
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, 2017

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," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer	<input type="checkbox"/>	Accelerated Filer	<input checked="" type="checkbox"/>
Non-Accelerated Filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 22,016,108 shares at October 26, 2017 .

TABLE OF CONTENTS

Item 1. Financial Statements	3
Condensed Consolidated Statements of Operations	3
Condensed Consolidated Statements of Comprehensive Income (Loss)	5
Condensed Consolidated Balance Sheets	6
Condensed Consolidated Statement of Shareholders' Equity	7
Condensed Consolidated Statements of Cash Flows	8
Notes to Condensed Consolidated Financial Statements	9
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	26
Item 3. Qualitative and Quantitative Disclosures about Market Risk	38
Item 4. Controls and Procedures	39
PART II — OTHER INFORMATION	39
Item 1. Legal Proceedings	39
Item 1A. Risk Factors	39
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	39
Item 6. Exhibits	40
EXHIBIT INDEX	40
SIGNATURES	40
EX-31.1	
EX-31.2	
EX-32.1	
EX-101 INSTANCE DOCUMENT	
EX-101 SCHEMA DOCUMENT	
EX-101 CALCULATION LINKBASE DOCUMENT	
EX-101 LABELS LINKBASE DOCUMENT	
EX-101 PRESENTATION LINKBASE DOCUMENT	
EX-101 DEFINITION LINKBASE DOCUMENT	

PART I — FINANCIAL INFORMATION**Item 1. Financial Statements**

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

	Three months ended September 30,	
	2017	2016
Net sales	\$ 187,339	\$ 196,873
Freight billed to customers	1,058	703
Total revenues	188,397	197,576
Cost of sales	151,202	155,694
Gross profit	37,195	41,882
Selling, general and administrative expenses	29,082	28,540
Goodwill impairment	79,700	—
Income (loss) from operations	(71,587)	13,342
Other income	621	248
Earnings (loss) before interest and income taxes	(70,966)	13,590
Interest expense	5,118	5,231
Income (loss) before income taxes	(76,084)	8,359
Provision for income taxes	2,731	5,450
Net income (loss)	\$ (78,815)	\$ 2,909
Net income (loss) per share:		
Basic	\$ (3.57)	\$ 0.13
Diluted	\$ (3.57)	\$ 0.13
Dividends declared per share	\$ 0.1175	\$ 0.1150

See accompanying notes

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

	Nine months ended September 30,	
	2017	2016
Net sales	\$ 557,847	\$ 587,582
Freight billed to customers	2,481	1,983
Total revenues	560,328	589,565
Cost of sales	452,041	457,298
Gross profit	108,287	132,267
Selling, general and administrative expenses	95,733	93,348
Goodwill impairment	79,700	—
Income (loss) from operations	(67,146)	38,919
Other income (expense)	(2,283)	1,035
Earnings (loss) before interest and income taxes	(69,429)	39,954
Interest expense	15,123	15,629
Income (loss) before income taxes	(84,552)	24,325
Provision for income taxes	1,665	12,003
Net income (loss)	\$ (86,217)	\$ 12,322
Net income (loss) per share:		
Basic	\$ (3.92)	\$ 0.56
Diluted	\$ (3.92)	\$ 0.56
Dividends declared per share	\$ 0.3525	\$ 0.3450

See accompanying notes

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

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Net income (loss)	\$ (78,815)	\$ 2,909	\$ (86,217)	\$ 12,322
Other comprehensive income (loss):				
Pension and other post-retirement benefit adjustments, net of tax	1,422	1,063	4,872	5,090
Change in fair value of derivative instruments, net of tax	597	501	199	(1,200)
Foreign currency translation adjustments, net of tax	2,650	485	9,647	811
Other comprehensive income, net of tax	<u>4,669</u>	<u>2,049</u>	<u>14,718</u>	<u>4,701</u>
Comprehensive income (loss)	<u>\$ (74,146)</u>	<u>\$ 4,958</u>	<u>\$ (71,499)</u>	<u>\$ 17,023</u>

See accompanying notes

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

	September 30, 2017	December 31, 2016
	(unaudited)	
ASSETS		
Cash and cash equivalents	\$ 21,574	\$ 61,011
Accounts receivable — net	89,084	85,113
Inventories — net	200,181	170,009
Prepaid and other current assets	15,941	16,777
Total current assets	326,780	332,910
Purchased intangible assets — net	14,786	15,225
Goodwill	84,412	164,112
Deferred income taxes	38,119	40,016
Other assets	10,852	9,514
Property, plant and equipment — net	263,349	256,392
Total assets	\$ 738,298	\$ 818,169
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accounts payable	\$ 73,645	\$ 71,582
Salaries and wages	26,667	27,018
Accrued liabilities	49,511	41,807
Accrued income taxes	1,399	1,384
Pension liability (current portion)	2,263	2,461
Non-pension post-retirement benefits (current portion)	4,903	4,892
Derivative liability	954	1,928
Long-term debt due within one year	7,443	5,009
Total current liabilities	166,785	156,081
Long-term debt	391,439	402,831
Pension liability	44,553	43,934
Non-pension post-retirement benefits	50,208	55,373
Deferred income taxes	2,079	1,859
Other long-term liabilities	12,420	12,972
Total liabilities	667,484	673,050
Contingencies (Note 13)		
Shareholders' equity:		
Common stock, par value \$.01 per share, 50,000,000 shares authorized, 22,016,108 shares issued in 2017 (21,864,541 shares issued in 2016)	220	219
Capital in excess of par value	332,494	329,722
Retained deficit	(151,421)	(59,625)
Accumulated other comprehensive loss	(110,479)	(125,197)
Total shareholders' equity	70,814	145,119
Total liabilities and shareholders' equity	\$ 738,298	\$ 818,169

See accompanying notes

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

	<u>Common Stock Shares</u>	<u>Common Stock Amount</u>	<u>Capital in Excess of Par Value</u>	<u>Retained Deficit</u>	<u>Accumulated Other Comprehensive Loss</u>	<u>Total</u>
Balance December 31, 2016	21,864,541	\$ 219	\$ 329,722	\$ (59,625)	\$ (125,197)	\$ 145,119
Cumulative-effect adjustment for the adoption of ASU 2016-09			127	2,183		2,310
Net loss				(86,217)		(86,217)
Other comprehensive income					14,718	14,718
Stock compensation expense			2,857			2,857
Dividends				(7,762)		(7,762)
Stock withheld for employee taxes			(623)			(623)
Stock issued	151,567	1	411			412
Balance September 30, 2017	<u>22,016,108</u>	<u>\$ 220</u>	<u>\$ 332,494</u>	<u>\$ (151,421)</u>	<u>\$ (110,479)</u>	<u>\$ 70,814</u>

See accompanying notes

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

	Nine months ended September 30,	
	2017	2016
Operating activities:		
Net income (loss)	\$ (86,217)	\$ 12,322
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	33,616	36,669
Loss on asset sales and disposals	224	165
Change in accounts receivable	(2,000)	(3,714)
Change in inventories	(25,944)	(12,949)
Change in accounts payable	3,283	(6,669)
Accrued interest and amortization of discounts and finance fees	929	(1,510)
Goodwill impairment	79,700	—
Pension & non-pension post-retirement benefits, net	3,007	(1,653)
Accrued liabilities & prepaid expenses	8,716	15,174
Income taxes	(1,942)	2,344
Share-based compensation expense	2,930	4,334
Other operating activities	(94)	308
Net cash provided by operating activities	16,208	44,821
Investing activities:		
Additions to property, plant and equipment	(39,140)	(23,523)
Net cash used in investing activities	(39,140)	(23,523)
Financing activities:		
Borrowings on ABL credit facility	21,004	6,000
Repayments on ABL credit facility	(12,277)	(6,000)
Other repayments	(632)	(350)
Other borrowings	—	339
Repayments on Term Loan B	(18,300)	(18,300)
Stock options exercised	466	1,153
Taxes paid on distribution of equity awards	(623)	(862)
Dividends	(7,762)	(7,551)
Treasury shares purchased	—	(2,000)
Other financing activities	888	—
Net cash used in financing activities	(17,236)	(27,571)
Effect of exchange rate fluctuations on cash	731	(101)
Decrease in cash	(39,437)	(6,374)
Cash & cash equivalents at beginning of period	61,011	49,044
Cash & cash equivalents at end of period	\$ 21,574	\$ 42,670
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	\$ 13,949	\$ 16,927
Cash paid during the period for income taxes	\$ 2,609	\$ 5,576

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[®], Libbey Signature[®], Masters Reserve[®], Crisa[®], Royal Leerdam[®], World[®] Tableware, Syracuse[®] China and Crisal Glass[®] brand names (among others), an extensive line of high-quality glass tableware, ceramic dinnerware, metal flatware, hollowware and serveware items for sale primarily in the foodservice, retail and business-to-business markets. Our sales force presents our tabletop 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 Mexico (Libbey Mexico), the Netherlands (Libbey Holland), Portugal (Libbey Portugal) and China (Libbey China). In addition, we import tabletop 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 tabletop 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 American exchange under the ticker symbol LBY.

2. Significant Accounting Policies

Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements of Libbey Inc. and its 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, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017.

The balance sheet at December 31, 2016 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. The financial information included herein should be read in conjunction with our Consolidated Financial Statements in Item 8 of our Form 10-K for the year ended December 31, 2016.

