# 2013 Libbey Inc. Annual Report

Libbey®

## Best Table in the House

# Table of Contents



Introducing Libbey's new Farm to Table line of products

# Financial Highlights

| *Dollars in thousands, except per-share amounts* | | **2013** | | **2012** | **% Change** |
|---|---|---|---|---|---|
| Net sales | **$** | **818,811** | $ | 825,287 | (0.8)% |
| Income from operations | **$** | **72,499** | $ | 81,289 | (10.8)% |
| Diluted net income per share | **$** | **1.31** | $ | 0.33 | 297.0 % |
| Earnings before interest, taxes, depreciation and amortization (EBITDA) [a] | **$** | **117,675** | $ | 91,873 | 28.1 % |
| Adjusted EBITDA [a] | **$** | **134,401** | $ | 132,404 | 1.5 % |
| Cash provided by operating activities | **$** | **72,729** | $ | 8,497 | 755.9 % |
| Capital expenditures | **$** | **49,407** | $ | 32,720 | 51.0 % |
| Free cash flow [b] | **$** | **23,403** | $ | (23,576) | 199.3 % |
| Total assets | **$** | **829,990** | $ | 802,176 | 3.5 % |
| Working capital [c] | **$** | **173,050** | $ | 172,687 | 0.2 % |
| Total borrowings - net | **$** | **411,903** | $ | 466,467 | (11.7)% |
| Number of employees (year-end) | | **6,437** | | 6,663 | (3.4)% |
| Number of shares outstanding (year-end) | | **21,316,480** | | 20,835,489 | 2.3 % |
| Number of registered shareholders (year-end) | | **799** | | 828 | (3.5)% |

(a) We believe that EBITDA (earnings before interest, taxes, depreciation and amortization), and Adjusted EBITDA (adjusted earnings before interest, taxes, depreciation and amortization), non-GAAP financial measures, are useful metrics for evaluating our financial performance, as they are measures that we use internally to assess performance. See "Results of Operations" in Item 7 of our Annual Report on Form 10-K for a reconciliation of Adjusted EBITDA to EBITDA and Net Income.

(b) We believe that Free Cash Flow (net cash provided by operating activities less capital expenditures plus proceeds from asset sales and other) is a useful metric for evaluating our financial performance, as it is the measure that we use internally to assess performance.

(c) Working capital is defined as net accounts receivable, excluding receivable on furnace malfunction insurance claim, plus net inventory less accounts payable.

# Letter to Shareholders

In 1887, it became clear to Edward Drummond Libbey that The New England Glass Company, founded in 1818 and inherited from his father, needed a dramatic change. Stiff competition and expensive fuel sources in New England prompted him to look west, where many other glass houses enjoyed access to plentiful land, inexpensive natural gas and a populace that was eager for new manufacturing jobs. Of the many cities that courted the Company, the one that shone brightest was – Toledo, Ohio.

At the time, Toledo offered many advantages for a growing company. It had abundant natural resources, particularly the natural gas needed for fuel and the sand used in glass production. Its proximity to transportation hubs ensured easy movement of the Company's final product. And the city's schools, libraries and other cultural organizations made for an enticing and thriving community.

Stephanie A. Streeter
Chief Executive Officer

So, in 1888, the newly renamed Libbey Glass Company officially became a part of the Toledo community. What began as a new glass factory on a four-acre plot of land has grown into a global company, serving customers in well over 100 countries. We now have six manufacturing operations on three continents employing over 6,400 associates worldwide, with about 1,300 of those associates based in Toledo. In 2013, Libbey celebrated its 125th year in Toledo and reconfirmed its commitment to the city through a new fifteen-year lease and our investment in renovated downtown office space. Our strong legacy of innovative products, excellent customer service and community stewardship are drawn from our founder, Edward Drummond Libbey.

Just as our move to Toledo represented a significant step forward and commitment to the future of our Company, 2013 marked a year in which we focused on strengthening our core business and operating fundamentals to continue to lay the groundwork for future growth and success.

# Letter to Shareholders

## Strategic Focus

*Libbey 2015*, a comprehensive roadmap for improving efficiency and better leveraging our strengths, was announced in July of 2012. Our goal for 2013 was to continue to execute this strategy and solidify the foundation for growth. We made important strides towards this goal, including progress in rightsizing our operations, focusing on our advantaged businesses and making strategic investments to improve our competitiveness.

From January through April 2013, the Company transformed and expanded a furnace in Monterrey, Mexico, into one of the largest of its kind in the Western Hemisphere. This investment of over $20 million includes new forming capabilities and increases capacity, thereby leveraging the existing manufacturing footprint and allowing for future growth and expansion in Mexico and Latin America. The upgraded furnace also uses the latest melting technology for gas-fired furnaces.

