UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2016

OR

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

Commission file number 1-12084

Libbey Inc.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

Large Accelerated Filer	☑	Accelerated Filer	☐	Non-Accelerated Filer	☐	Smaller reporting company	☐
				(Do not check if a smaller reporting company)			

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

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

Common Stock, $.01 par value 21,843,762 shares at October 31, 2016 .

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

The accompanying unaudited Condensed Consolidated Financial Statements of Libbey Inc. and all majority-owned subsidiaries (collectively, Libbey or the Company) have been prepared in accordance with U.S. Generally Accepted Accounting Principles (U.S. GAAP) for interim financial information and with the instructions to Form 10-Q and Item 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (including normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three month and nine month periods ended September 30, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016 .

The balance sheet at December 31, 2015 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by U.S. GAAP for complete financial statements.

For further information, refer to the consolidated financial statements and footnotes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015 .

Libbey Inc.
Condensed Consolidated Statements of Operations
(dollars in thousands , except per share amounts)
(unaudited)

	Three months ended September 30,	
	2016	**2015**
Net sales	$ 196,873	$ 201,784
Freight billed to customers	703	734
Total revenues	197,576	202,518
Cost of sales	155,694	154,827
Gross profit	41,882	47,691
Selling, general and administrative expenses	28,540	28,101
Income from operations	13,342	19,590
Other income (expense)	248	(396)
Earnings before interest and income taxes	13,590	19,194
Interest expense	5,231	4,701
Income before income taxes	8,359	14,493
Provision (benefit) for income taxes	5,450	(2,226)
Net income	$ 2,909	$ 16,719
Net income per share:		
Basic	$ 0.13	$ 0.77
Diluted	$ 0.13	$ 0.75
Dividends declared per share	$ 0.115	$ 0.110

See accompanying notes

Libbey Inc.
Condensed Consolidated Statements of Operations
(dollars in thousands , except per share amounts)
(unaudited)

	Nine months ended September 30,	
	2016	2015
Net sales	$ 587,582	$ 603,200
Freight billed to customers	1,983	2,075
Total revenues	589,565	605,275
Cost of sales	457,298	458,199
Gross profit	132,267	147,076
Selling, general and administrative expenses	93,348	98,890
Income from operations	38,919	48,186
Other income	1,035	1,277
Earnings before interest and income taxes	39,954	49,463
Interest expense	15,629	13,762
Income before income taxes	24,325	35,701
Provision for income taxes	12,003	1,476
Net income	$ 12,322	$ 34,225
Net income per share:		
Basic	$ 0.56	$ 1.57
Diluted	$ 0.56	$ 1.54
Dividends declared per share	$ 0.345	$ 0.330

See accompanying notes

Libbey Inc.
Condensed Consolidated Statements of Comprehensive Income
(dollars in thousands)
(unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Net income	$ 2,909	$ 16,719	$ 12,322	$ 34,225
Other comprehensive income (loss):				
Pension and other postretirement benefit adjustments, net of tax	1,063	2,739	5,090	15,160
Change in fair value of derivative instruments, net of tax	501	(3,212)	(1,200)	(2,882)
Foreign currency translation adjustments, net of tax	485	(1,265)	811	(9,574)
Other comprehensive income (loss), net of tax	2,049	(1,738)	4,701	2,704
Comprehensive income	$ 4,958	$ 14,981	$ 17,023	$ 36,929

See accompanying notes

Libbey Inc.
Condensed Consolidated Balance Sheets
(dollars in thousands, except share amounts)

	September 30, 2016	December 31, 2015
	(unaudited)	
ASSETS		
Cash and cash equivalents	$ 42,670	$ 49,044
Accounts receivable — net	98,547	94,379
Inventories — net	191,479	178,027
Prepaid and other current assets	18,653	19,326
Total current assets	351,349	340,776
Pension asset	977	977
Purchased intangible assets — net	15,670	16,364
Goodwill	164,112	164,112
Deferred income taxes	35,397	48,662
Other assets	8,968	9,019
Total other assets	225,124	239,134
Property, plant and equipment — net	257,779	272,534
Total assets	$ 834,252	$ 852,444
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accounts payable	$ 63,191	$ 71,560
Salaries and wages	26,176	27,266
Accrued liabilities	53,964	45,179
Accrued income taxes	—	4,009
Pension liability (current portion)	2,330	2,297
Non-pension postretirement benefits (current portion)	4,903	4,903
Derivative liability	2,293	4,265
Long-term debt due within one year	5,049	4,747
Total current liabilities	157,906	164,226
Long-term debt	408,784	426,272
Pension liability	34,652	44,274
Non-pension postretirement benefits	55,282	55,282
Deferred income taxes	2,410	2,822
Other long-term liabilities	16,072	11,186
Total liabilities	675,106	704,062
Shareholders' equity:		
Common stock, par value $.01 per share, 50,000,000 shares authorized, 21,843,851 shares issued in 2016 (21,843,851 shares issued in 2015)	218	218
Capital in excess of par value	329,324	330,756
Treasury stock	(8)	(4,448)
Retained deficit	(54,857)	(57,912)
Accumulated other comprehensive loss	(115,531)	(120,232)
Total shareholders' equity	159,146	148,382
Total liabilities and shareholders' equity	$ 834,252	$ 852,444

See accompanying notes

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Libbey Inc.
Condensed Consolidated Statement of Shareholders' Equity
(dollars in thousands, except share amounts)
(unaudited)

	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 9)	Total
Balance December 31, 2015	21,843,851	110,717	$ 218	$ 330,756	$ (4,448)	$ (57,912)	$ (120,232)	$ 148,382
Net income						12,322		12,322
Other comprehensive income							4,701	4,701
Stock compensation expense				3,367				3,367
Income tax effect from share-based compensation arrangements				(396)				(396)
Dividends						(7,551)		(7,551)
Stock withheld for employee taxes				(862)				(862)
Stock issued		(221,536)		(3,541)	6,440	(1,716)		1,183
Purchase of treasury shares		111,292			(2,000)			(2,000)
Balance September 30, 2016	21,843,851	473	$ 218	$ 329,324	$ (8)	$ (54,857)	$ (115,531)	$ 159,146

See accompanying notes

Libbey Inc.
Condensed Consolidated Statements of Cash Flows
(dollars in thousands)
(unaudited)

	Nine months ended September 30,	
	2016	2015
Operating activities:		
Net income	$ 12,322	$ 34,225
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	36,669	31,286
Loss on asset sales and disposals	165	390
Change in accounts receivable	(3,714)	(7,702)
Change in inventories	(12,949)	(31,904)
Change in accounts payable	(6,669)	(8,656)
Accrued interest and amortization of discounts and finance fees	(1,510)	946
Pension & non-pension postretirement benefits, net	(1,653)	1,453
Accrued liabilities & prepaid expenses	15,174	12,800
Income taxes	2,344	(4,925)
Share-based compensation expense	4,334	5,549
Excess tax benefit from share-based compensation arrangements	(366)	—
Other operating activities	(554)	(1,414)
Net cash provided by operating activities	43,593	32,048
Investing activities:		
Additions to property, plant and equipment	(23,523)	(41,480)
Proceeds from asset sales and other	—	2
Net cash used in investing activities	(23,523)	(41,478)
Financing activities:		
Borrowings on ABL credit facility	6,000	44,500
Repayments on ABL credit facility	(6,000)	(37,500)
Other repayments	(350)	(3,267)
Other borrowings	339	—
Repayments on Term Loan B	(18,300)	(3,300)
Stock options exercised	1,153	3,334
Excess tax benefit from share-based compensation arrangements	366	—
Dividends	(7,551)	(7,197)
Treasury shares purchased	(2,000)	(15,275)
Net cash used in financing activities	(26,343)	(18,705)
Effect of exchange rate fluctuations on cash	(101)	(1,808)
Decrease in cash	(6,374)	(29,943)
Cash & cash equivalents at beginning of period	49,044	60,044
Cash & cash equivalents at end of period	$ 42,670	$ 30,101
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest, net of capitalized interest	$ 16,927	$ 12,237
Cash paid during the period for income taxes	$ 5,576	$ 3,858

See accompanying notes

Libbey Inc.
Notes to Condensed Consolidated Financial Statements
(unaudited)

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 ® , Crisa ® , Royal Leerdam ® , World ® Tableware, Syracuse ® China and Crisal Glass ® brand names (among others), an extensive line of high-quality tableware 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.

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

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

2. Significant Accounting Policies

See our Form 10-K for the year ended December 31, 2015 for a description of significant accounting policies not listed below.

Basis of Presentation

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

Condensed Consolidated Statements of Operations

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

Foreign Currency Translation

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

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred income tax assets and liabilities are recognized for estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and tax attribute carry-forwards. Deferred income tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. Financial Accounting Standards Board Accounting Standards Codification™ (FASB ASC) Topic 740, "Income Taxes," 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. See note 5 for further discussion.

Stock-Based Compensation Expense

We account for stock-based compensation expense in accordance with FASB ASC Topic 718, “Compensation — Stock Compensation,” and FASB ASC Topic 505-50, “Equity — Equity-Based Payments to Non-Employees”. 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. Stock-based compensation expense charged to the Condensed Consolidated Statements of Operations is as follows:

	Three months ended September 30,		Nine months ended September 30,	
(dollars in thousands)	2016	2015	2016	2015
Stock-based compensation expense	$ 1,011	$ 905	$ 4,334	$ 5,549

Reclassifications

Certain amounts in prior years' financial statements have been reclassified to conform to the presentation used in the three and nine month periods ended September 30, 2016 , including the segment data in note 10.

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. In March of 2016 the FASB issued ASU 2016-08, "Revenue From Contracts With Customers: Principal vs. Agent Considerations" (ASU 2016-08). ASU 2016-08 provides more detailed guidance to make the principal or agent determination and to determine when revenue should be recorded when a performance obligation is completed. In the second quarter of 2016, three additional revenue recognition amendments, ASU 2016-10, 2016-11 and 2016-12, were issued that become effective upon adoption of the new standard. We do not plan to early adopt and are still assessing the impact that these standards will have on our Condensed 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, in connection with preparing financial statements for each annual and interim reporting period, to evaluate whether there is substantial doubt about an entity’s ability to continue as a going concern. 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 the annual reporting period ending after December 15, 2016, and for interim and annual periods thereafter. Early application is permitted. We are currently evaluating the impact this guidance will have on our financial disclosures; however, as the guidance only impacts disclosure, the adoption of this guidance is not expected to have any impact on our balance sheet, results of operations or cash flows at December 31, 2016.

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. There is no impact on our 2016 interim financial statements. We are currently assessing the impact that this standard will have on our disclosures in our Consolidated Financial Statements at December 31, 2016.

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, with early adoption permitted. We do not expect this standard to have a material impact on our Condensed Consolidated Financial Statements.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, "Leases (Topic 842)" (ASU 2016-02), which requires a lessee to recognize assets and liabilities for leases with lease terms of more than 12 months on the balance sheet. Leases will be classified as either finance or operating leases, with classification affecting the pattern of expense recognition in the income statement. The new guidance also clarifies the definition of a lease and disclosure requirements. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, with early application permitted. We are currently assessing the impact that this standard will have on our Condensed Consolidated Financial Statements.

In March 2016, the FASB issued Accounting Standards Update No. 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting" (ASU 2016-09). Areas for simplification in this update involve several aspects of accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 is effective for interim and annual reporting periods beginning after December 15, 2016, with early application permitted. We are currently assessing the impact that this standard will have on our Condensed Consolidated Financial Statements.

In June 2016, the FASB issued Accounting Standards Update No. 2016-13. "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" (ASU 2016-13). This standard introduces a new approach to estimating credit losses on certain types of financial instruments, including trade receivables, and modifies the impairment model for available-for-sale debt securities. ASU 2016-13 is effective for fiscal years beginning after December 15, 2019, including interim period within those fiscal years, with early application permitted. We are currently assessing the impact that this standard will have on our Condensed Consolidated Financial Statements.

In August 2016, the FASB issued Accounting Standards Update No. 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments" (ASU 2016-15). ASU 2016-15 addresses how certain cash receipts and cash payments are presented and classified in the Statement of Cash Flows. ASU 2016-15 is effective for interim and annual periods beginning after December 15, 2017, with early adoption permitted. We are currently assessing the impact that this standard will have on our Condensed Consolidated Financial Statements.

3. Balance Sheet Details

The following table provides detail of selected balance sheet items:

(dollars in thousands)	September 30, 2016	December 31, 2015
Accounts receivable:		
Trade receivables	$ 97,057	$ 91,324
Other receivables	1,490	3,055
Total accounts receivable, less allowances of $6,407 and $7,066	$ 98,547	$ 94,379
Inventories:		
Finished goods	$ 173,357	$ 159,998
Work in process	1,581	1,183
Raw materials	4,585	4,944
Repair parts	10,790	10,763
Operating supplies	1,166	1,139
Total inventories, less loss provisions of $12,860 and $5,313	$ 191,479	$ 178,027
Accrued liabilities:		
Accrued incentives	$ 31,470	$ 21,450
Other accrued liabilities	22,494	23,729
Total accrued liabilities	$ 53,964	$ 45,179

The increase in inventory loss provisions at September 30, 2016 is due to our second quarter initiative to optimize our product portfolio to reduce inventory and simplify and improve our operations.

4. Borrowings

Borrowings consist of the following:

(dollars in thousands)	Interest Rate	Maturity Date	September 30, 2016	December 31, 2015
Borrowings under ABL Facility	floating	April 9, 2019	$ —	$ —
Term Loan B	floating (1)	April 9, 2021	415,100	433,400
AICEP Loan	0.00%	January, 2017 to July 30, 2018	3,536	3,451
Total borrowings			418,636	436,851
Less — unamortized discount and finance fees			4,803	5,832
Total borrowings — net			413,833	431,019
Less — long term debt due within one year			5,049	4,747
Total long-term portion of borrowings — net			$ 408,784	$ 426,272

(1) - We have entered into an interest rate swap which effectively fixes a series of our future interest payments on a portion of the Term Loan B debt. See interest rate swap in note 8 for additional details. The Term Loan B floating interest rate was 3.75 percent at September 30, 2016 .

At September 30, 2016 , the available borrowing base under the ABL Facility was offset by a $0.4 million rent reserve. The ABL Facility also provides for the issuance of up to $30.0 million of letters of credit which, when outstanding, are applied against the $100.0 million limit. At September 30, 2016 , $7.0 million in letters of credit were outstanding. Remaining unused availability under the ABL Facility was $92.4 million at September 30, 2016 , compared to $91.0 million at December 31, 2015 .

5. Income Taxes

For interim tax reporting, we estimate our annual effective tax rate and apply it to our year-to-date ordinary income. Tax jurisdictions with a projected or year-to-date loss for which a tax benefit cannot be realized are excluded from the annualized effective tax rate. The tax effects of unusual or infrequently occurring items, including changes in judgment about valuation allowances and effects of changes in tax laws or rates, are reported in the interim period in which they occur.

Our effective tax rate was 49.3 percent for the nine months ended September 30, 2016 , compared to 4.1 percent for the nine months ended September 30, 2015 . Our effective tax rate for the nine months ended September 30, 2016 exceeded the United States statutory rate primarily due to the following key drivers: unrecognized tax benefits of 9.7 percent , other permanent adjustments including such items as nondeductible expenses and U.S. Subpart F income of 9.0 percent , a valuation allowance on deferred tax assets in the Netherlands of 7.7 percent , and foreign withholding taxes of 4.4 percent , all partially offset by the impact of foreign exchange of (15.4) percent . Our effective tax rate for the nine months ended September 30, 2015 was substantially below the United States statutory rate primarily due to the following key drivers: impact of foreign exchange of (21.0) percent , valuation allowances on deferred tax assets in the United States and Netherlands of (12.5) percent , and non-U.S. income tax rate differential of (7.7) percent , all partially offset by other permanent adjustments including such items as nondeductible expenses and U.S. Subpart F income of 7.8 percent and foreign withholding taxes of 7.7 percent .

The Company and its subsidiaries are subject to examination by various countries' tax authorities. These examinations may lead to proposed or assessed adjustments to our taxes. In August 2016, one of our Mexican subsidiaries received a tax assessment from the Mexican tax authority (SAT) related to the audit of its 2010 tax year. The amount assessed was approximately 3 billion Mexican Pesos, which was equivalent to approximately $157 million US dollars as of the date of the assessment. The Company has filed an administrative appeal with SAT requesting that the assessment be fully nullified. We are awaiting the outcome of the appeal. Management, in consultation with external legal counsel, believes that if contested in the Mexican court system, it is more likely than not that the Company would prevail on all significant components of the assessment. Management intends to continue to vigorously contest all significant components of the assessment in the Mexican courts if they are not nullified at the administrative appeal level. We believe that our tax reserves related to uncertain tax positions are adequate at this time.

6. Pension and Non-pension Postretirement Benefits

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 certain 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 subsidiary in Mexico. The plan in Mexico is 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 to PGB, which now assumes the related liabilities and administrative responsibilities of the plan. In 2016, Libbey Holland continues to make cash contributions to PGB as participating employees earn pension benefits. These related costs are expensed as incurred and are excluded from 2016 pension expense below.

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

Three months ended September 30,	U.S. Plans		Non-U.S. Plans		Total	
(dollars in thousands)	2016	2015	2016	2015	2016	2015
Service cost	$ 929	$ 1,091	$ 313	$ 741	$ 1,242	$ 1,832
Interest cost	3,740	3,678	663	1,085	4,403	4,763
Expected return on plan assets	(5,757)	(5,666)	—	(608)	(5,757)	(6,274)
Amortization of unrecognized:						
Prior service cost	65	104	(53)	(62)	12	42
Actuarial loss	1,068	1,823	412	400	1,480	2,223
Pension expense	$ 45	$ 1,030	$ 1,335	$ 1,556	$ 1,380	$ 2,586

Nine months ended September 30,	U.S. Plans		Non-U.S. Plans		Total	
(dollars in thousands)	2016	2015	2016	2015	2016	2015
Service cost	$ 2,788	$ 3,274	$ 948	$ 2,251	$ 3,736	$ 5,525
Interest cost	11,222	11,036	2,005	3,295	13,227	14,331
Expected return on plan assets	(17,272)	(16,996)	—	(1,844)	(17,272)	(18,840)
Amortization of unrecognized:						
Prior service cost	197	313	(160)	(187)	37	126
Actuarial loss	3,204	5,468	817	1,215	4,021	6,683
Settlement charge	42	—	170	—	212	—
Pension expense	$ 181	$ 3,095	$ 3,780	$ 4,730	$ 3,961	$ 7,825

We have contributed \$0.7 million and \$3.1 million of cash into our pension plans for the three months and nine months ended September 30, 2016 . Pension contributions for the remainder of 2016 are estimated to be \$1.2 million .

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. non-pension postretirement plans cover the hourly and salaried U.S.-based employees of Libbey (excluding those mentioned above). The non-U.S. non-pension postretirement plans cover the retirees and active employees of Libbey who are located in Canada. The postretirement benefit plans are unfunded.

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

Three months ended September 30,	U.S. Plans		Non-U.S. Plans		Total	
(dollars in thousands)	2016	2015	2016	2015	2016	2015
Service cost	$ 200	$ 214	$ —	$ —	$ 200	$ 214
Interest cost	652	634	11	10	663	644
Amortization of unrecognized:						
Prior service cost	35	35	—	—	35	35
Actuarial loss / (gain)	21	148	(10)	(19)	11	129
Non-pension postretirement benefit expense	$ 908	$ 1,031	$ 1	$ (9)	$ 909	$ 1,022

Nine months ended September 30,	U.S. Plans		Non-U.S. Plans		Total	
(dollars in thousands)	2016	2015	2016	2015	2016	2015
Service cost	$ 598	$ 641	$ 1	$ 1	$ 599	$ 642
Interest cost	1,956	1,903	35	39	1,991	1,942
Amortization of unrecognized:						
Prior service cost	105	105	—	—	105	105
Actuarial loss / (gain)	61	444	(32)	(43)	29	401
Non-pension postretirement benefit expense	$ 2,720	$ 3,093	$ 4	$ (3)	$ 2,724	$ 3,090

Our 2016 estimate of non-pension cash payments is $4.0 million , and we have paid $0.9 million and $2.7 million for the three months and nine months ended September 30, 2016 .

7. Net Income per Share of Common Stock

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

	Three months ended September 30,		Nine months ended September 30,	
(dollars in thousands, except earnings per share)	2016	2015	2016	2015
Numerator for earnings per share:				
Net income that is available to common shareholders	$ 2,909	$ 16,719	$ 12,322	$ 34,225
Denominator for basic earnings per share:				
Weighted average shares outstanding	21,894,017	21,796,172	21,869,922	21,816,323
Denominator for diluted earnings per share:				
Effect of stock options and restricted stock units	177,176	402,536	156,304	452,161
Adjusted weighted average shares and assumed conversions	22,071,193	22,198,708	22,026,226	22,268,484
Basic earnings per share	$ 0.13	$ 0.77	$ 0.56	$ 1.57
Diluted earnings per share	$ 0.13	$ 0.75	$ 0.56	$ 1.54
Shares excluded from diluted earnings per share due to:				
Inclusion would have been anti-dilutive (excluded from calculation)	605,032	127,258	619,058	97,951

When applicable, diluted shares outstanding includes 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.

8. 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 facilities, 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 are 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:

	Asset Derivatives:			
(dollars in thousands)	**September 30, 2016**		**December 31, 2015**	
Derivatives designated as hedging instruments under FASB ASC 815:	**Balance Sheet Location**	**Fair Value**	**Balance Sheet Location**	**Fair Value**
Natural gas contracts	Prepaid and other current assets	$ 60	Prepaid and other current assets	$ —
Total designated		60		—
Derivatives not designated as hedging instruments under FASB ASC 815:				
Natural gas contracts	Prepaid and other current assets	75	Prepaid and other current assets	—
Currency contracts	Prepaid and other current assets	—	Prepaid and other current assets	245
Total undesignated		75		245
Total		$ 135		$ 245

	Liability Derivatives:			
(dollars in thousands)	**September 30, 2016**		**December 31, 2015**	
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	$ —	Derivative liability - current	$ 1,069
Natural gas contracts	Other long-term liabilities	8	Other long-term liabilities	34
Interest rate contract	Derivative liability - current	2,257	Derivative liability - current	2,132
Interest rate contract	Other long-term liabilities	3,159	Other long-term liabilities	246
Total designated		5,424		3,481
Derivatives not designated as hedging instruments under FASB ASC 815:				
Currency contracts	Derivative liability - current	36	Derivative liability - current	—
Natural gas contracts	Derivative liability - current	—	Derivative liability - current	1,064
Natural gas contracts	Other long-term liabilities	24	Other long-term liabilities	35
Total undesignated		60		1,099
Total		$ 5,484		$ 4,580

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 September 30, 2016 , we had commodity contracts for 2,510,000 million British Thermal Units (BTUs) of natural gas. At December 31, 2015 , we had commodity contracts for 3,000,000 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 September 30, 2016 . 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 (expense). 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 Condensed Consolidated Statement of Operations.

Since October 1, 2014, our derivatives for natural gas in Mexico have not been designated as cash flow hedges. All mark-to-market changes on these derivatives are being reflected in other income (expense). We recognized an immaterial gain and a loss of $(0.2) million in other income (expense) in the three months ended September 30, 2016 and 2015 , respectively, and a gain (loss) of $1.2 million and $(0.5) million in other income (expense) in the nine months ended September 30, 2016 and 2015 , respectively, related to the natural gas contracts where hedge accounting was not elected. Mexico natural gas contracts de-designated in the fourth quarter of 2014 were primarily all utilized by December 31, 2015.

We paid additional cash related to natural gas derivative settlements of $0.1 million and $1.0 million in the three months ended September 30, 2016 and 2015 , respectively, and $2.3 million and $3.2 million in the nine months ended September 30, 2016 and 2015 , 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 gains for natural gas currently carried in accumulated other comprehensive loss that will be reclassified into earnings over the next twelve months will result in a $0.1 million gain in our Condensed Consolidated Statements of Operations.

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

	Three months ended September 30,		Nine months ended September 30,	
(dollars in thousands)	**2016**	**2015**	**2016**	**2015**
Derivatives in Cash Flow Hedging relationships:				
Natural gas contracts	$ (35)	$ (489)	$ 59	$ (1,265)
Total	$ (35)	$ (489)	$ 59	$ (1,265)

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

		Three months ended September 30,		Nine months ended September 30,	
(dollars in thousands)		**2016**	**2015**	**2016**	**2015**
Derivative:	Location:				
Natural gas contracts	Cost of sales	$ (41)	$ (448)	$ (1,096)	$ (1,468)
Total impact on net income (loss)		$ (41)	$ (448)	$ (1,096)	$ (1,468)

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 Condensed Consolidated Statements of Operations was immaterial for the three and nine months ended September 30, 2015 .

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

	Three months ended September 30,		Nine months ended September 30,	
(dollars in thousands)	**2016**	**2015**	**2016**	**2015**
De-designated contracts	$ —	$ 180	$ —	$ 584
Contracts where hedge accounting was not elected	11	(222)	1,150	(459)
Total	$ 11	$ (42)	$ 1,150	$ 125

Interest Rate Swap

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 effectively converts $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 became effective in January 2016 and expires in 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 September 30, 2016 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 would be 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 (expense). 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 $2.3 million of additional interest expense in our Condensed Consolidated Statements of Operations.

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

	Three months ended September 30,		Nine months ended September 30,	
(dollars in thousands)	**2016**	**2015**	**2016**	**2015**
Derivatives in Cash Flow Hedging relationships:				
Interest rate swap	$ 6	$ (3,211)	$ (4,816)	$ (3,222)
Total	$ 6	$ (3,211)	$ (4,816)	$ (3,222)

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

		Three months ended September 30,		Nine months ended September 30,	
(dollars in thousands)		**2016**	**2015**	**2016**	**2015**
Derivative:	Location:				
Interest rate swap	Interest expense	$ (767)	$ —	$ (1,778)	$ —
Total impact on net income (loss)		$ (767)	$ —	$ (1,778)	$ —

Currency Contracts

Our foreign currency exposure arises from transactions denominated in a currency other than the U.S. dollar and is 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. At September 30, 2016 and December 31, 2015 , we had C$3.9 million and C$6.2 million in foreign currency contracts, 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 (expense) as follows:

(dollars in thousands)		Three months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2016	Nine months ended September 30, 2015
Derivative:	Location:				
Currency contracts	Other income (expense)	$ 106	$ 135	$ (281)	$ (152)
Total		$ 106	$ 135	$ (281)	$ (152)

We do not believe we are exposed to more than a nominal amount of credit risk in our natural gas hedges, interest rate swap and currency contracts as the counterparties are established financial institutions. The counterparties for the derivative agreements are rated BBB+ or better as of September 30, 2016 , by Standard and Poor's.

9. Accumulated Other Comprehensive Income (Loss)

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

Three months ended September 30, 2016 (dollars in thousands)	Foreign Currency Translation	Derivative Instruments	Pension and Other Postretirement Benefits	Accumulated Other Comprehensive Loss
Balance June 30, 2016	$ (22,587)	$ (3,561)	$ (91,432)	$ (117,580)
Other comprehensive income (loss)	407	(29)	—	378
Currency impact	—	—	(31)	(31)
Amounts reclassified from accumulated other comprehensive income (loss):				
Amortization of actuarial loss [1]	—	—	1,491	1,491
Amortization of prior service cost [1]	—	—	47	47
Cost of sales	—	41	—	41
Interest expense	—	767	—	767
Current-period other comprehensive income (loss)	407	779	1,507	2,693
Tax effect	78	(278)	(444)	(644)
Balance on September 30, 2016	$ (22,102)	$ (3,060)	$ (90,369)	$ (115,531)

Nine months ended September 30, 2016 (dollars in thousands)	Foreign Currency Translation	Derivative Instruments	Pension and Other Postretirement Benefits	Accumulated Other Comprehensive Loss
Balance on December 31, 2015	$ (22,913)	$ (1,860)	$ (95,459)	$ (120,232)
Other comprehensive income (loss)	459	(4,757)	2,755	(1,543)
Currency impact	—	—	481	481
Amounts reclassified from accumulated other comprehensive income (loss):				
Amortization of actuarial loss [1]	—	—	4,050	4,050
Amortization of prior service cost [1]	—	—	142	142
Cost of sales	—	1,096	—	1,096
Interest expense	—	1,778	—	1,778
Current-period other comprehensive income (loss)	459	(1,883)	7,428	6,004
Tax effect	352	683	(2,338)	(1,303)
Balance on September 30, 2016	$ (22,102)	$ (3,060)	$ (90,369)	$ (115,531)

Three months ended September 30, 2015 (dollars in thousands)	Foreign Currency Translation	Derivative Instruments	Pension and Other Postretirement Benefits	Accumulated Other Comprehensive Loss
Balance on June 30, 2015	$ (17,471)	$ (295)	$ (116,239)	$ (134,005)
Other comprehensive income (loss)	(1,265)	(3,700)	—	(4,965)
Currency impact	—	—	709	709
Amounts reclassified from accumulated other comprehensive income (loss):				
Amortization of actuarial loss [1]	—	—	2,352	2,352
Amortization of prior service cost [1]	—	—	77	77
Cost of sales	—	507	—	507
Current-period other comprehensive income (loss)	(1,265)	(3,193)	3,138	(1,320)
Tax effect	—	(19)	(399)	(418)
Balance on September 30, 2015	$ (18,736)	$ (3,507)	$ (113,500)	$ (135,743)

Nine months ended September 30, 2015 (dollars in thousands)	Foreign Currency Translation	Derivative Instruments	Pension and Other Postretirement Benefits	Accumulated Other Comprehensive Loss
Balance on December 31, 2014	$ (9,162)	$ (625)	$ (128,660)	$ (138,447)
Other comprehensive income (loss)	(9,574)	(4,487)	5,394	(8,667)
Currency impact	—	—	3,122	3,122
Amounts reclassified from accumulated other comprehensive income (loss):				
Amortization of actuarial loss [1]	—	—	7,084	7,084
Amortization of prior service cost [1]	—	—	231	231
Cost of sales	—	1,666	—	1,666
Current-period other comprehensive income (loss)	(9,574)	(2,821)	15,831	3,436
Tax effect	—	(61)	(671)	(732)
Balance on September 30, 2015	$ (18,736)	$ (3,507)	$ (113,500)	$ (135,743)

(1) 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 Condensed Consolidated Statements of Operations.

10. Segments

In the fourth quarter of 2015, we revised our reporting segments. 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 2015 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 sales of manufactured and sourced tableware 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 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 sales of manufactured and sourced glass tableware having an end market destination in Europe, the Middle East and Africa.

Other—includes primarily 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.

(dollars in thousands)	Three months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2016	Nine months ended September 30, 2015
Net Sales:				
U.S. & Canada	$ 119,345	$ 120,600	$ 358,613	$ 357,954
Latin America	40,149	42,372	114,988	126,838
EMEA	30,147	30,572	88,043	91,207
Other	7,232	8,240	25,938	27,201
Consolidated	$ 196,873	$ 201,784	$ 587,582	$ 603,200
Segment EBIT:				
U.S. & Canada	$ 19,501	$ 20,842	$ 57,740	$ 57,017
Latin America	1,944	6,280	14,084	18,371
EMEA	(660)	254	(1,702)	1,274
Other	(379)	905	898	3,851
Total Segment EBIT	$ 20,406	$ 28,281	$ 71,020	$ 80,513
Reconciliation of Segment EBIT to Net Income:				
Segment EBIT	$ 20,406	$ 28,281	$ 71,020	$ 80,513
Retained corporate costs	(6,925)	(7,969)	(20,699)	(26,626)
Pension settlement	—	—	(212)	—
Environmental obligation (note 13)	—	100	—	(123)
Reorganization charges (1)	—	(1,176)	—	(4,191)
Derivatives (2)	11	(42)	1,150	125
Product portfolio optimization (3)	—	—	(6,784)	—
Executive terminations	98	—	(4,521)	(235)
Interest expense	(5,231)	(4,701)	(15,629)	(13,762)
(Provision) benefit for income taxes	(5,450)	2,226	(12,003)	(1,476)
Net income	$ 2,909	$ 16,719	$ 12,322	$ 34,225
Depreciation & Amortization:				
U.S. & Canada	$ 2,883	$ 3,010	$ 9,718	$ 8,789
Latin America	4,667	3,662	13,725	10,377
EMEA	1,885	2,131	7,660	6,445
Other	1,325	1,462	4,162	4,434
Corporate	474	368	1,404	1,241
Consolidated	$ 11,234	$ 10,633	$ 36,669	$ 31,286
Capital Expenditures:				
U.S. & Canada	$ 3,037	$ 2,666	$ 9,030	$ 23,434
Latin America	2,041	3,160	5,717	11,170
EMEA	1,549	1,726	4,656	4,501
Other	939	451	2,529	991
Corporate	446	241	1,591	1,384
Consolidated	$ 8,012	$ 8,244	$ 23,523	$ 41,480

(1) *Management reorganization to support our growth strategy.*
(2) *Derivatives relate to hedge ineffectiveness on our natural gas contracts, 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.*
(3) *Product portfolio optimization relates to inventory reductions to simplify and improve our operations.*

11. 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.

Asset / (Liability) (dollars in thousands)	Fair Value at September 30, 2016				Fair Value at December 31, 2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Commodity futures natural gas contracts	$ —	$ 103	$ —	$ 103	$ —	$ (2,202)	$ —	$ (2,202)
Currency contracts	—	(36)	—	(36)	—	245	—	245
Interest rate swap	—	(5,416)	—	(5,416)	—	(2,378)	—	(2,378)
Net derivative asset (liability)	$ —	$ (5,349)	$ —	$ (5,349)	$ —	$ (4,335)	$ —	$ (4,335)

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 swap 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 swap 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 Condensed Consolidated Balance Sheets as follows:

Asset / (Liability) (dollars in thousands)	September 30, 2016	December 31, 2015
Prepaid and other current assets	$ 135	$ 245
Derivative liability	(2,293)	(4,265)
Other long-term liabilities	(3,191)	(315)
Net derivative asset (liability)	$ (5,349)	$ (4,335)

Financial instruments carried at cost on the Condensed Consolidated Balance Sheets, as well as the related fair values, are as follows:

(dollars in thousands)	Fair Value Hierarchy Level	September 30, 2016		December 31, 2015	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Term Loan B	Level 2	$ 415,100	$ 416,138	$ 433,400	$ 425,815

The fair value of our Term Loan B has been calculated based on quoted market prices for the same or similar issues. The fair value of our other immaterial debt approximates carrying value at September 30, 2016 and December 31, 2015. The fair value of our cash and cash equivalents, accounts receivable and accounts payable approximate their carrying value due to their short term nature.

12. Other Income (Expense)

Items included in other income (expense) in the Condensed Consolidated Statements of Operations are as follows:

	Three months ended September 30,		Nine months ended September 30,	
(dollars in thousands)	**2016**	**2015**	**2016**	**2015**
Gain (loss) on currency transactions	$ 348	$ (55)	$ (376)	$ 1,407
Hedge ineffectiveness	11	(42)	1,150	125
Other non-operating income (expense)	(111)	(299)	261	(255)
Other income (expense)	$ 248	$ (396)	$ 1,035	$ 1,277

13. 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 (RD) work. The notices contemplate that any agreement to perform the RD work would be memorialized in an Administrative Order on Consent (AOC). On July 14, 2016, the PRPs entered into an AOC 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 $0.9 million and $1.1 million has been recorded in other long term liabilities and a recoverable amount of $0.5 million and $0.6 million has been recorded in other long term assets in the Condensed Consolidated Balance Sheets at September 30, 2016 and December 31, 2015, respectively. Income of $0.1 million and expense of $0.1 million has been recorded in cost of sales in the Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2015, 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.

Income Taxes

The Company and its subsidiaries are subject to examination by various countries' tax authorities. These examinations may lead to proposed or assessed adjustments to our taxes. Please refer to note 5, Income Taxes, for a detailed discussion on tax contingencies.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our Condensed Consolidated Financial Statements and the related notes thereto appearing elsewhere in this report and in our Annual Report filed with the Securities and Exchange Commission. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results may differ from those anticipated in these forward-looking statements as a result of many factors. Our risk factors are set forth in Part I, Item 1A. "Risk Factors" in our 2015 Annual Report on Form 10-K for the year ended December 31, 2015 .

Overview

During the third quarter of 2016 , we continued to operate in a competitive environment, with slow economic growth and a strengthening U.S. dollar. As a result of the continued weak economic conditions within some of our segments, the competitive environment remains challenging. The pressures on retailers, restaurants and consumer durable goods companies experienced in 2015 around the globe continued through the first nine months of 2016 and are expected to extend into the fourth quarter of 2016.

The U.S. economy remains tepid; we observed the ninth consecutive quarter of decline in U.S. foodservice traffic, as reported by third party research firms Knapp-Track and Blackbox. Many brick and mortar retail stores continue to report lower sales or marginal sales gains year-over-year in their latest quarter. The Latin American economy experienced little to no growth during the first nine months of 2016 due to the effects of declining oil prices, strengthening of the U.S. dollar and reductions in governmental spending in Brazil, Colombia and Mexico. The Mexican economy continues to advance at a slow pace following the decline in oil prices and volatility in the peso exchange rate that has been negatively impacted by the uncertainty of the upcoming U.S. presidential election in November 2016 and with the United Kingdom's election to withdraw from the European Union in a national referendum in June 2016 (Brexit). The European economy continues to experience slow growth, high unemployment and dynamic competition. China's competitive environment continues to be challenging and the economic growth rates remain low, similar to those in 2015.

In the third quarter of 2016, our net sales of $196.9 million were 2.4 percent lower than the prior year quarter, or 0.5 percent lower on a constant currency basis, as all segments experienced a decrease in net sales. Net sales were negatively impacted by a number of factors, including unfavorable product mix, foreign currency, increased competition and unfavorable macro-economic and geopolitical environments. For the 14 th consecutive quarter, our foodservice channel experienced unit volume growth in the third quarter of 2016, despite U.S. restaurant traffic trends pronounced decline year-over-year for the ninth consecutive quarter. NPD Group continues to report downward trends for U.S. retail point-of-sale data for the glass beverageware category. Management expects the trends experienced in the U.S. foodservice and retail distribution channels to continue in the fourth quarter of 2016. The business-to-business channel is impacted by the general economic trends in each region and is dependent on customer demands.

In early October 2016, we experienced a two week work stoppage at our Toledo manufacturing facility. During this time we were operating the plant, but at a lower capacity utilization. We have estimated the lower production volume impact, shipping costs and other direct expenses associated with the Toledo work stoppage to be $3.5 million to $4.5 million in the fourth quarter of 2016. At this time, management is working through our order backlog and it is too early to determine the potential impact of any lost revenues.

We remain focused on our goals of strengthening relationships with customers, improving capabilities in product innovation, and simplifying our business to operate more efficiently. During the second quarter, we undertook an initiative to optimize our product portfolio and, among other actions, we reduced our number of SKUs by 20 percent. Correspondingly, our product portfolio optimization initiative resulted in a quarter pretax charge of $6.8 million, or $4.9 million on an after tax basis, in the second quarter of 2016.

In the third quarter of 2016, our balanced capital allocation activities included an $0.115 per share dividend, an optional Term Loan B payment of $5.0 million, and reinvestment in the business. Although no shares were repurchased in the third quarter of 2016, we have repurchased 111,292 shares for $2.0 million in the first nine months of 2016. In addition, we have made optional Term Loan B payments of $15.0 million for the nine months ended September 30, 2016. We will continue to take a balanced approach to our capital allocation for the fourth quarter of 2016 and expect to return 50 percent of our Free Cash Flow to shareholders during the period 2015 to 2017.

In the fourth quarter of 2015, we revised our reporting segments. 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 sales of manufactured and sourced tableware 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 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 sales of manufactured and sourced glass tableware having an end market destination in Europe, the Middle East and Africa.

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

Results of Operations

The following table presents key results of our operations for the three and nine months ended September 30, 2016 and 2015 :

	Three months ended September 30,		Nine months ended September 30,	
(dollars in thousands, except percentages and per-share amounts)	**2016**	**2015**	**2016**	**2015**
Net sales	$ 196,873	$ 201,784	$ 587,582	$ 603,200
Gross profit (1)	$ 41,882	$ 47,691	$ 132,267	$ 147,076
Gross profit margin	*21.3%*	*23.6%*	*22.5%*	*24.4%*
Income from operations (IFO) (1)(2)	$ 13,342	$ 19,590	$ 38,919	$ 48,186
IFO margin	*6.8%*	*9.7%*	*6.6%*	*8.0%*
Net income (1)(2)(3)	$ 2,909	$ 16,719	$ 12,322	$ 34,225
Net income margin	*1.5%*	*8.3%*	*2.1%*	*5.7%*
Diluted net income per share	$ 0.13	$ 0.75	$ 0.56	$ 1.54
Adjusted earnings before interest, taxes, depreciation and amortization (Adjusted EBITDA) (4)	$ 24,715	$ 30,945	$ 86,990	$ 85,173
Adjusted EBITDA margin	*12.6%*	*15.3%*	*14.8%*	*14.1%*

(1) The nine month period ended September 30, 2016 includes $6.8 million in product portfolio optimization charges and $0.2 million in pension settlement charges. The three and nine month periods ended September 30, 2015 include income of $0.1 million and expense of $0.1 million, respectively, for our assessment of an environmental obligation related to the Lower Ley Creek sub-site of the Onondaga Lake Superfund site.

(2) In addition to item (1) above, the three and nine month periods ended September 30, 2016 include income of $0.1 million and expense of $4.5 million, respectively, related to executive terminations; and the nine month period ended September 30, 2016 includes $0.1 million in pension settlement charges. The three and nine month periods ended September 30, 2015 include $1.2 million and $4.2 million, respectively, of reorganization charges to support our growth strategy; and the nine month period ended September 30, 2015 includes $0.2 million for a non-cash executive termination charge.

(3) In addition to item (2) above, the nine month periods ended September 30, 2016 and 2015 include income of $1.2 million and $0.1 million, respectively, related to derivatives.

(4) We believe that Adjusted EBITDA and the associated margin, 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 Adjusted EBITDA, see the "Adjusted EBITDA" section below in the Discussion of Third Quarter 2016 Compared to Third Quarter 2015 and the Discussion of First Nine Months 2016 Compared to First Nine Months 2015 and the reasons we believe these non-GAAP financial measures are useful.

Discussion of Third Quarter 2016 Compared to Third Quarter 2015

Net Sales

For the quarter ended September 30, 2016 , net sales decreased 2.4 percent to $196.9 million , compared to $201.8 million in the year-ago quarter. When adjusted to exclude the currency impact, net sales decreased by 0.5 percent. All segments experienced reductions in net sales, with the largest impacts occurring in Latin America of $2.2 million and U.S. & Canada of $1.3 million.

	Three months ended September 30,		Increase/(Decrease)	
(dollars in thousands)	2016	2015	$ Change	% Change
U.S. & Canada	$ 119,345	$ 120,600	$ (1,255)	(1.0)%
Latin America	40,149	42,372	(2,223)	(5.2)%
EMEA	30,147	30,572	(425)	(1.4)%
Other	7,232	8,240	(1,008)	(12.2)%
Consolidated	$ 196,873	$ 201,784	$ (4,911)	(2.4)%

Net Sales — U.S. & Canada

Net sales in U.S. & Canada were $119.3 million , compared to $120.6 million in the third quarter of 2015 , a decrease of 1.0 percent. Net sales in the retail channel decreased 7.7 percent, or $2.9 million, primarily due to lower volume and an unfavorable mix. Foodservice sales were also slightly lower than prior year decreasing 1.5 percent, or $0.9 million, due to an unfavorable mix of product sold. Although we experienced a decline in foodservice net sales, the number of pieces sold increased year-over-year for the 14 th consecutive quarter, despite the continuing decline in U.S. restaurant traffic. Partially offsetting these declines was a 12.1 percent, or $2.6 million, increase in business-to-business net sales primarily driven by higher unit sales.

Net Sales — Latin America

Net sales in Latin America in the third quarter of 2016 were $40.1 million , compared to $42.4 million in the third quarter of 2015 , a decrease of 5.2 percent (an increase of 3.1 percent excluding currency fluctuation). Net sales in our business-to-business channel decreased 15.7 percent, or $3.7 million, driven by the unfavorable currency impact and lower unit sales. Partially offsetting this was an increase in our retail channel of 11.1 percent, or $1.7 million. On a constant currency basis, our retail channel increased by 22.5 percent, primarily as a result of increased volume.

Net Sales — EMEA

Net sales in EMEA in the third quarter of 2016 were $30.1 million , compared to $30.6 million in the third quarter of 2015 , a decrease of 1.4 percent (a decrease of 1.6 percent excluding currency fluctuation). The net sales decrease was due to lower volume in the business-to-business channel, resulting from the negative impacts of the macro economy and increased competition. Partially offsetting the decline was a volume increase in the retail channel.

Gross Profit

Gross profit decreased to $41.9 million in the third quarter of 2016 , compared to $47.7 million in the prior-year quarter. Gross profit as a percentage of net sales decreased to 21.3 percent in the third quarter of 2016, compared to 23.6 percent in the prior-year period. The primary drivers of the $5.8 million decrease in gross profit were unfavorable manufacturing activity of $2.7 million, unfavorable net sales impact of $2.2 million, a negative currency impact of $1.4 million primarily related to the Mexican peso, and additional depreciation expense of $0.6 million driven by increased capital investments in prior years, including investment in our new ClearFire ® technology. These unfavorable items were partially offset by favorable input costs of $1.0 million mainly related to natural gas pricing. Manufacturing activity includes the impact of fluctuating production activities and associated manufacturing costs, including warehousing costs, freight, and repairs and maintenance. The net sales impact equals net sales less the associated inventory at standard cost rates.

Income From Operations

Income from operations for the quarter ended September 30, 2016 decreased $6.2 million, to $13.3 million , compared to $19.6 million in the prior year quarter. Income from operations as a percentage of net sales was 6.8 percent for the quarter ended September 30, 2016 , compared to 9.7 percent in the prior-year quarter. The decrease in income from operations is the result of the decrease in gross profit of $5.8 million (discussed above), as well as an increase in selling, general and administrative expenses of $0.4 million. The increase in selling, general and administrative expense reflects higher labor and benefit costs of $1.8 million and increased legal and professional fees of $0.7 million. Partially offsetting these were the 2015 reorganization expenses of $1.2 million that did not repeat in 2016, lower marketing costs of $0.5 million, and a favorable currency impact of $0.5 million driven primarily by the Mexican peso.

Net Income and Diluted Net Income Per Share

We recorded net income of $2.9 million , or $0.13 per diluted share, in the third quarter of 2016 , compared to net income of $16.7 million , or $0.75 per diluted share, in the year-ago quarter. Net income as a percentage of net sales was 1.5 percent in the third quarter of 2016 , compared to 8.3 percent in the year-ago quarter. The decrease in net income and diluted net income per share is due to the factors discussed in Income From Operations above, a $7.7 million increase in our provision for income taxes and a $0.5 million increase in interest expense, all partially offset by a $0.6 million favorable change in other income (expense). The higher interest expense is primarily a result of the interest rate swap becoming effective in January 2016. The effective tax rate was 65.2 percent for the third quarter of 2016, compared to (15.4) percent in the year-ago period. The change in the effective tax rate was driven by a valuation allowance in the United States in 2015, which resulted in pre-tax income that generated very little tax expense, and for 2016, a reserve for uncertain tax positions, an unbenefited pre-tax loss in the Netherlands due to a valuation allowance, and a smaller proportion of pre-tax income in lower tax rate jurisdictions. Other less material factors were foreign withholding tax and non-taxable foreign translation gains. See note 5, Income Taxes, to the Condensed Consolidated Financial Statements for further details on the effective tax rate.

Segment Earnings Before Interest and Income Taxes (Segment EBIT)

The following table summarizes Segment EBIT [(1)] by operating segments:

	Three months ended September 30,	
(dollars in thousands)	**2016**	**2015**
U.S. & Canada	$ 19,501	$ 20,842
Latin America	$ 1,944	$ 6,280
EMEA	$ (660)	$ 254

(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 10 to the Condensed Consolidated Financial Statements for a reconciliation of Segment EBIT to net income.*

Segment EBIT — U.S. & Canada

Segment EBIT was $19.5 million in the third quarter of 2016 , compared to $20.8 million in the third quarter of 2015 , a decrease of 6.4 percent. Segment EBIT as a percentage of net sales for U.S. & Canada was 16.3 percent in the third quarter of 2016 , compared to 17.3 percent in the third quarter of 2015 . The $1.3 million decrease in Segment EBIT was driven by higher incentive compensation of $1.8 million, unfavorable manufacturing activity of $1.0 million, and an unfavorable sales impact of $0.9 million. Partially offsetting these unfavorable items were lower pension and healthcare costs of $2.2 million and favorable input costs of $0.4 million mainly related to natural gas pricing.

Segment EBIT — Latin America

Segment EBIT decreased to $1.9 million in the third quarter of 2016 , compared to $6.3 million in the third quarter of 2015 . Segment EBIT as a percentage of net sales for Latin America decreased to 4.8 percent in the third quarter of 2016 , compared to 14.8 percent in the prior-year period. The primary drivers of the $4.3 million decrease were an unfavorable inventory reserve impact of $1.1 million, additional depreciation expense of $1.0 million driven by increased capital investments in prior years and adjusting asset lives on furnaces that are being shut down, additional legal and professional fees of $0.9 million, an unfavorable sales impact of $0.8 million, and an unfavorable currency impact of $0.5 million.

Segment EBIT — EMEA

Segment EBIT was a loss of $(0.7) million in the third quarter of 2016 , compared to income of $0.3 million in the third quarter of 2015 . Segment EBIT as a percentage of net sales for EMEA was (2.2) percent in the third quarter of 2016, compared to

0.8 percent in the prior-year period. The primary driver of the $0.9 million decrease in Segment EBIT was reduced manufacturing activity of $1.4 million, partially offset by favorable input costs of $0.4 million, primarily related to natural gas.

Adjusted EBITDA

Adjusted EBITDA decreased by $6.2 million in the third quarter of 2016 , to $24.7 million , compared to $30.9 million in the third quarter of 2015 . As a percentage of net sales, Adjusted EBITDA was 12.6 percent for the third quarter of 2016 , compared to 15.3 percent in the year-ago quarter. The key contributors to the decrease in Adjusted EBITDA were those factors discussed above under Discussion of Third Quarter 2016 Compared to Third Quarter 2015 and the elimination of the special items noted below in the reconciliation of net income to Adjusted EBITDA.

	Three months ended September 30,	
(dollars in thousands)	**2016**	**2015**
Net income	$ 2,909	$ 16,719
Add:		
Interest expense	5,231	4,701
Provision (benefit) for income taxes	5,450	(2,226)
Depreciation and amortization	11,234	10,633
Add: Special items before interest and taxes:		
Environmental obligation (see note 13) (1)	—	(100)
Reorganization charges (2)	—	1,176
Executive terminations	(98)	—
Derivatives (3)	(11)	42
Adjusted EBITDA	$ 24,715	$ 30,945

(1) 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.
(2) Management reorganization to support our growth strategy.
(3) Derivatives relate to hedge ineffectiveness on our natural gas contracts, 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 amounts, associated margins and other data derived from condensed consolidated financial information but not required by GAAP to be presented in financial statements. Certain of these data are considered "non-GAAP financial measures" under Securities and Exchange Commission (SEC) Regulation G. Our non-GAAP measures are used by analysts, investors and other interested parties to compare our performance with the performance of other companies that report similar non-GAAP measures. Libbey believes these non-GAAP measures provide meaningful supplemental information regarding financial performance by excluding certain expenses and benefits that may not be indicative of core business operating results. We believe the non-GAAP measures, when viewed in conjunction with U.S. GAAP results and the accompanying reconciliations, enhance the comparability of results against prior periods and allow for greater transparency of financial results and business outlook. In addition, we use non-GAAP data internally to assess performance and facilitate management's internal comparison of our financial performance to that of prior periods, as well as trend analysis for budgeting and planning purposes. The presentation of our non-GAAP measures is not intended to be considered in isolation or as a substitute for, or superior to, the financial information prepared and presented in accordance with U.S. GAAP. Furthermore, our non-GAAP measures may not be comparable to similarly titled measures reported by other companies and may have limitations as an analytical tool.

We define Adjusted EBITDA as net income plus interest expense, provision for income taxes, depreciation and amortization, and special items that Libbey believes are not reflective of our core operating performance. The most directly comparable U.S. GAAP financial measure is net income.

We present Adjusted EBITDA because we believe it is used by analysts, investors and other interested parties in comparing our performance across reporting periods on a consistent basis by excluding items that we do not believe are indicative of our core business operating results. Adjusted 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. 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 changes in, or cash requirements for, our Trade 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 of capital expenditures or contractual commitments;*
- *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 U.S. GAAP.

We translate revenue and expense accounts in our non-U.S. operations at current average exchange rates during the year. References to "constant currency," "excluding currency impact" and "adjusted for currency" are considered non-GAAP measures. Constant currency references regarding net sales reflect a simple mathematical translation of local currency results using the comparable prior period's currency conversion rate. Constant currency references regarding Segment EBIT, Adjusted EBITDA and Adjusted EBITDA Margin comprise a simple mathematical translation of local currency results using the comparable prior period's currency conversion rate plus the transactional impact of changes in exchange rates from revenues, expenses and assets and liabilities that are denominated in a currency other than the functional currency. We believe this non-GAAP constant currency information provides valuable supplemental information regarding our core operating results, better identifies operating trends that may otherwise by masked or distorted by exchange rate changes and provides a higher degree of transparency of information used by management in its evaluation of our ongoing operations. These non-GAAP measures should be viewed in addition to, and not as an alternative to, the reported results prepared in accordance with GAAP. Our currency market risks include currency fluctuations relative to the U.S. dollar, Canadian dollar, Mexican peso, Euro and RMB.

Discussion of First Nine Months 2016 Compared to First Nine Months 2015

Net Sales

For the nine months ended September 30, 2016 , net sales decreased 2.6 percent to $587.6 million , compared to $603.2 million in the year-ago period. When adjusted for the impact of currency, net sales decreased by 0.2 percent. The decrease in net sales was attributable to decreased sales of $16.3 million in the Latin America and EMEA segments and in Other, partially offset by a $0.7 million increase in net sales in U.S. & Canada.

	Nine months ended September 30,		Increase/(Decrease)	
(dollars in thousands)	**2016**	**2015**	**$ Change**	**% Change**
U.S. & Canada	$ 358,613	$ 357,954	$ 659	0.2 %
Latin America	114,988	126,838	(11,850)	(9.3)%
EMEA	88,043	91,207	(3,164)	(3.5)%
Other	25,938	27,201	(1,263)	(4.6)%
Consolidated	$ 587,582	$ 603,200	$ (15,618)	(2.6)%

Net Sales — U.S. & Canada

Net sales in the U.S. & Canada were $358.6 million in the first nine months of 2016, compared to $358.0 million in the first nine months of 2015, an increase of 0.2 percent. The primary contributors were an increase in net sales of 3.7 percent, or $7.1 million, in our foodservice channel, despite continued declines in U.S. restaurant traffic, and an increase of 1.5 percent, or $1.0 million, in our business-to-business channel, both due to stronger volume compared to the prior year period. Partially offsetting these was a decrease of 7.2 percent, or $7.4 million, in our retail channel resulting primarily from lower volumes.

Net Sales — Latin America

Net sales in Latin America were $115.0 million in the first nine months of 2016, compared to $126.8 million in the first nine months of 2015, a decrease of 9.3 percent (an increase of 0.6 percent excluding the impact of currency). The net sales decrease was principally due to the devaluation of the peso across all channels. On a constant currency basis the increase in net sales was due to strength in the retail channel of 13.0 percent, or $6.8 million, that more than offset a 9.5 percent, or $6.0 million, decrease in net sales in the business-to-business channel.

Net Sales — EMEA

Net sales in EMEA were $88.0 million in the first nine months of 2016, compared to $91.2 million in the first nine months of 2015, a decrease of 3.5 percent (a decrease of 3.6 percent excluding currency fluctuation). The decrease in net sales resulted from less volume in the business-to-business channel due to the negative impacts of the macro economy and increased competition.

Gross Profit

Gross profit decreased to $132.3 million in the first nine months of 2016, compared to $147.1 million in the prior year period. Gross profit as a percentage of net sales decreased to 22.5 percent in the nine months ended September 30, 2016 , compared to 24.4 percent in the prior-year period. Contributing to the $14.8 million decrease in gross profit were lower manufacturing activity of $8.0 million, the charge related to our product portfolio optimization initiative of $6.8 million, additional depreciation expense of $5.5 million driven by increased capital investments in prior years, including investment in our new ClearFire ® technology, and adjusting asset lives on furnaces that are being shut down, an unfavorable currency impact of $3.7 million, and other unfavorable inventory reserve adjustments of $0.9 million. Partially offsetting these unfavorable items were lower input costs of $4.1 million mainly related to natural gas pricing, a favorable sales impact of $3.7 million, and lower benefit costs of $2.3 million.

Income From Operations

Income from operations for the nine months ended September 30, 2016 decreased $9.3 million, to $38.9 million , compared to $48.2 million in the prior-year period. Income from operations as a percentage of net sales was 6.6 percent for the nine months ended September 30, 2016 , compared to 8.0 percent in the prior-year period. The decrease in income from operations is attributable to the decrease in gross profit of $14.8 million (discussed above) and the change of $4.3 million in executive termination costs. Partially offsetting these decreases were the 2015 reorganization expenses of $4.2 million that did not repeat in 2016, and further reductions in selling, general and administrative costs of $3.9 million, which excludes a $1.8 million favorable currency impact. The $3.9 million reduction was driven by lower marketing costs of $2.2 million, lower research and development expenses of $0.7 million, reduced travel expenses of $0.6 million, and a reduction in benefit related expenses of $0.5 million.

Net Income and Diluted Net Income Per Share

We recorded net income of $12.3 million , or $0.56 per diluted share, in the first nine months of 2016 , compared to net income of $34.2 million , or $1.54 per diluted share, in the year-ago period. Net income as a percentage of net sales was 2.1 percent in the first nine months of 2016 , compared to 5.7 percent in the first nine months of 2015 . The decrease in net income and diluted net income per share is generally due to the factors discussed in Income From Operations above, as well as the $10.5 million increase in the provision for income taxes and the $1.9 million increase in interest expense. The higher interest expense is primarily a result of the interest rate swap becoming effective in January 2016. The effective tax rate was 49.3 percent for the first nine months of 2016 , compared to 4.1 percent in the year-ago period. The change in the effective tax rate was driven by a valuation allowance in the United States in 2015, which resulted in pre-tax income that generated very little tax expense, and for 2016, a reserve for uncertain tax positions, an unbenefited pre-tax loss in the Netherlands due to a valuation allowance, and a smaller proportion of pre-tax income in lower tax rate jurisdictions. Other less material factors were foreign withholding tax and non-taxable foreign translation gains. See note 5, Income Taxes, to the Condensed Consolidated Financial Statements for further details on the effective tax rate.

Segment Earnings Before Interest and Income Taxes (Segment EBIT)

The following table summarizes Segment EBIT [(1)] by operating segments:

	Nine months ended September 30,	
(dollars in thousands)	**2016**	**2015**
U.S. & Canada	$ 57,740	$ 57,017
Latin America	$ 14,084	$ 18,371
EMEA	$ (1,702)	$ 1,274

(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 10 to the Condensed Consolidated Financial Statements for reconciliation of Segment EBIT to net income.*

Segment EBIT — U.S. & Canada

Segment EBIT increased to $57.7 million in the first nine months of 2016, compared to $57.0 million in the first nine months of 2015. Segment EBIT as a percentage of net sales increased to 16.1 percent for the nine months ended September 30, 2016, compared to 15.9 percent in the prior-year nine months period. The primary drivers of the $0.7 million Segment EBIT increase were increased sales of $6.7 million, lower pension and healthcare costs of $5.2 million, and favorable input costs of $1.2 million mainly related to natural gas pricing. Partially offsetting these favorable items were unfavorable manufacturing activity of $8.2 million, additional incentive compensation of $1.8 million, additional depreciation expense of $0.9 million driven by increased capital investments in prior years, including investment in our new ClearFire ® technology, unfavorable transactional currency of $0.7 million, and additional selling, general and administrative labor costs of $0.7 million.

Segment EBIT — Latin America

Segment EBIT decreased to $14.1 million in the first nine months of 2016, compared to $18.4 million in the prior year period. Segment EBIT as a percentage of net sales decreased to 12.2 percent for the nine months ended September 30, 2016 , compared to 14.5 percent in the prior-year nine month period. The primary drivers of the $4.3 million decrease in the first nine months of 2016 in comparison to the prior year period include additional depreciation of $3.3 million driven by increased capital investments in prior years and adjusting asset lives on furnaces that are being shut down, negative currency impact of $3.2 million, an unfavorable sales impact of $2.3 million, additional inventory reserve of $1.5 million, the recovery of payroll taxes in 2015 of $0.7 million that are not repeating in 2016, increased legal and professional fees of $0.6 million, and higher pension expense of $0.5 million. These decreases were offset by favorable manufacturing activity of $6.7 million and favorable input costs of $1.2 million primarily on natural gas pricing.

Segment EBIT — EMEA

Segment EBIT decreased to a loss of $(1.7) million for the first nine months of 2016, compared to income of $1.3 million in the prior-year period. Segment EBIT as a percentage of net sales for EMEA decreased to (1.9) percent for the first nine months of 2016, compared to 1.4 percent in the prior-year period. The primary drivers of the $3.0 million decrease in Segment EBIT were unfavorable manufacturing activity of $3.7 million, additional depreciation expense of $1.2 million, and higher pension and incentive compensation expenses of $0.8 million. Partially offsetting these decreases were the favorable impact from the lower input costs of $1.2 million primarily related to natural gas, favorable sales impact of $0.9 million and a reduction of $0.5 million in selling, general and administrative labor costs.

Adjusted EBITDA

Adjusted EBITDA increased by $1.8 million in the first nine months of 2016, to $87.0 million , compared to $85.2 million in the first nine months of 2015. As a percentage of net sales, Adjusted EBITDA was 14.8 percent for the first nine months of 2016, compared to 14.1 percent in the year ago period. The key contributors to the increase in Adjusted EBITDA were those factors discussed above under Discussion of First Nine Months 2016 Compared to First Nine Months 2015 and the elimination of the special items noted below in the reconciliation of net income to Adjusted EBITDA.

	Nine months ended September 30,	
(dollars in thousands)	**2016**	**2015**
Net income	$ 12,322	$ 34,225
Add:		
Interest expense	15,629	13,762
Provision for income taxes	12,003	1,476
Depreciation and amortization	36,669	31,286
Add: Special items before interest and taxes:		
Pension settlement	212	—
Environmental obligation (see note 13) *(1)*	—	123
Product portfolio optimization *(2)*	6,784	—
Reorganization charges *(3)*	—	4,191
Executive terminations	4,521	235
Derivatives *(4)*	(1,150)	(125)
Adjusted EBITDA	$ 86,990	$ 85,173

(1) 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.
(2) Product portfolio optimization relates to inventory reductions to simplify and improve our operations.
(3) Management reorganization to support our growth strategy.
(4) Derivatives relate to hedge ineffectiveness on our natural gas contracts, 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 condensed consolidated financial information but not required by GAAP to be presented in financial statements. Certain of these data are considered "non-GAAP financial measures" under 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 Third Quarter 2016 Compared with Third Quarter 2015 above.

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 trade working capital requirements. Under the ABL Facility at September 30, 2016 , we had no borrowings, $7.0 million outstanding letters of credit and $0.4 million in rent reserves resulting in $92.4 million of unused availability. In addition, we had $42.7 million of cash on hand at September 30, 2016 , compared to $49.0 million of cash on hand at December 31, 2015 . This includes cash held in foreign subsidiaries of $23.0 million and $27.0 million, at September 30, 2016 and December 31, 2015 , respectively. 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 $10.6 million as of September 30, 2016 . Local law currently prevents distribution of this cash as a dividend because 100 percent of our Chinese subsidiaries' distributable income was paid as a dividend in the fourth quarter of 2015; however, additional amounts may become distributable based on future income. For further information regarding potential dividends from our non-U.S. subsidiaries, see note 8, Income Taxes, in our 2015 Annual Report on Form 10-K for the year ended December 31, 2015 .

Based on our operating plans and current forecast expectations, we anticipate that our level of cash on hand, cash flows from operations and 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.

Trade Working Capital

The following table presents our Trade Working Capital components:

(dollars in thousands, except percentages and DSO, DIO, DPO and DWC)	September 30, 2016	December 31, 2015
Accounts receivable — net	$ 98,547	$ 94,379
DSO (1)	*44.6*	*41.9*
Inventories — net	$ 191,479	$ 178,027
DIO (2)	*86.6*	*79.0*
Accounts payable	$ 63,191	$ 71,560
DPO (3)	*28.6*	*31.8*
Trade Working Capital (4)	$ 226,835	$ 200,846
DWC (5)	*102.6*	*89.1*
Percentage of net sales	*28.1%*	*24.4%*

(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) Trade 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 Trade 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 year.

We believe that Trade 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. Trade Working Capital is a measure used by management in internal evaluations of cash availability and operational performance.

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

Trade Working Capital (as defined above) was $226.8 million at September 30, 2016 , an increase of $26.0 million from December 31, 2015 . Our Trade Working Capital normally increases during the first nine months of the year due to the seasonality of our business. In particular, inventory normally increases to prepare for seasonally higher orders that typically exceed production levels in the later part of the year. Our increase in Trade Working Capital is primarily due to additional inventories resulting from seasonality, 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 peso) decreased total Trade Working Capital by $6.8 million at September 30, 2016 , in comparison to December 31, 2015 . As a result of the factors above, Trade Working Capital as a percentage of the last twelve-month net sales increased to 28.1 percent at September 30, 2016 from 24.4 percent at December 31, 2015 , but was comparable to the 27.8 percent at September 30, 2015 .

Borrowings

The following table presents our total borrowings:

(dollars in thousands)	Interest Rate	Maturity Date	September 30, 2016	December 31, 2015
Borrowings under ABL Facility	floating	April 9, 2019	$ —	$ —
Term Loan B	floating (1)	April 9, 2021	415,100	433,400
AICEP Loan	0.00%	January, 2017 to July 30, 2018	3,536	3,451
Total borrowings			418,636	436,851
Less — unamortized discount and finance fees			4,803	5,832
Total borrowings — net (2)			$ 413,833	$ 431,019

(1) See "Derivatives" below and note 8 to the Condensed Consolidated Financial Statements.
(2) Total borrowings — net includes long-term debt due within one year and long-term debt as stated in our Condensed Consolidated Balance Sheets.

We had total borrowings of $418.6 million and $436.9 million at September 30, 2016 and December 31, 2015 , respectively. The $18.2 million decrease during the first nine months of 2016 was a result of $15.0 million in optional prepayments that were in addition to the $1.1 million quarterly amortization payments of our Term Loan B. Of our total borrowings, $195.1 million, or approximately 46.6 percent, were subject to variable interest rates at September 30, 2016 as a result of converting $220.0 million of Term Loan B debt to a fixed rate using an interest rate swap. 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 8 to the Condensed Consolidated Financial Statements. A change of one percentage point in such rates would result in a change in interest expense of approximately $2.0 million on an annual basis.

Included in interest expense is the amortization of discounts and financing fees. These items amounted to $0.4 million and $0.3 million for the three months ended September 30, 2016 and 2015 , respectively, and $1.1 million and $1.0 million for the nine months ended September 30, 2016 and 2015 , respectively.

Cash Flow

	Nine months ended September 30,	
(dollars in thousands)	2016	2015
Net cash provided by operating activities	$ 43,593	$ 32,048
Net cash used in investing activities	$ (23,523)	$ (41,478)
Net cash used in financing activities	$ (26,343)	$ (18,705)

Our net cash provided by operating activities was $43.6 million in the first nine months of 2016 , compared to $32.0 million in the first nine months of 2015 , a favorable cash flow impact of $11.5 million. Contributing to the increase in cash flow from operations was a favorable cash flow impact of $17.3 million related to Trade Working Capital (accounts receivable, inventories, and accounts payable), which excludes the $6.8 million product portfolio optimization impact on inventory. Also increasing cash flow from operations was the collection of $7.0 million of value added tax in Mexico. Partially offsetting the cash flow increases were an increase in interest payments of $4.7 million, an increase in income tax payments of $1.7 million, an increase in payments for reorganization and severance activity of $3.6 million, and a cash settled RSU payment of $2.3 million paid in conjunction with our former CEO's severance package.

Our net cash used in investing activities was ($23.5) million and ($41.5) million in the first nine months of 2016 and 2015 , respectively, representing capital expenditures. 2015 included capital investments for our new ClearFire ® technology.

Net cash used in financing activities was ($26.3) million in the first nine months of 2016 , compared to ($18.7) million in the year-ago period. The first nine months of 2016 reflects Term Loan B payments of ($18.3) million, dividends of ($7.6) million, the purchase of treasury shares of ($2.0) million; all partially offset by proceeds from stock option exercises of $1.2 million and excess tax benefit proceeds from share-based compensation arrangements of $0.4 million. The first nine months of 2015 reflects the purchase of treasury shares of ($15.3) million, dividends of ($7.2) million, Term Loan B payments of ($3.3) million, and other debt repayments of ($3.3) million; all partially offset by the net proceeds drawn on the ABL facility of $7.0 million and proceeds from stock option exercises of $3.3 million.

The following table presents key drivers to our non-GAAP Free Cash Flow for the periods presented:

	Nine months ended September 30,	
(dollars in thousands)	**2016**	**2015**
Net cash provided by operating activities	$ 43,593	$ 32,048
Capital expenditures [(2)]	(23,523)	(41,480)
Proceeds from asset sales and other	—	2
Free Cash Flow [(1)]	$ 20,070	$ (9,430)

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

(2) Capital expenditures for the nine months ended September 30, 2016 and September 30, 2015 includes $2.1 million and $6.1 million, respectively, for capital expenditures paid in the current period but incurred in a prior period.

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 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 does not represent residual cash flows available for discretionary expenditures as the measure does not deduct the payments required for debt service, contractual obligations or other non-discretionary expenditures.

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

Our Free Cash Flow was $20.1 million during the first nine months of 2016, compared to ($9.4) million in the the first nine months of 2015, a favorable change of $29.5 million. The primary contributors to this change were the $11.5 million and $18.0 million favorable cash flows from operating activities and investing activities, respectively, as discussed above.

Derivatives

We use natural gas swap contracts related to forecasted future North American natural gas requirements. The objective of these natural gas swaps is to reduce the effects of price movements in the underlying commodity. We consider our forecasted natural gas requirements in determining the quantity of natural gas to hedge. We combine the forecasts with historical observations to establish the percentage of forecast eligible to be hedged, typically ranging from 40 percent to 70 percent of our anticipated requirements up to eighteen months in the future. The fair values of these instruments are determined from market quotes. At September 30, 2016 , we had commodity natural gas swap contracts for 2,510,000 million British Thermal Units (BTUs) of natural gas for which the fair market value is an asset of $0.1 million. We have hedged a portion of our forecasted transactions through December 2018. At December 31, 2015 , we had natural gas swap contracts for 3,000,000 million BTUs of natural gas for which the fair market value was a $2.2 million liability. The counterparties for these derivatives are well established financial institutions rated BBB+ or better as of September 30, 2016 , by Standard & Poor’s.

We have an interest rate swap agreement with respect to $220.0 million of our floating rate Term Loan B debt in order to fix a series of our future interest payments. The interest rate swap matures on January 9, 2020 and maintains a fixed interest rate of 4.85 percent , including the credit spread. At September 30, 2016 , 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 counterparty nonperformance. The counterparty was rated A+ by Standard & Poor's as of September 30, 2016 .

The fair market value of our interest rate swap 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 swap agreement was a $5.4 million liability at September 30, 2016 and a $2.4 million liability at December 31, 2015 .

Income Taxes

The Company and its subsidiaries are subject to examination by various countries' tax authorities. These examinations may lead to proposed or assessed adjustments to our taxes. See note 5, Income Taxes, to the Condensed Consolidated Financial Statements for a detailed discussion on tax contingencies.

Item 3. Qualitative and Quantitative Disclosures about Market Risk

There were no significant changes to our qualitative and quantitative disclosures about market risk during the three months and nine months ended September 30, 2016 . Please refer to Part II, Item 7A. “Qualitative and Quantitative Disclosures about Market Risk” included in our 2015 Annual Report on Form 10-K for a more complete discussion of our market risks.

Item 4. Controls and Procedures

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

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

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

PART II — OTHER INFORMATION

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

Item 1. Legal Proceedings

The Company and its subsidiaries are subject to examination by various countries' tax authorities. These examinations may lead to proposed or assessed adjustments to our taxes. For a detailed discussion on tax contingencies, see note 5, Income Taxes, to the Condensed Consolidated Financial Statements included in Part 1, Item 1 of this Quarterly Report, which is incorporated herein by reference.

Item 1A. Risk Factors

Our risk factors are set forth in Part I, Item 1A. "Risk Factors" in our 2015 Annual Report on Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer's Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
July 1 to July 31, 2016	—	$ —	—	941,250
August 1 to August 31, 2016	—	$ —	—	941,250
September 1 to September 30, 2016	—	$ —	—	941,250
Total	—	$ —	—	941,250

Item 6. Exhibits

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

EXHIBIT INDEX

S-K Item 601 No.	Document
3.1	Restated Certificate of Incorporation of Libbey Inc. (filed as Exhibit 3.1 to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993 and incorporated herein by reference).
3.2	Amended and Restated By-Laws of Libbey Inc. (filed as Exhibit 3.2 to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2013 and incorporated herein by reference).
3.3	Certificate of Incorporation of Libbey Glass Inc. (filed as Exhibit 3.3 to Libbey Glass Inc.'s Form S-4 (Reg No. 333-139358) filed December 14, 2006, and incorporated herein by reference).
3.4	Amended and Restated By-Laws of Libbey Glass Inc. (filed as Exhibit 3.4 to Libbey Glass Inc.'s Form S-4 (Reg No. 333-139358) filed December 14, 2006, and incorporated herein by reference).
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) or Rule 15d-14(a) (filed herein).
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) or Rule 15d-14(a) (filed herein).
32.1	Certification Pursuant To 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 Of The Sarbanes-Oxley Act of 2002 (filed herein).
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

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

Libbey Inc.

Date: November 4, 2016

by: /s/ Sherry L. Buck

Sherry L. Buck

Vice President, Chief Financial Officer

EXHIBIT 31.1

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 quarterly report on Form 10-Q of Libbey Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is 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: November 4, 2016

By: /s/ William A. Foley

William A. Foley

Chief Executive Officer & Chairman of the Board

EXHIBIT 31.2

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 quarterly report on Form 10-Q of Libbey Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is 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: November 4, 2016

By: /s/ Sherry L. Buck
Sherry L. Buck
Vice President, Chief Financial Officer

EXHIBIT 32.1

Certification Pursuant to 18 U.S.C. Section 1350

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

(i) the accompanying Quarterly Report on Form 10-Q of the Company for the quarterly period ended September 30, 2016 (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: November 4, 2016

By: /s/ William A. Foley

William A. Foley
Chief Executive Officer & Chairman of the Board

/s/ Sherry L. Buck

Sherry L. Buck
Vice President, Chief Financial Officer