Stock-Based Compensation Expense

Stock-based compensation expense charged to the Condensed Consolidated Statements of Operations is as follows:

(dollars in thousands)	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Stock-based compensation expense	\$ 782	\$ 1,011	\$ 2,930	\$ 4,334

Reclassifications

Certain amounts in prior years' financial statements have been reclassified to conform to the presentation used in the three month and nine month periods ended September 30, 2017, including the following:

- On the Condensed Consolidated Statements of Cash Flows, certain activity was reclassified between operating and financing activities pursuant to adoption of Accounting Standards Update No. 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting," effective January 1, 2017.

- In note 10 Segments, net sales and related costs for certain countries were reclassified between segments to align with changes in business unit responsibilities effective January 1, 2017.
- In note 10 Segments, the derivative amount included in the Reconciliation of Segment EBIT to Net Income in the prior year financial statements has been included in Segment EBIT to conform to the current year presentation.

New Accounting Standards - Adopted

In March 2016, the FASB issued ASU 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting." 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. We adopted the new guidance on January 1, 2017, requiring us to recognize all excess tax benefits and tax deficiencies related to stock compensation as income tax expense or benefit in the income statement. Excess tax benefits will be recognized regardless of whether the benefit reduces taxes payable in the current period, subject to normal valuation allowance considerations. Previous guidance resulted in credits to equity for such tax benefits and delayed recognition until the tax benefits reduced income taxes payable. This provision in the standard was applied using a modified retrospective transition method by means of a cumulative-effect adjustment to equity as of the beginning of the year of adoption. As of January 1, 2017, we recorded a \$2.3 million reduction to our retained deficit and an increase in deferred income tax assets. In addition, on the modified retrospective basis, we have elected to discontinue estimating forfeitures expected to occur when determining the amount of compensation expense to be recognized in each period, resulting in an immaterial impact to our retained deficit and capital in excess of par. We do not anticipate this change will have a material impact on our future results of operations. The presentation requirements for cash flows under the new standard were adopted on a retrospective basis, resulting in a reclassification on the Condensed Consolidated Statements of Cash Flows that increased cash provided by operating activities and increased cash used in financing activities for the nine months ended September 30, 2016.

In January 2017, the FASB issued ASU 2017-04, "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment." ASU 2017-04 simplifies the goodwill impairment testing by eliminating Step 2 from the goodwill impairment testing that is required should an impairment be discovered during its annual or interim assessment. ASU 2017-04 is effective for annual or interim impairment tests beginning after December 15, 2019, with early adoption permitted. We adopted this standard early in conjunction with our assessment performed at September 30, 2017; this is considered a change in accounting principle. This standard decreases the cost and complexity in applying current GAAP without significantly changing the usefulness of the information provided to users of our Condensed Consolidated Financial Statements.

New Accounting Standards - Not Yet Adopted

Each change to U.S. GAAP is established by the Financial Accounting Standards Board (FASB) in the form of an accounting standards update (ASU) to the FASB's Accounting Standards Codification (ASC). We consider the applicability and impact of all ASUs. ASUs not listed below were assessed and determined to be either not applicable or are expected to have minimal impact on the Company's Condensed Consolidated Financial Statements.

In May 2014, the FASB issued ASU 2014-09, "Revenue From Contracts With Customers", as amended by ASU's 2015-14, 2016-08, 2016-10, 2016-11, 2016-12, 2016-20 and 2017-05, 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 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, 2017. We plan to adopt this standard in the first quarter of 2018 using the modified retrospective method, whereby the cumulative effect of applying the standard is recognized at the date of initial application. We have substantially completed our evaluation of significant contracts and the review of our current accounting policies and practices to identify potential differences that would result from applying the requirements of ASU 2014-09 to our revenue contracts. In addition, we have identified, and are in the process of implementing, appropriate changes to business processes, systems and controls to support recognition and disclosure under the new standard. Based on the foregoing, we do not expect the adoption of ASU 2014-09 to have a material impact on the amount and timing of revenue recognized in our Condensed Consolidated Financial Statements.

[Table of Contents](#)

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)," which requires a lessee to recognize on the balance sheet, assets and liabilities for leases with lease terms of more than 12 months. 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. Lessees and lessors must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach does not require any transition accounting for leases that expired before the earliest comparative period presented. We are currently evaluating the impact of this guidance on our financial statements and related disclosures, including the increase in the assets and liabilities on our balance sheet. To facilitate this, we are utilizing a comprehensive approach to review our lease portfolio, as well as assessing system requirements and control implications. See note 16, Operating Leases, in our 2016 Annual Report on Form 10-K for the year ended December 31, 2016 for our minimum lease commitments under non-cancellable operating leases.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." 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 periods 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 October 2016, the FASB issued ASU 2016-16, "Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory." ASU 2016-16 clarifies that an entity should recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. ASU 2016-16 is effective for annual and interim reporting 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.

In March 2017, the FASB issued ASU 2017-07, "Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Post-retirement Benefit Cost." ASU 2017-07 requires that only the service cost component of pension and post-retirement benefit costs be reported within income from operations. The other components of net benefit cost are required to be presented in the income statement outside of income from operations, if presented. In addition, this ASU allows only the service cost component to be eligible for capitalization when applicable. ASU 2017-07 is effective for annual and interim reporting periods beginning after December 15, 2017, with early adoption permitted. Presentation on the Condensed Consolidated Statements of Operations will be retrospective and any impact to capitalized costs will be prospectively adopted. We plan to adopt this standard in the first quarter of 2018 and expect the impact to be reclassifications of applicable costs and credits from income from operations to other income (expense).

In August 2017, the FASB issued ASU 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities." ASU 2017-12 amends the hedge accounting rules to simplify the application of hedge accounting guidance and better portray the economic results of risk management activities in the financial statements. The guidance expands the ability to hedge nonfinancial and financial risk components, reduces complexity in fair value hedges of interest rate risk, eliminates the requirement to separately measure and report hedge ineffectiveness, and eases certain hedge effectiveness assessment requirements. ASU 2017-12 is effective for annual and interim reporting periods beginning after December 15, 2018, with early adoption permitted. We are currently evaluating the impact of this guidance, including transition elections and required disclosures, on our financial statements and the timing of adoption.

3. Balance Sheet Details

The following table provides detail of selected balance sheet items:

(dollars in thousands)	September 30, 2017		December 31, 2016	
Accounts receivable:				
Trade receivables	\$	87,315	\$	82,851
Other receivables		1,769		2,262
Total accounts receivable, less allowances of \$7,176 and \$7,832	\$	89,084	\$	85,113
Inventories:				
Finished goods	\$	183,212	\$	152,261
Work in process		1,456		1,625
Raw materials		3,549		4,432
Repair parts		10,645		10,558
Operating supplies		1,319		1,133
Total inventories, less loss provisions of \$10,727 and \$9,484	\$	200,181	\$	170,009
Accrued liabilities:				
Accrued incentives	\$	24,674	\$	19,771
Other accrued liabilities		24,837		22,036
Total accrued liabilities	\$	49,511	\$	41,807

4. Borrowings

Borrowings consist of the following:

(dollars in thousands)	Interest Rate	Maturity Date	September 30, 2017		December 31, 2016	
Borrowings under ABL Facility	floating	April 9, 2019	\$	8,727	\$	—
Term Loan B	floating ⁽¹⁾	April 9, 2021		390,700		409,000
AICEP Loan	0.00%	July 30, 2018		3,043		3,320
Total borrowings				402,470		412,320
Less — unamortized discount and finance fees				3,588		4,480
Total borrowings — net				398,882		407,840
Less — long term debt due within one year				7,443		5,009
Total long-term portion of borrowings — net			\$	391,439	\$	402,831

(1) We have entered into an interest rate swap that 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 4.24 percent at September 30, 2017.

At September 30, 2017, the available borrowing base under the ABL Facility was offset by a \$0.5 million rent reserve and a \$0.1 million natural gas derivative liability. 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, 2017, \$7.2 million in letters of credit were outstanding. Remaining unused availability under the ABL Facility was \$83.5 million at September 30, 2017, compared to \$88.4 million at December 31, 2016.

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 (2.0) percent for the nine months ended September 30, 2017, compared to 49.3 percent for the nine months ended September 30, 2016. Our effective tax rate for the nine months ended September 30, 2017, which was below the United States statutory rate, was affected by the nondeductible goodwill impairment charge of (40.2) percent, the timing and mix of pretax income earned in jurisdictions with rates lower than the United States statutory rate of 13.7 percent, the impact of foreign exchange of (5.3) percent, and other items including foreign withholding tax and nondeductible expenses of (5.2) percent. Our effective tax rate for the nine months ended September 30, 2016, which was above the United States statutory rate, was affected by the timing and mix of pretax income earned in jurisdictions with rates lower than the United States statutory rate of 5.9 percent, the impact of foreign exchange of (15.4) percent, and other items including foreign withholding tax and nondeductible expenses of 23.8 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 U.S. 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. There were no significant developments affecting this matter for the nine months ended September 30, 2017.

See note 2 for details regarding the tax effects of adopting ASU 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting," effective January 1, 2017.

6. Pension and Non-pension Post-retirement 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 December 15, 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 and are unfunded.

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

Three months ended September 30, (dollars in thousands)	U.S. Plans		Non-U.S. Plans		Total	
	2017	2016	2017	2016	2017	2016
Service cost	\$ 979	\$ 929	\$ 286	\$ 313	\$ 1,265	\$ 1,242
Interest cost	3,445	3,740	725	663	4,170	4,403
Expected return on plan assets	(5,619)	(5,757)	—	—	(5,619)	(5,757)
Amortization of unrecognized:						
Prior service cost (credit)	59	65	(54)	(53)	5	12
Actuarial loss	1,308	1,068	156	412	1,464	1,480
Pension expense	\$ 172	\$ 45	\$ 1,113	\$ 1,335	\$ 1,285	\$ 1,380

Nine months ended September 30, (dollars in thousands)	U.S. Plans		Non-U.S. Plans		Total	
	2017	2016	2017	2016	2017	2016
Service cost	\$ 2,937	\$ 2,788	\$ 814	\$ 948	\$ 3,751	\$ 3,736
Interest cost	10,337	11,222	2,063	2,005	12,400	13,227
Expected return on plan assets	(16,859)	(17,272)	—	—	(16,859)	(17,272)
Amortization of unrecognized:						
Prior service cost (credit)	177	197	(153)	(160)	24	37
Actuarial loss	3,925	3,204	446	817	4,371	4,021
Settlement charge	—	42	—	170	—	212
Pension expense	\$ 517	\$ 181	\$ 3,170	\$ 3,780	\$ 3,687	\$ 3,961

We have contributed \$0.6 million and \$2.6 million of cash into our pension plans for the three months and nine months ended September 30, 2017, respectively. Pension contributions for the remainder of 2017 are estimated to be \$0.5 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 December 15, 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, post-retirement plans cover the hourly and salaried U.S.-based employees of Libbey (excluding those mentioned above). The non-U.S., non-pension, post-retirement plans cover the retirees and active employees of Libbey who are located in Canada. The post-retirement benefit plans are unfunded.

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

Three months ended September 30, (dollars in thousands)	U.S. Plans		Non-U.S. Plans		Total	
	2017	2016	2017	2016	2017	2016
Service cost	\$ 157	\$ 200	\$ —	\$ —	\$ 157	\$ 200
Interest cost	526	652	10	11	536	663
Amortization of unrecognized:						
Prior service cost (credit)	(50)	35	—	—	(50)	35
Actuarial loss / (gain)	(65)	21	(13)	(10)	(78)	11
Non-pension post-retirement benefit expense	\$ 568	\$ 908	\$ (3)	\$ 1	\$ 565	\$ 909

Nine months ended September 30, (dollars in thousands)	U.S. Plans		Non-U.S. Plans		Total	
	2017	2016	2017	2016	2017	2016
Service cost	\$ 473	\$ 598	\$ 1	\$ 1	\$ 474	\$ 599
Interest cost	1,578	1,956	32	35	1,610	1,991
Amortization of unrecognized:						
Prior service cost (credit)	(151)	105	—	—	(151)	105
Actuarial loss / (gain)	(194)	61	(39)	(32)	(233)	29
Non-pension post-retirement benefit expense	\$ 1,706	\$ 2,720	\$ (6)	\$ 4	\$ 1,700	\$ 2,724

Our 2017 estimate of non-pension cash payments is \$4.0 million, and we have paid \$1.0 million and \$2.6 million for the three months and nine months ended September 30, 2017, respectively.

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

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

(dollars in thousands, except earnings per share)	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Numerator for earnings per share:				
Net income (loss) that is available to common shareholders	\$ (78,815)	\$ 2,909	\$ (86,217)	\$ 12,322
Denominator for basic earnings per share:				
Weighted average shares outstanding	22,075,318	21,894,017	22,015,008	21,869,922
Denominator for diluted earnings per share:				
Effect of stock options and restricted stock units	—	177,176	—	156,304
Adjusted weighted average shares and assumed conversions	22,075,318	22,071,193	22,015,008	22,026,226
Basic earnings (loss) per share	\$ (3.57)	\$ 0.13	\$ (3.92)	\$ 0.56
Diluted earnings (loss) per share	\$ (3.57)	\$ 0.13	\$ (3.92)	\$ 0.56

Shares excluded from diluted earnings (loss) per share due to:

Net loss position (excluded from denominator)	63,488	—	92,051	—
Inclusion would have been anti-dilutive (excluded from calculation)	893,198	605,032	780,062	619,058

When applicable, diluted shares outstanding include the dilutive impact of restricted stock units. Diluted shares also include the impact of eligible employee stock options, which are calculated based on the average share price for each fiscal period using the treasury stock method. As part of the adoption of ASU 2016-09 as of January 1, 2017, anticipated tax windfalls and shortfalls are no longer included in the calculation of assumed proceeds when applying the treasury stock method.

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 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.

Fair Values

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

(dollars in thousands)	Asset Derivatives:			
	September 30, 2017		December 31, 2016	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments under FASB ASC 815:				
Natural gas contracts	Prepaid and other current assets	\$ —	Prepaid and other current assets	\$ 702
Natural gas contracts	Other assets	8	Other assets	45
Total designated		8		747
Derivatives not designated as hedging instruments under FASB ASC 815:				
Natural gas contracts	Prepaid and other current assets	—	Prepaid and other current assets	732
Natural gas contracts	Other assets	—	Other assets	29
Total undesignated		—		761
Total		\$ 8		\$ 1,508

(dollars in thousands)	Liability Derivatives:			
	September 30, 2017		December 31, 2016	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments under FASB ASC 815:				
Natural gas contracts	Derivative liability - current	\$ 45	Derivative liability - current	\$ —
Interest rate contract	Derivative liability - current	852	Derivative liability - current	1,928
Interest rate contract	Other long-term liabilities	96	Other long-term liabilities	107
Total designated		993		2,035
Derivatives not designated as hedging instruments under FASB ASC 815:				
Natural gas contracts	Derivative liability - current	57	Derivative liability - current	—
Natural gas contracts	Other long-term liabilities	5	Other long-term liabilities	—
Total undesignated		62		—
Total		\$ 1,055		\$ 2,035

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 18 months in the future. The fair values of these instruments are determined from market quotes. As of September 30, 2017, we had commodity contracts for 2,590,000 MMBTUs of natural gas. At December 31, 2016, we also had commodity contracts for 2,590,000 MMBTUs 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, 2017. 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 reflected in other income (expense).

We (received) paid additional cash related to natural gas derivative settlements of \$0.1 million and \$0.1 million in the three months ended September 30, 2017 and 2016, respectively, and \$(0.2) million and \$2.3 million for the nine months ended September 30, 2017 and 2016, respectively, due to the difference between the fixed unit rate of our natural gas contracts and the variable unit rate of our natural gas cost from suppliers. Based on our current valuation, we estimate that accumulated losses for natural gas currently carried in accumulated other comprehensive loss that will be reclassified into earnings over the next 12 months will result in an immaterial impact to 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:

(dollars in thousands)	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Derivatives in Cash Flow Hedging relationships:				
Natural gas contracts	\$ 6	\$ (35)	\$ (703)	\$ 59
Total	\$ 6	\$ (35)	\$ (703)	\$ 59

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

(dollars in thousands)	Derivative:	Location:	Three months ended September 30,		Nine months ended September 30,	
			2017	2016	2017	2016
Natural gas contracts		Cost of sales	\$ (76)	\$ (41)	\$ 81	\$ (1,096)
Total impact on net income (loss)			\$ (76)	\$ (41)	\$ 81	\$ (1,096)

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 in Mexico:

(dollars in thousands)	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Contracts where hedge accounting was not elected	\$ (4)	\$ 11	\$ (823)	\$ 1,150
Total	\$ (4)	\$ 11	\$ (823)	\$ 1,150

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, 2017, and is accounted for under FASB ASC 815, "Derivatives and Hedging". Hedge accounting is applied only when the derivative is deemed to be highly effective at offsetting changes in fair values or anticipated cash flows of the hedged item or transaction. For hedged forecasted transactions, hedge accounting is discontinued if the forecasted transaction is no longer probable to occur, and any previously deferred gains or losses are 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 12 months will result in \$0.9 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:

(dollars in thousands)	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Derivatives in Cash Flow Hedging relationships:				
Interest rate swap	\$ 87	\$ 6	\$ (328)	\$ (4,816)
Total	\$ 87	\$ 6	\$ (328)	\$ (4,816)

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

(dollars in thousands)	Derivative:	Location:	Three months ended September 30,		Nine months ended September 30,	
			2017	2016	2017	2016
Interest rate swap		Interest (expense)	\$ (358)	\$ (767)	\$ (1,415)	\$ (1,778)
Total impact on net income (loss)			\$ (358)	\$ (767)	\$ (1,415)	\$ (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, 2017 and December 31, 2016, we had no foreign currency contracts outstanding. 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)	Derivative:	Location:	Three months ended September 30,		Nine months ended September 30,	
			2017	2016	2017	2016
Currency contracts		Other income (expense)	\$ —	\$ 106	\$ —	\$ (281)
Total			\$ —	\$ 106	\$ —	\$ (281)

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, 2017, by Standard and Poor's.

9. Accumulated Other Comprehensive Loss

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

Three months ended September 30, 2017 (dollars in thousands)	Foreign Currency Translation	Derivative Instruments	Pension and Other Post- retirement Benefits	Accumulated Other Comprehensive Loss
Balance June 30, 2017	\$ (20,831)	\$ (913)	\$ (93,404)	\$ (115,148)
Other comprehensive income (loss)	3,477	93	—	3,570
Currency impact	—	—	110	110
Amounts reclassified from accumulated other comprehensive income (loss):				
Amortization of actuarial loss ⁽¹⁾	—	—	1,386	1,386
Amortization of prior service cost (credit) ⁽¹⁾	—	—	(45)	(45)
Cost of sales	—	76	—	76
Interest expense	—	358	—	358
Current-period other comprehensive income (loss)	3,477	527	1,451	5,455
Tax effect	(827)	70	(29)	(786)
Balance on September 30, 2017	\$ (18,181)	\$ (316)	\$ (91,982)	\$ (110,479)

Nine months ended September 30, 2017 (dollars in thousands)	Foreign Currency Translation	Derivative Instruments	Pension and Other Post- retirement Benefits	Accumulated Other Comprehensive Loss
Balance on December 31, 2016	\$ (27,828)	\$ (515)	\$ (96,854)	\$ (125,197)
Other comprehensive income (loss)	10,474	(1,031)	4,801	14,244
Currency impact	—	—	(628)	(628)
Amounts reclassified from accumulated other comprehensive income (loss):				
Amortization of actuarial loss ⁽¹⁾	—	—	4,138	4,138
Amortization of prior service cost (credit) ⁽¹⁾	—	—	(127)	(127)
Cost of sales	—	(81)	—	(81)
Interest expense	—	1,415	—	1,415
Current-period other comprehensive income (loss)	10,474	303	8,184	18,961
Tax effect	(827)	(104)	(3,312)	(4,243)
Balance on September 30, 2017	\$ (18,181)	\$ (316)	\$ (91,982)	\$ (110,479)

[Table of Contents](#)

Three months ended September 30, 2016 (dollars in thousands)	Foreign Currency Translation	Derivative Instruments	Pension and Other Post- retirement Benefits	Accumulated Other Comprehensive Loss
Balance on 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 (credit) ⁽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 Post- retirement 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 (credit) ⁽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)

(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

Our reporting segments align with our regionally focused organizational structure, which we believe enables us to better serve customers across the globe. Under this structure, we report financial results for U.S. and Canada; Latin America; Europe, the Middle East and Africa (EMEA); and Other. Segment results are based primarily on the geographical destination of the sale. In the first quarter of 2017, net sales and related costs for certain countries were reclassified between segments to align with changes in business unit responsibilities. Accordingly, 2016 segment results have been reclassified to conform with the revised structure. The revised 2016 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, as well as glass products for OEMs regardless of end-market destination.

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. Segment EBIT also includes an allocation of manufacturing costs for inventory produced at a Libbey facility that is located in a region other than the end market in which the inventory is sold. This allocation can fluctuate from year to year based on the relative demands for products produced in regions other than the end markets in which they are sold. As the gain (loss) on mark-to-market natural gas contracts is considered representative of our ongoing operations, it is included in Segment EBIT in 2017; the prior year derivative amount originally excluded from Segment EBIT in 2016 has been reclassified and included in Segment EBIT to conform to the current year presentation. 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,		Nine months ended September 30,	
	2017	2016	2017	2016
Net Sales:				
U.S. & Canada	\$ 112,252	\$ 117,268	\$ 343,452	\$ 354,381
Latin America	35,339	40,149	102,564	114,971
EMEA	33,743	32,489	90,128	93,058
Other	6,005	6,967	21,703	25,172
Consolidated	\$ 187,339	\$ 196,873	\$ 557,847	\$ 587,582
Segment EBIT:				
U.S. & Canada	\$ 10,761	\$ 18,635	\$ 33,307	\$ 55,932
Latin America	3,721	1,954	2,549	15,226
EMEA	1,482	175	(1,412)	33
Other	(1,529)	(347)	(3,598)	979
Total Segment EBIT	\$ 14,435	\$ 20,417	\$ 30,846	\$ 72,170
Reconciliation of Segment EBIT to Net Income (Loss):				
Segment EBIT	\$ 14,435	\$ 20,417	\$ 30,846	\$ 72,170
Retained corporate costs	(5,701)	(6,925)	(18,087)	(20,699)
Goodwill impairment (note 14)	(79,700)	—	(79,700)	—
Pension settlement	—	—	—	(212)
Reorganization charges	—	—	(2,488)	—
Product portfolio optimization	—	—	—	(6,784)
Executive terminations	—	98	—	(4,521)
Interest expense	(5,118)	(5,231)	(15,123)	(15,629)
Provision for income taxes	(2,731)	(5,450)	(1,665)	(12,003)
Net income (loss)	\$ (78,815)	\$ 2,909	\$ (86,217)	\$ 12,322
Depreciation & Amortization:				
U.S. & Canada	\$ 2,850	\$ 2,883	\$ 9,016	\$ 9,718
Latin America	4,850	4,667	13,757	13,725
EMEA	1,816	1,885	5,508	7,660
Other	1,138	1,325	3,821	4,162
Corporate	579	474	1,514	1,404
Consolidated	\$ 11,233	\$ 11,234	\$ 33,616	\$ 36,669
Capital Expenditures:				
U.S. & Canada	\$ 2,751	\$ 3,037	\$ 7,145	\$ 9,030
Latin America	3,937	2,041	15,401	5,717
EMEA	5,050	1,549	15,446	4,656
Other	348	939	816	2,529
Corporate	6	446	332	1,591
Consolidated	\$ 12,092	\$ 8,012	\$ 39,140	\$ 23,523

11. Fair Value

Fair value is 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. The fair value hierarchy 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, 2017				Fair Value at December 31, 2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Commodity futures natural gas contracts	\$ —	\$ (99)	\$ —	\$ (99)	\$ —	\$ 1,508	\$ —	\$ 1,508
Interest rate swap	—	(948)	—	(948)	—	(2,035)	—	(2,035)
Net derivative asset (liability)	\$ —	\$ (1,047)	\$ —	\$ (1,047)	\$ —	\$ (527)	\$ —	\$ (527)

The fair values of our commodity futures natural gas 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 and interest rate swap 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.

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, 2017		December 31, 2016	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Term Loan B	Level 2	\$ 390,700	\$ 359,444	\$ 409,000	\$ 412,068

The fair value of our Term Loan B has been calculated based on quoted market prices for the same or similar issues, and the fair value of our ABL Facility approximates carrying value due to variable rates. The fair value of our other immaterial debt approximates carrying value at September 30, 2017 and December 31, 2016. 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:

(dollars in thousands)	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Gain (loss) on currency transactions	\$ 548	\$ 348	\$ (1,687)	\$ (376)
Gain (loss) on mark-to-market natural gas contracts	(4)	11	(823)	1,150
Other non-operating income (expense)	77	(111)	227	261
Other income (expense)	\$ 621	\$ 248	\$ (2,283)	\$ 1,035

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 \$0.8 million and \$0.9 million has been recorded in other long-term liabilities and a recoverable amount of \$0.4 million and \$0.5 million has been recorded in other long-term assets in the Condensed Consolidated Balance Sheets at September 30, 2017 and December 31, 2016, 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.

14. Goodwill

Changes in the carrying amount of goodwill by segment for the nine months ended September 30, 2017 are as follows:

<u>(dollars in thousands)</u>	<u>U.S. & Canada</u>	<u>Latin America</u>	<u>EMEA</u>	<u>Total</u>
Beginning balance December 31, 2016:				
Goodwill	\$ 43,872	\$ 125,681	\$ 9,434	\$ 178,987
Accumulated impairment losses	(5,441)	—	(9,434)	(14,875)
Net beginning balance	38,431	125,681	—	164,112
Impairment	—	(79,700)	—	(79,700)
Ending balance September 30, 2017:				
Goodwill	43,872	125,681	9,434	178,987
Accumulated impairment losses	(5,441)	(79,700)	(9,434)	(94,575)
Net ending balance	<u>\$ 38,431</u>	<u>\$ 45,981</u>	<u>\$ —</u>	<u>\$ 84,412</u>

As part of our on-going assessment of goodwill, we noted that third quarter sales, profitability and cash flow of our Mexico reporting unit (within the Latin America segment) significantly underperformed in comparison to the forecast, and expectations for the fourth quarter of 2017 were lowered as well. These factors, as well as continuing competitive pressures, long term weakness of the Mexican peso relative to the U.S. dollar, and an increase in the discount rate of 70 basis points since December 31, 2016 (the most recent valuation date), all contributed to increased pressure on the outlook of the reporting unit. As a result, we determined a triggering event had occurred for our Mexico reporting unit. Accordingly, an interim impairment test was performed as of September 30, 2017, indicating that the carrying value of the Mexico reporting unit exceeded its fair value, and in accordance with the early adoption of ASU 2017-04, we recorded a non-cash impairment charge of \$79.7 million during the third quarter of 2017.

When performing our test for impairment, we measured each reporting unit's fair value using a combination of "income" and "market" approaches on a shipping point basis. The income approach calculates the fair value of the reporting unit based on a discounted cash flow analysis, incorporating the weighted average cost of capital of a hypothetical third party buyer. Significant estimates in the income approach include the following: discount rate; expected financial outlook and profitability of the reporting unit's business; and foreign currency impacts (all Level 3 inputs in the fair value hierarchy). Discount rates use the weighted average cost of capital for companies within our peer group, adjusted for specific company risk premium factors. The market approach uses the "Guideline Company" method, which calculates the fair value of the reporting unit based on a comparison of the reporting unit to comparable publicly traded companies. Significant estimates in the market approach model include identifying similar companies with comparable business factors such as size, growth, profitability, risk and return on investment, assessing comparable multiples, as well as consideration of control premiums (Level 2 inputs). The blended approach assigns a 70 percent weighting to the income approach and 30 percent to the market approach (Level 3 input). The higher weighting is given to the income approach due to some limitations of publicly available peer information used in the market approach. The blended fair value of both approaches is then compared to the carrying value, and to the extent that fair value exceeds the carrying value, no impairment exists. However, to the extent the carrying value exceeds the fair value, an impairment is recorded.

With the estimated fair value of the Mexico reporting unit equaling its carrying value as of September 30, 2017, there is a potential of future impairment for the remaining goodwill balance of \$46.0 million should the discount rate increase or the challenging environment last longer or be deeper than expected and require us to further reduce our expected future operating results.

As a result of the factors noted above, we evaluated the fair value of our long-lived assets noting that the fair value continues to exceed carrying value as of September 30, 2017.

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 2016 Annual Report on Form 10-K for the year ended December 31, 2016 .

Overview

During the third quarter of 2017 , we continued to operate in a very competitive environment, with slow economic growth. With global industry capacity exceeding demand and several of our competitors throughout the world experiencing financial difficulties, our businesses in all channels globally was impacted by intense competition. We see some limited signs of this competitive environment abating in the near future.

In addition to the impact on our business of the challenging competitive and market environments, our businesses in the U.S. and Canada and Latin America segments were impacted by weather-related events and natural disasters in the third quarter of 2017. Hurricanes and flooding in the third quarter of 2017 negatively impacted the U.S. economy, and net sales in our U.S. and Canada segment in particular. The U.S. economy is expected to rebound in the fourth quarter and into 2018. We have observed declines in U.S. foodservice traffic for every quarter since 2012, as reported by third-party research firms Knapp-Track and Black Box Intelligence. Despite the decline in overall foodservice traffic, we have experienced year-to-date growth through September 30, 2017, in our dinnerware and flatware volume. Downward trends in U.S. retail point-of-sale data for the casual glass beverage-ware category continue. Many brick-and-mortar retail stores have reported lower sales or marginal sales gains year over year in their latest quarter, with some large retailers announcing plans to shut down stores and reduce overhead costs as they shift from brick-and-mortar to on-line commerce. Management expects the trends experienced in the U.S. foodservice and retail distribution channels to continue throughout 2017. Although the Mexican economy continues to advance at a slow pace due to volatility in the peso exchange rate as well as rebuilding from the earthquakes, economic indicators are showing signs of recovery in 2018, especially in Brazil, where political instability has decreased considerably over the last few months. The European economy continues to show signs of improvement in unemployment and GDP; however, they are partially offset by political unrest from the Brexit negotiations. China's competitive environment continues to be challenging, and the economic growth rates remain similar to those experienced in 2016. The business-to-business channel is impacted by general economic trends in each region and is dependent on customer demands.

In the third quarter of 2017, our net sales of \$187.3 million were 4.8 percent lower than the prior-year quarter, or 6.2 percent lower on a constant currency basis, as the Latin America and U.S. & Canada segments experienced a decrease in net sales. U.S. & Canada net sales for the third quarter were negatively impacted by approximately \$4.0 million as a result of weather related disasters (described above), as well as unfavorable product mix and price as we continued operating in this very competitive environment. Net sales in Latin America for the third quarter of 2017 decreased 12.0 percent as compared to the prior-year quarter, or 14.7 percent on a constant currency basis, as a result of lower volume in our business-to-business and retail channels, partially offset by improved price and mix as a result of the increased pricing we have achieved in this segment. Net sales in the EMEA segment increased 3.9 percent, or 3.2 percent on a constant currency basis, as the result of higher volume in the third quarter of 2017. We recorded a net loss of \$(78.8) million for the three months ended September 30, 2017, compared to net income of \$2.9 million in the year-ago quarter. Our profitability was impacted by a non-cash goodwill impairment charge of \$79.7 million in our Latin America segment, heightened competitive pressures that led to weaker sales margins, higher selling, general and administrative costs related to our e-commerce initiative and the unexpected impact of weather-related events and natural disasters. In spite of the challenging competitive and market environments, as well as the negative impact from unforeseen weather and natural disasters, we are seeing signs that our initiatives are positively impacting our financial results. Profitability improved in EMEA, and Latin America pricing actions have favorably impacted results. Progress continues on our e-commerce platform, with the addition of new customers to our platform in time for the holiday season.

During the third quarter of 2017, we paid an \$0.1175 per share dividend, made an optional Term Loan B payment of \$5.0 million, and reinvested in the business. Through the first nine months of 2017, we made optional Term loan B payments of \$15.0 million and paid \$7.8 million in dividends. We will continue to take a balanced approach to our capital allocation for the remainder of 2017. Given the softness in our markets, we believe it is prudent to continue prioritizing debt reduction with our excess capital over the near term.

Our reporting segments align with our regionally focused organizational structure, which we believe enables us to better serve customers across the globe. Under this structure, we report financial results for U.S. and Canada; Latin America; Europe, the

[Table of Contents](#)

Middle East and Africa (EMEA); and Other. Segment results are based primarily on the geographical destination of the sale. In the first quarter of 2017, net sales and related costs for certain countries were reclassified between segments to align with changes in business unit responsibilities. Accordingly, 2016 segment results have been reclassified to conform with the revised structure. The revised 2016 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, as well as glass products for OEMs regardless of end-market destination.

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, 2017 and 2016 :

(dollars in thousands, except percentages and per-share amounts)	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Net sales	\$ 187,339	\$ 196,873	\$ 557,847	\$ 587,582
Gross profit ⁽¹⁾	\$ 37,195	\$ 41,882	\$ 108,287	\$ 132,267
<i>Gross profit margin</i>	19.9 %	21.3%	19.4 %	22.5%
Income (loss) from operations (IFO) ⁽²⁾	\$ (71,587)	\$ 13,342	\$ (67,146)	\$ 38,919
<i>IFO margin</i>	(38.2)%	6.8%	(12.0)%	6.6%
Net income (loss) ^{(1) (2)}	\$ (78,815)	\$ 2,909	\$ (86,217)	\$ 12,322
<i>Net income (loss) margin</i>	(42.1)%	1.5%	(15.5)%	2.1%
Diluted net income (loss) per share	\$ (3.57)	\$ 0.13	\$ (3.92)	\$ 0.56
Adjusted earnings before interest, taxes, depreciation and amortization (Adjusted EBITDA) ⁽³⁾	\$ 19,967	\$ 24,726	\$ 46,375	\$ 88,140
<i>Adjusted EBITDA margin</i>	10.7 %	12.6%	8.3 %	15.0%

(1) The nine month period ended September 30, 2017 includes \$0.5 million for workforce reorganization charges. 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.

(2) In addition to item (1) above, the three and nine month periods ended September 30, 2017 include a \$79.7 million non-cash goodwill impairment charge in our Latin America segment; additionally, the nine month period ended September 30, 2017 includes \$2.0 million for workforce reorganization charges. 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.

(3) 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 certain limitations and a reconciliation from net income (loss) to Adjusted EBITDA, see the "Non-GAAP Measures" and "Adjusted EBITDA" sections below in the Discussion of Third Quarter 2017 Compared to Third Quarter 2016 and the reasons we believe these non-GAAP financial measures are useful.

Discussion of Third Quarter 2017 Compared to Third Quarter 2016**Net Sales**

The following table summarizes net sales by operating segment:

Three months ended September 30, (dollars in thousands) ⁽²⁾			Increase/(Decrease)			Constant Currency Sales Growth (Decline) ⁽¹⁾
	2017	2016	\$ Change	% Change	Currency Effects	
U.S. & Canada	\$ 112,252	\$ 117,268	\$ (5,016)	(4.3)%	\$ 1,190	(5.3)%
Latin America	35,339	40,149	(4,810)	(12.0)%	1,087	(14.7)%
EMEA	33,743	32,489	1,254	3.9 %	221	3.2 %
Other	6,005	6,967	(962)	(13.8)%	260	(17.5)%
Consolidated	\$ 187,339	\$ 196,873	\$ (9,534)	(4.8)%	\$ 2,758	(6.2)%

- (1) We believe constant currency sales growth (decline), a non-GAAP measure, is a useful metric for evaluating our financial performance. See the "Non-GAAP Measures" section below for the reasons we believe this non-GAAP metric is useful and how it is derived.
- (2) In the first quarter of 2017, net sales and related costs for certain countries were reclassified between segments to align with changes in business unit responsibilities. Accordingly, 2016 segment results have been reclassified to conform with the revised structure. The revised 2016 segment results do not affect any previously reported consolidated financial results.

Net Sales — U.S. & Canada

Net sales in U.S. & Canada in the third quarter of 2017 were \$112.3 million, compared to \$117.3 million in the third quarter of 2016, a decrease of 4.3 percent. The net sales decline was primarily driven by our foodservice channel, which experienced a decrease in net sales of 6.3 percent, or \$3.7 million, due to lower volume and unfavorable price and product mix, primarily resulting from the approximate \$4.0 million loss in revenue related to the unexpected hurricanes and flooding that occurred in the third quarter of 2017. The retail channel continued to experience softness in the market and a competitive pricing environment, with net sales decreasing \$1.2 million, or 3.5 percent, compared to the prior-year quarter. Net sales in the business-to-business channel were flat compared to the third quarter of 2016.

Net Sales — Latin America

Net sales in Latin America in the third quarter of 2017 were \$35.3 million, compared to \$40.1 million in the third quarter of 2016, a decrease of 12.0 percent (a decrease of 14.7 percent excluding currency fluctuation). The decline in net sales primarily resulted from our business-to-business and retail channels, which experienced declines of 15.4 percent, or \$3.1 million, and 13.0 percent, or \$2.2 million, respectively, compared to the third quarter of 2016. The decline in net sales for the two channels were driven by lower volume, partially offset by favorable price and mix of product sold as well as favorable currency.

Net Sales — EMEA

Net sales in EMEA in the third quarter of 2017 were \$33.7 million, compared to \$32.5 million in the third quarter of 2016, an increase of 3.9 percent (an increase of 3.2 percent excluding currency fluctuation). The net sales increase is attributable to higher volume in the business-to-business channel, as well as favorable price and mix on product sold in the foodservice channel.

Gross Profit

Gross profit decreased to \$37.2 million in the third quarter of 2017, compared to \$41.9 million in the prior-year quarter. Gross profit as a percentage of net sales decreased to 19.9 percent in the third quarter of 2017, compared to 21.3 percent in the prior-year quarter. The primary drivers of the \$4.7 million decrease in gross profit were an unfavorable net sales impact of \$6.7 million and unfavorable manufacturing activity of \$1.1 million, partially offset by a favorable currency impact of \$3.0 million, primarily associated with the Mexican peso. Manufacturing activity includes the impact of fluctuating production activities from all facilities globally 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 (Loss) From Operations

Income (loss) from operations for the quarter ended September 30, 2017 decreased \$84.9 million, to \$(71.6) million, compared to \$13.3 million in the prior-year quarter. Income (loss) from operations as a percentage of net sales was (38.2) percent for the quarter ended September 30, 2017, compared to 6.8 percent in the prior-year quarter. The decrease in income (loss) from operations is the result of the decrease in gross profit of \$4.7 million (discussed above), the non-cash goodwill impairment charge of \$79.7 million in our Latin America segment, and an increase in selling, general and administrative expenses of \$0.5 million. The unfavorable change in selling, general and administrative expenses was driven by \$2.7 million of expenses relating to our e-commerce initiative, partially offset by lower legal and professional fees of \$1.7 million, lower marketing expenses of \$0.4 million and other small cost savings initiatives.

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

We recorded a net loss of \$(78.8) million, or \$(3.57) per diluted share, in the third quarter of 2017, compared to net income of \$2.9 million, or \$0.13 per diluted share, in the year-ago quarter. Net income (loss) as a percentage of net sales was (42.1) percent in the third quarter of 2017, compared to 1.5 percent in the prior-year quarter. The reduction in net income (loss) and diluted net income (loss) per share is due to the factors discussed in Income (Loss) From Operations above, partially offset by a favorable \$2.7 million change in our provision for income taxes. The effective tax rate was (3.6) percent for the third quarter of 2017, compared to 65.2 percent in the prior-year quarter. The change in the effective tax rate was driven by several items, including the nondeductible goodwill impairment charge in our Latin America segment, lower pretax income, the timing and mix of pretax income earned in tax jurisdictions with varying tax rates, and the impact of foreign exchange losses.

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) ⁽²⁾				Segment EBIT Margin	
	2017	2016	\$ Change	2017	2016
U.S. & Canada	\$ 10,761	\$ 18,635	\$ (7,874)	9.6%	15.9%
Latin America	\$ 3,721	\$ 1,954	\$ 1,767	10.5%	4.9%
EMEA	\$ 1,482	\$ 175	\$ 1,307	4.4%	0.5%

(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. Segment EBIT also includes an allocation of manufacturing costs for inventory produced at a Libbey facility that is located in a region other than the end market in which the inventory is sold. This allocation can fluctuate from year to year based on the relative demands for products produced in regions other than the end markets in which they are sold. See note 10 to the Condensed Consolidated Financial Statements for a reconciliation of Segment EBIT to net income (loss).

(2) In the first quarter of 2017, net sales and related costs for certain countries were reclassified between segments to align with changes in business unit responsibilities. Accordingly, 2016 segment results have been reclassified to conform with the revised structure. The revised 2016 segment results do not affect any previously reported consolidated financial results.

Segment EBIT — U.S. & Canada

Segment EBIT was \$10.8 million in the third quarter of 2017, compared to \$18.6 million in the third quarter of 2016. The \$7.9 million decrease in Segment EBIT was driven by an unfavorable sales impact of \$9.2 million and expenses relating to our 2017 e-commerce initiative of \$2.7 million. Partially offsetting these unfavorable items was a favorable manufacturing activity impact of \$4.0 million.

Segment EBIT — Latin America

Segment EBIT increased to \$3.7 million in the third quarter of 2017, compared to \$2.0 million in the third quarter of 2016. The primary drivers of the \$1.8 million increase were a favorable sales impact of \$2.9 million, a favorable currency impact of \$2.8 million, and reduced legal and professional fees of \$1.2 million. Partially offsetting the favorable items was an unfavorable manufacturing activity impact of \$5.0 million.

Segment EBIT — EMEA

Segment EBIT increased to \$1.5 million in the third quarter of 2017, compared to \$0.2 million in the third quarter of 2016. The primary driver of the \$1.3 million increase in Segment EBIT was a favorable manufacturing activity impact of \$1.1 million resulting primarily from production efficiencies.

Adjusted EBITDA

Adjusted EBITDA decreased by \$4.8 million in the third quarter of 2017, to \$20.0 million, compared to \$24.7 million in the third quarter of 2016. As a percentage of net sales, Adjusted EBITDA was 10.7 percent for the third quarter of 2017, compared to 12.6 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 2017 Compared to Third Quarter 2016 and the elimination of the special items noted below in the reconciliation of net income (loss) to Adjusted EBITDA.

(dollars in thousands)	Three months ended September 30,	
	2017	2016
Net income (loss) (U.S. GAAP)	\$ (78,815)	\$ 2,909
Add:		
Interest expense	5,118	5,231
Provision for income taxes	2,731	5,450
Depreciation and amortization	11,233	11,234
Add: Special items before interest and taxes:		
Goodwill impairment (see note 14)	79,700	—
Executive terminations	—	(98)
Adjusted EBITDA (non-GAAP)	\$ 19,967	\$ 24,726

Non-GAAP Measures

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 (loss) 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 (loss).

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 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.

Constant Currency

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 and Adjusted EBITDA 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 be 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 2017 Compared to First Nine Months 2016

Net Sales

The following table summarizes net sales by operating segment:

Nine months ended September 30, (dollars in thousands) ⁽²⁾			Increase/(Decrease)		Currency Effects	Constant Currency Sales Growth (Decline) ⁽¹⁾
	2017	2016	\$ Change	% Change		
U.S. & Canada	\$ 343,452	\$ 354,381	\$ (10,929)	(3.1)%	\$ 2,495	(3.8)%
Latin America	102,564	114,971	(12,407)	(10.8)%	(2,318)	(8.8)%
EMEA	90,128	93,058	(2,930)	(3.1)%	(3,262)	0.4 %
Other	21,703	25,172	(3,469)	(13.8)%	1	(13.8)%
Consolidated	\$ 557,847	\$ 587,582	\$ (29,735)	(5.1)%	\$ (3,084)	(4.5)%

(1) We believe constant currency sales growth (decline), a non-GAAP measure, is a useful metric for evaluating our financial performance. See the "Non-GAAP Measures" section below for the reasons we believe this non-GAAP metric is useful and how it is derived.

(2) In the first quarter of 2017, net sales and related costs for certain countries were reclassified between segments to align with changes in business unit responsibilities. Accordingly, 2016 segment results have been reclassified to conform with the revised structure. The revised 2016 segment results do not affect any previously reported consolidated financial results.

Net Sales — U.S. & Canada

Net sales in U.S. & Canada were \$343.5 million in the first nine months of 2017, compared to \$354.4 million in the first nine months of 2016, a decrease of 3.1 percent. The primary contributors to the decrease were an unfavorable price and mix of

product sold in all business channels, partially offset by an increase in volume in all channels and \$2.5 million of favorable currency. The decline in both our retail (decrease of 6.8 percent, or \$6.3 million) and foodservice (decrease of 3.1 percent, or \$6.1 million) channels was driven by a decline in revenue of approximately \$4.0 million related to the unexpected hurricanes and flooding that occurred in the third quarter of 2017, a competitive pricing environment and continued softness in the market. Although the business-to-business channel experienced similar trends, the favorable volume exceeded the unfavorable price and mix to result in a net sales increase of 2.2 percent, or \$1.5 million, in comparison to the first nine months of 2016.

Net Sales — Latin America

Net sales in Latin America were \$102.6 million in the first nine months of 2017, compared to \$115.0 million in the first nine months of 2016, a decrease of 10.8 percent (a decrease of 8.8 percent excluding the impact of currency). The decline in net sales primarily is attributable to our retail channel which decreased 13.9 percent, or \$7.3 million, driven by lower volume and an unfavorable currency impact, partially offset by favorable price and mix of product sold. In addition, the business-to-business channel was down 10.1 percent, or \$5.2 million, driven by lower volume and an unfavorable currency impact, partially offset by favorable price and mix of product sold.

Net Sales — EMEA

Net sales in EMEA were \$90.1 million in the first nine months of 2017, compared to \$93.1 million in the first nine months of 2016, a decrease of 3.1 percent (an increase of 0.4 percent excluding currency fluctuation). The devaluation of the euro across all channels negatively impacted net sales by \$3.3 million and was the primary factor in the net sales decrease in comparison to the prior-year period.

Gross Profit

Gross profit decreased to \$108.3 million in the first nine months of 2017, compared to \$132.3 million in the prior-year period. Gross profit as a percentage of net sales decreased to 19.4 percent in the nine months ended September 30, 2017, compared to 22.5 percent in the prior-year period. Contributing to the \$24.0 million decrease in gross profit were an unfavorable sales impact of \$17.1 million, lower manufacturing activity of \$16.3 million (including additional downtime of \$8.3 million related to planned furnace rebuilds), and higher utility costs of \$1.8 million. Partially offsetting these unfavorable items were our non-repeating product portfolio optimization initiative in 2016 of \$6.8 million, lower depreciation expense of \$3.0 million, and a favorable currency impact of \$1.3 million.

Income (Loss) From Operations

Income (loss) from operations for the nine months ended September 30, 2017 decreased \$106.1 million to \$(67.1) million, compared to \$38.9 million in the prior-year period. Income (loss) from operations as a percentage of net sales was (12.0) percent for the nine months ended September 30, 2017, compared to 6.6 percent in the prior-year period. The decrease in income (loss) from operations is the result of the decrease in gross profit of \$24.0 million (discussed above), the non-cash goodwill impairment charge of \$79.7 million in our Latin America segment, as well as an increase in selling, general and administrative expenses of \$2.4 million. The increase in selling, general and administrative expenses is due to our e-commerce initiative of \$8.6 million and workforce reorganization charges of \$2.0 million. These unfavorable items in selling, general and administrative expenses were partially offset by the 2016 executive termination expenses of \$4.5 million that did not repeat in 2017 and lower equity and incentive compensation of \$3.1 million.

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

We recorded a net loss of \$(86.2) million, or \$(3.92) per diluted share, in the first nine months of 2017, compared to net income of \$12.3 million, or \$0.56 per diluted share, in the year-ago period. Net income (loss) as a percentage of net sales was (15.5) percent in the first nine months of 2017, compared to 2.1 percent in the first nine months of 2016. The decrease in net income (loss) and diluted net income (loss) per share is generally due to the factors discussed in Income (Loss) From Operations above, as well as an increase of \$3.3 million in other expense, which includes a \$2.0 million unfavorable change in mark-to-market natural gas contracts and a \$1.3 million unfavorable change in gain/loss on currency transactions. Partially offsetting the unfavorable factors were a favorable \$10.3 million change in our provision for income taxes and lower interest expense of \$0.5 million. The effective tax rate was (2.0) percent for the first nine months of 2017, compared to 49.3 percent in the year-ago period. The change in the effective tax rate was driven by several items, including the nondeductible goodwill impairment charge in our Latin America segment, lower pretax income, the timing and mix of pretax income earned in tax jurisdictions with varying tax rates, and the impact of foreign exchange losses compared to gains in the prior period. 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, 2017 (dollars in thousands) ⁽²⁾				Segment EBIT Margin	
	2017	2016	\$ Change	2017	2016
U.S. & Canada	\$ 33,307	\$ 55,932	\$ (22,625)	9.7 %	15.8%
Latin America	\$ 2,549	\$ 15,226	\$ (12,677)	2.5 %	13.2%
EMEA	\$ (1,412)	\$ 33	\$ (1,445)	(1.6)%	—%

(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. Segment EBIT also includes an allocation of manufacturing costs for inventory produced at a Libbey facility that is located in a region other than the end market in which the inventory is sold. This allocation can fluctuate from year to year based on the relative demands for products produced in regions other than the end markets in which they are sold. See note 10 to the Condensed Consolidated Financial Statements for reconciliation of Segment EBIT to net income (loss).

(2) In the first quarter of 2017, net sales and related costs for certain countries were reclassified between segments to align with changes in business unit responsibilities. Accordingly, 2016 segment results have been reclassified to conform with the revised structure. The revised 2016 segment results do not affect any previously reported consolidated financial results.

Segment EBIT — U.S. & Canada

Segment EBIT decreased to \$33.3 million in the first nine months of 2017, compared to \$55.9 million in the first nine months of 2016. Segment EBIT as a percentage of net sales decreased to 9.7 percent for the nine months ended September 30, 2017, compared to 15.8 percent in the prior-year nine-month period. The primary drivers of the \$22.6 million Segment EBIT decrease were a lower sales impact of \$19.7 million, our 2017 e-commerce initiative of \$8.6 million, higher utility costs of \$1.1 million and additional marketing expenses of \$1.0 million. Partially offsetting these unfavorable items were favorable manufacturing activity of \$6.8 million and a favorable currency impact of \$1.6 million.

Segment EBIT — Latin America

Segment EBIT decreased to \$2.5 million in the first nine months of 2017, compared to \$15.2 million in the prior-year period. Segment EBIT as a percentage of net sales decreased to 2.5 percent for the nine months ended September 30, 2017, compared to 13.2 percent in the prior-year nine month period. The primary drivers of the \$12.7 million decrease include unfavorable manufacturing activity of \$16.4 million (including additional downtime of \$4.9 million due to a planned furnace rebuild), an unfavorable mark-to-market impact on our natural gas hedges of \$2.0 million and higher utility costs of \$1.3 million. Partially offsetting these unfavorable items was a positive sales impact of \$6.8 million.

Segment EBIT — EMEA

Segment EBIT decreased to a loss of \$(1.4) million for the first nine months of 2017, down from \$0.0 million in the prior-year period. Segment EBIT as a percentage of net sales for EMEA decreased to (1.6) percent for the first nine months of 2017, compared to (0.0) percent in the prior-year period. The primary drivers of the \$1.4 million decrease in Segment EBIT were an unfavorable sales impact of \$2.5 million and unfavorable manufacturing activity of \$2.1 million (including \$3.4 million of additional downtime due to a planned furnace rebuild). Partially offsetting these unfavorable items were lower depreciation expense of \$2.1 million and lower natural gas of \$0.7 million.

Adjusted EBITDA

Adjusted EBITDA decreased by \$41.8 million in the first nine months of 2017, to \$46.4 million, compared to \$88.1 million in the first nine months of 2016. As a percentage of net sales, Adjusted EBITDA was 8.3 percent for the first nine months of 2017, compared to 15.0 percent in the year-ago period. The key contributors to the decrease in Adjusted EBITDA were those factors discussed above under Discussion of First Nine Months 2017 Compared to First Nine Months 2016 and the elimination of the special items noted below in the reconciliation of net income (loss) to Adjusted EBITDA.

(dollars in thousands)	Nine months ended September 30,	
	2017	2016
Net income (loss) (U.S. GAAP)	\$ (86,217)	\$ 12,322
Add:		
Interest expense	15,123	15,629
Provision for income taxes	1,665	12,003
Depreciation and amortization	33,616	36,669
Add: Special items before interest and taxes:		
Goodwill impairment (see note 14)	79,700	—
Pension settlement	—	212
Product portfolio optimization ⁽¹⁾	—	6,784
Reorganization charges ⁽²⁾	2,488	—
Executive terminations	—	4,521
Adjusted EBITDA (non-GAAP)	\$ 46,375	\$ 88,140

(1) Product portfolio optimization relates to inventory reductions to simplify and improve our operations.

(2) Workforce reorganization as a part of our cost savings initiatives.

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 Non-GAAP Measures section in the Discussion of Third Quarter 2017 Compared with Third Quarter 2016 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 working capital requirements. Under the ABL Facility at September 30, 2017, we had \$8.7 million of outstanding borrowings, \$7.2 million outstanding in letters of credit and \$0.6 million in rent and natural gas derivative liability reserves, resulting in \$83.5 million of unused availability. In addition, we had \$21.6 million of cash on hand at September 30, 2017, compared to \$61.0 million of cash on hand at December 31, 2016. Of our total cash on hand at September 30, 2017 and December 31, 2016, \$20.4 million and \$32.3 million, respectively, were held in foreign subsidiaries. Except for our Chinese and Canadian subsidiaries, we plan to indefinitely reinvest the earnings of all foreign subsidiaries to support ongoing operations, capital expenditures, debt service and continued growth plans outside the United States. Our Chinese subsidiaries’ cash balance was \$10.0 million as of September 30, 2017. 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 2016 Annual Report on Form 10-K for the year ended December 31, 2016.

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. We incurred a non-cash goodwill impairment charge of \$79.7 million for the quarter ended September 30, 2017. While this non-cash charge reduced our reported operating results in the period, this charge did not require a cash outlay, and it had no effect on our liquidity position.

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, 2017	December 31, 2016
Accounts receivable — net	\$ 89,084	\$ 85,113
<i>DSO</i> ⁽¹⁾	42.6	39.2
Inventories — net	\$ 200,181	\$ 170,009
<i>DIO</i> ⁽²⁾	95.7	78.2
Accounts payable	\$ 73,645	\$ 71,582
<i>DPO</i> ⁽³⁾	35.2	32.9
Trade Working Capital ⁽⁴⁾	\$ 215,620	\$ 183,540
<i>DWC</i> ⁽⁵⁾	103.1	84.4
Percentage of net sales	28.2%	23.1%

(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 net sales.

(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 \$215.6 million at September 30, 2017, an increase of \$32.1 million from December 31, 2016. 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 and new products and increased accounts receivable related to timing of collections, offset slightly by an increase in accounts payable. The impact of currency increased total Trade Working Capital by \$4.0 million at September 30, 2017, in comparison to December 31, 2016. As a result of the factors above, Trade Working Capital as a percentage of the last twelve-month net sales increased to 28.2 percent at September 30, 2017, from 23.1 percent at December 31, 2016, but was comparable to the 28.1 percent at September 30, 2016.

Borrowings

The following table presents our total borrowings:

(dollars in thousands)	Interest Rate	Maturity Date	September 30, 2017	December 31, 2016
Borrowings under ABL Facility	floating	April 9, 2019	\$ 8,727	\$ —
Term Loan B	floating ⁽¹⁾	April 9, 2021	390,700	409,000
AICEP Loan	0.00%	July 30, 2018	3,043	3,320
Total borrowings			402,470	412,320
Less — unamortized discount and finance fees			3,588	4,480
Total borrowings — net ⁽²⁾			<u>\$ 398,882</u>	<u>\$ 407,840</u>

(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 \$402.5 million and \$412.3 million at September 30, 2017 and December 31, 2016, respectively. The \$9.8 million decrease during the first nine months of 2017 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, and \$0.6 million in AICEP Loan payments; all partially offset by \$8.7 million in ABL borrowings. Of our total borrowings, \$179.4 million, or approximately 44.6 percent, were subject to variable interest rates at September 30, 2017, 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 \$1.8 million on an annual basis.

Included in interest expense are the amortization of discounts, financing fees and other debt related fees. These items amounted to \$0.3 million and \$0.4 million for the three months ended September 30, 2017 and 2016, respectively, and \$1.0 million and \$1.1 million for nine months ended September 30, 2017 and 2016, respectively.

Cash Flow

(dollars in thousands)	Nine months ended September 30,	
	2017	2016
Net cash provided by operating activities	\$ 16,208	\$ 44,821
Net cash used in investing activities	\$ (39,140)	\$ (23,523)
Net cash used in financing activities	\$ (17,236)	\$ (27,571)

Our net cash provided by operating activities was \$16.2 million in the first nine months of 2017, compared to \$44.8 million in the first nine months of 2016, an unfavorable cash flow impact of \$(28.6) million. Contributing to the decrease in cash flow from operations were lower operating earnings, higher incentive compensation payments and lower value added tax collections. Partially offsetting these unfavorable cash flows were a favorable cash flow impact of \$6.3 million related to the change in accounts receivable, inventories, and accounts payable, lower interest payments of \$3.0 million and lower income tax payments of \$3.0 million.

Our net cash used in investing activities was \$(39.1) million and \$(23.5) million in the first nine months of 2017 and 2016, respectively, representing capital expenditures.

Net cash used in financing activities was \$(17.2) million in the first nine months of 2017, compared to \$(27.6) million in the year-ago period. The first nine months of 2017 reflect Term Loan B payments of \$(18.3) million and dividends of \$(7.8) million; all partially offset by the net proceeds drawn on the ABL Facility of \$8.7 million. The first nine months of 2016 reflect Term Loan B payments of \$(18.3) million, dividends of \$(7.6) million, and the purchase of treasury shares of \$(2.0) million; all partially offset by proceeds from stock option exercises of \$1.2 million.

[Table of Contents](#)

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

(dollars in thousands)	Nine months ended September 30,	
	2017	2016
Net cash provided by operating activities	\$ 16,208	\$ 44,821
Net cash used in investing activities	(39,140)	(23,523)
Free Cash Flow ⁽¹⁾	\$ (22,932)	\$ 21,298

(1) We define Free Cash Flow as the sum of net cash provided by operating activities and net cash used in investing activities. The most directly comparable U.S. GAAP financial measure is net cash provided by (used in) operating activities.

We believe that Free Cash Flow is important supplemental information for investors in evaluating cash flow performance in that it provides insight into the cash flow available to fund such things as debt service, acquisitions and other strategic investment opportunities. It is a measure we use to internally evaluate the overall liquidity of the business. Free Cash Flow does not represent residual cash flows available for discretionary expenditures due to our mandatory debt service requirements.

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

Our Free Cash Flow was \$(22.9) million during the first nine months of 2017, compared to \$21.3 million in the the first nine months of 2016, an unfavorable change of \$(44.2) million. The primary contributors to this change were the \$(28.6) million and \$(15.6) million in unfavorable cash flows from operating activities and investing activities, respectively, as discussed above.

Derivatives

We use natural gas swap contracts related to forecasted future North and Central American natural gas requirements. The objective of these commodity contracts is to limit the fluctuations in prices paid due to price movements in the underlying commodity. We consider our forecasted natural gas requirements in determining the quantity of natural gas to hedge. We combine the forecasts with historical observations to establish the percentage of forecast eligible to be hedged, typically ranging from 40 percent to 70 percent of our anticipated requirements up to eighteen months in the future. The fair values of these instruments are determined from market quotes. At September 30, 2017, we had commodity contracts for 2,590,000 MMBTUs of natural gas with a fair market value of a \$0.1 million liability. We have hedged a portion of our forecasted transactions through December 2018. At December 31, 2016, we had commodity futures contracts for 2,590,000 MMBTUs of natural gas with a fair market value of a \$1.5 million asset. The counterparties for these derivatives are well established financial institutions rated BBB+ or better as of September 30, 2017, 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, 2017, the Term Loan B debt held a floating interest rate of 4.24 percent. If the counterparty to the interest rate swap agreement were to fail to perform, the interest rate swap would no longer provide the desired results. However, we do not anticipate nonperformance by the counterparty. The counterparty held a Standard & Poor's rating of A+ by as of September 30, 2017.

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 \$0.9 million liability at September 30, 2017 and a \$2.0 million liability at December 31, 2016.

Goodwill

Goodwill at September 30, 2017 was \$84.4 million, representing approximately 11.4 percent of total assets. Goodwill represents the excess of cost over fair value of assets acquired for each reporting unit, net of any impairment charges. Our reporting units represent the lowest level of the business for which financial statements are prepared internally, and may represent a single facility (operating component) or a group of plants under a common management team.

As part of our on-going assessment of goodwill, we noted that third quarter sales, profitability and cash flow of our Mexico reporting unit (within the Latin America segment) significantly underperformed in comparison to the forecast, and expectations for the fourth quarter of 2017 were lowered as well. These factors, as well as continuing competitive pressures, long term weakness of the Mexican peso relative to the U.S. dollar, and an increase in the discount rate of 70 basis points since December 31, 2016 (the most recent valuation date), all contributed to increased pressure on the outlook of the reporting unit. As a result, we determined a triggering event had occurred for our Mexico reporting unit. Accordingly, an interim impairment test was performed as of September 30, 2017, indicating that the carrying value of the Mexico reporting unit exceeded its fair value, and in accordance with the early adoption of ASU 2017-04, "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment," we recorded a non-cash impairment charge of \$79.7 million during the third quarter of 2017.

When performing our test for impairment, we measured each reporting unit's fair value using a combination of "income" and "market" approaches on a shipping point basis. The income approach calculates the fair value of the reporting unit based on a discounted cash flow analysis, incorporating the weighted average cost of capital of a hypothetical third party buyer. Significant estimates in the income approach include the following: discount rate; expected financial outlook and profitability of the reporting unit's business; and foreign currency impacts. Discount rates use the weighted average cost of capital for companies within our peer group, adjusted for specific company risk premium factors. The cash flows utilized in the discounted cash flow analysis are based on a five-year forecast period developed internally by management. The market approach uses the "Guideline Company" method, which calculates the fair value of the reporting unit based on a comparison of the reporting unit to comparable publicly traded companies. Significant estimates in the market approach model include identifying similar companies with comparable business factors such as size, growth, profitability, risk and return on investment, assessing comparable multiples, as well as consideration of control premiums. The blended approach assigns a 70 percent weighting to the income approach and 30 percent to the market approach. The higher weighting is given to the income approach due to some limitations of publicly available peer information used in the market approach. The blended fair value of both approaches is then compared to the carrying value, and to the extent that fair value exceeds the carrying value, no impairment exists. However, to the extent the carrying value exceeds the fair value, an impairment is recorded.

With the estimated fair value of the Mexico reporting unit equaling its carrying value as of September 30, 2017, there is a potential of future impairment for the remaining goodwill balance of \$46.0 million should the discount rate increase or the challenging environment last longer or be deeper than expected and require us to further reduce our expected future operating results. Management considers several factors to be significant when estimating fair value, including expected financial outlook of the business, discount rate, changes in the Company's stock price, the impact of changing market conditions on financial performance and expected future cash flows, foreign currency impacts, the geopolitical environment and other factors. Deterioration in any of these factors may result in a lower fair value assessment. Specifically, actual results may vary from the Company's forecasts and such variations may be material and unfavorable, thereby triggering the need for future impairment tests where the conclusions could result in additional non-cash impairment charges. The estimated fair value of our other two reporting units that have goodwill continued to exceed their carrying values, by a minimum of approximately 70 percent.

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, 2017. Please refer to Part II, Item 7A. "Qualitative and Quantitative Disclosures about Market Risk" included in our 2016 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 2016 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, 2017	—	\$ —	—	941,250
August 1 to August 31, 2017	—	\$ —	—	941,250
September 1 to September 30, 2017	—	\$ —	—	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 June 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 June 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 2, 2017

by: /s/ James C. Burmeister

James C. Burmeister
Vice President, Chief Financial Officer

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 2, 2017

By: /s/ William A. Foley

William A. Foley

Chief Executive Officer & Chairman of the Board

Certification of Chief Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, James C. Burmeister, 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 2, 2017

By: /s/ James C. Burmeister

James C. Burmeister

Vice President, Chief Financial Officer

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 certify, to such officers' knowledge, that:

- (i) the accompanying Quarterly Report on Form 10-Q of the Company for the quarterly period ended September 30, 2017 (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 2, 2017

By: /s/ William A. Foley

William A. Foley

Chief Executive Officer & Chairman of the Board

/s/ James C. Burmeister

James C. Burmeister

Vice President, Chief Financial Officer