In February, we announced plans to reconfigure our North American manufacturing footprint. This bold action required us to exit the sale of certain glassware items and reduce capacity in our Shreveport, Louisiana, facility. In addition to improved financials, which we expect to see in 2014, the realignment allowed us to leverage available capacity in Monterrey, Mexico, and Toledo, Ohio, and take advantage of Shreveport's capabilities and proximity to our growing customer base.

In June, our attention shifted to talent and leadership development, as we held our most extensive ever global leadership meeting. There, we rolled out our talent development roadmap and introduced a broad array of training and talent development tools in which we are investing to accelerate our capabilities and better prepare our top 100 leaders for a more dynamic future.

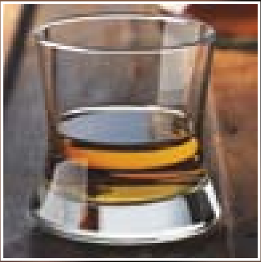
In November, we announced a $20 million investment in Shreveport to bring new technology and a new research and development component to our operations there. We worked with Louisiana Economic Development, as well as other state and local entities, to enhance our Shreveport capabilities, enabling us to remain productive in the community for years to come. We were especially pleased that the investment will result in the creation of nearly 150 new jobs in the area.

These developments – narrowing our focus to areas of high potential while also leveraging unique growth opportunities – are emblematic of the kinds of innovation enabled by our strategic roadmap. We have the team, the plan and the competitive advantage we need to accelerate growth and maintain our position as a premier global glass tableware manufacturer and a leading supplier of ceramic dinnerware and metal flatware.

## Overview of 2013 Financials

In reviewing our financial results for 2013, we continue to be pleased with our progress. In particular, we hit many of the financial goals we established as part of our *Libbey 2015* strategic plan.

Our net debt to adjusted EBITDA ratio was 2.8 times, down from 6.4 times in 2008, and moving closer to the low end of our target debt range of 2.5-3.0 times. We reported a Return On Invested Capital of 14.7 percent for 2013, which exceeds the high end of our targeted 11 to 13 percent range. And, finally, despite slightly lower year-over-year sales, our increased productivity and our focus on cost reduction have resulted in an adjusted EBITDA margin of 16.4 percent for the year, representing continued progress toward our goal of reaching 18 percent by the end of 2015.



Perfect™ Whiskey

# Letter to Shareholders

During the year, Libbey recorded sales of $818.8 million, a 0.8 percent decline from our 2012 totals. Sales in the Americas segment were $560.8 million, compared to $580.7 million in 2012, a decrease of 3.4 percent. Primary contributors to the decrease were a 0.8 percent decrease in sales in our foodservice channel (on slightly higher unit sales), a decrease of 7.7 percent in sales in our retail channel and a 0.2 percent increase in our business-to-business channel. Results in our retail channel were impacted by multiple factors – most notably, our decision to exit the sale of certain low-margin items as we reconfigured our Americas' manufacturing footprint and softness in consumer spending and reduced traffic.

Despite a challenging economic environment, our Europe, the Middle East and Africa (EMEA) segment increased sales in all sales channels each of the four quarters of 2013, compared to the prior year. For the full year, sales in the EMEA segment achieved increases of 8.7 percent to $146.5 million, compared to $134.8 million in 2012.

We added an additional reporting segment in 2013, in order to reflect the increasing importance of our U.S. Sourcing business. This segment includes U.S. sales of sourced ceramic dinnerware, metal tableware, hollowware and serveware. Sales in U.S. Sourcing grew 8.4 percent to $78.3 million in 2013, compared to $72.2 million in 2012.

Sales in Other were $33.2 million, compared to $37.5 million in the prior year. The decline was largely the result of a decrease in sales in the Asia Pacific region. Although there are a number of challenges in China, we believe it remains a long-term growth opportunity for Libbey.

Our capital allocation strategy has continued to improve our liquidity. As of the end of 2013, we have available capacity of $70.5 million under our ABL credit facility, with no loans currently outstanding and $42.2 million in cash on hand.

## Transition to Growth

As a result of our hard work in 2013, many of our strategies focused on cost reduction and core business development are well underway. Now, it is time to realize and sustain the benefits of the moves that we made and to pivot our primary efforts towards growth.

One key area of focus for us continues to be the Americas' foodservice channel, including beverageware, dinnerware and flatware, where we are increasing our sales and marketing efforts. With our largest manufacturing facility in Monterrey, Mexico, we are also well-positioned to meet the needs of not only the Americas' foodservice channel, but important retail markets as well.

To take advantage of these opportunities, we have strategically increased our sales force serving these areas and enhanced sales training programs and tools to further improve results in 2014. We have also spent significant time, energy and financial resources to develop and train all of our associates across the Company, growing an even stronger team to lead Libbey into the future.

# Letter to Shareholders

**We have also identified opportunities to leverage new technology to enhance our manufacturing capabilities. The approximately $20 million investment in Shreveport will allow us to install new state-of-the-art equipment capable of innovative, proprietary glassmaking processes. This technology, as well as our ongoing investments in research and development, will keep Libbey at the forefront of the glassware industry.**

**Having brought costs and debt in line, we are now in a position to explore growth prospects outside of our organization. Specifically, we will be examining the potential for partnerships, mergers and acquisitions that coincide with our broader strategy and accelerate our ability to grow in key product lines and geographies.**

**I want to assure you that our goal is to provide the highest return to you, our shareholders. As a result, we have a disciplined approach to allocating capital, and we carefully evaluate alternatives, including potential share repurchases or dividends in addition to investments in new technology or growth through financially attractive acquisitions or other partnerships that support our strategy.**

## Best Table in the House

**As we look ahead to 2014, we will build upon the strong foundation that we've laid over the past two years – and since 1818. We will remain focused on being a premier provider of tabletop glassware and related products worldwide – ensuring that we're offering our customers, associates and investors the *Best Table in the House.***

**The progress we've made so far ensures that we are more in tune with our strengths as well as the needs of our customers. As we further boost our competitiveness in core market segments and maintain our financial stability, we are well-positioned to capitalize on opportunities for growth and deliver the value that our shareholders expect.**

**On behalf of all of my colleagues, we thank you for your continued support.**

**Stephanie A. Streeter**
Chief Executive Officer
March 12, 2014

# From the Chairman

**It's been a rewarding year to observe the spirit of cooperation and willingness to embrace the changes that our Board and Leadership Team have driven during 2013.**

**In addition to 2013 being a very busy year with significant progress on key strategic objectives, our Company celebrated its 125th year of operation in Toledo, Ohio. Few companies ever make it to the century mark. Libbey, on the other hand, in existence since 1818, thrived and grew after founder Edward Drummond Libbey relocated the Company to Toledo 125 years ago.**

**In many ways, 2013 was as significant as that bold move taken over a century ago. Under the direction of our CEO Stephanie Streeter, Libbey realized:**

- **Completion of several transformational projects as part of our *Libbey 2015* strategy**
- **Continued strengthening of our balance sheet**
- **Improved efficiencies from rebalancing our production capacity**
- **Achievement of record EBITDA financial performance**

**Real progress was made in 2013, despite volatile business conditions in countries where we compete. Our Directors are pleased with the performance of the business and the positive attitude of our associates, especially in light of the external economic challenges and internal changes that have been implemented as part of our strategy. Also significant were important investments made to support the future growth of the Company and reduce operating costs.**

**I would like to thank every Libbey stakeholder for your continued support as we work to build for the future. Our products, our brands and our dedicated associates will continue to provide customers with the *Best Table in the House*.**

**I also want to thank Dick Reynolds for 44 years of service to the Company. Throughout his career, Dick demonstrated all of the characteristics of an outstanding servant leader and an unending dedication to do whatever was required. He held a number of key leadership positions throughout his time at Libbey and was a member of the Board since the Company went public in 1993. His contributions and counsel will be missed.**

William A. Foley

**William A. Foley**
Chairman of the Board
March 12, 2014

# Board of Directors

**Back row from left to right:**

**Richard I. Reynolds**
Retired Executive Vice President, Strategy Program Management
Libbey Inc.

**Peter C. McC. Howell**
Advisor
*Committees: 1 and 3*

**Ginger Jones**
Senior Vice President, Chief Financial Officer
Plexus Corporation

**John C. Orr**
President, Chief Executive Officer and Director
Myers Industries, Inc.
*Committees: 1 and 3*

**Deborah G. Miller**
Chief Executive Officer
Enterprise Catalyst Group
*Committees: 2 and 3*

**Front row from left to right:**

**Stephanie A. Streeter**
Chief Executive Officer
Libbey Inc.

**Terence P. Stewart**
Managing Partner
Stewart and Stewart

**Carlos V. Duno**
Chief Executive Officer and Owner,
Marcia Owen Associates/ Santa Fe Staffing
CDuno Consulting
*Committees: 1 and 2*

**Carol B. Moerdyk**
Consultant
*Committees: 1 and 2*

**William A. Foley**
Chairman of the Board
Libbey Inc.
*Committees: 1 and 3*


*Committees: (1) Audit, (2) Compensation, (3) Nominating and Governance*

# Executive Leadership Team

**From left to right:**

**Terry E. Hartman**
Vice President,
Engineering, Research & Development

**Sherry L. Buck**
Vice President,
Chief Financial Officer

**Kenneth A. