SALE PLAN

Computershare, the Transfer Agent for Libbey Inc., has made available a Direct Stock Purchase and Sale Plan. The Plan provides registered shareholders and interested first-time investors the opportunity to purchase and sell shares of the Company's common stock, reinvest dividends and deposit their certificates into the Plan for safekeeping. Existing shareholders and interested investors can request enrollment material by calling Computershare at 866-252-0125; international number at 201-680-6578. Shareholder questions and requests for forms are also available by visiting the following website: [www.computershare.com/investor](http://www.computershare.com/investor).

## ADDITIONAL INFORMATION

For additional information, contact:  
Kimberly A. Hunter, Treasurer and VP, Investor Relations  
Libbey Inc.  
300 Madison Avenue  
Toledo, Ohio 43604  
419-325-2612  
Or visit our website at [www.libbey.com](http://www.libbey.com)



**LIBBEY**

## Headquarters

Libbey Inc.  
300 Madison Avenue  
Toledo, Ohio 43604  
419.325.2100  
www.libbey.com

## Regions

### USC Region

Libbey Inc.  
300 Madison Avenue  
Toledo, Ohio 43604

Toledo Plant  
940 Ash Street  
Toledo, Ohio 43611

Shreveport Plant  
4302 Jewella Road  
Shreveport, Louisiana 71109

### LatAm Region

Crisa  
José María Vigil 400  
Col. Del Norte  
Monterrey, Nuevo León, México  
CP 64500

### EMEA Region

Royal Leerdam  
Lingedijk 8  
4142 LD Leerdam  
Netherlands

Crisal – Cristalaria Automática, S.A.  
Rua de Portugal, Lote 1 | Apartado 233  
Zona Industrial da Marinha Grande  
2431-903 Marinha Grande, Portugal

### China Asia/Pacific Region

Libbey Glassware (China) Co., Ltd.  
#2211 Aimin Road East  
Langfang Economic & Technical Development Zone  
Hebei Province, P.R. China, P.C. 065001

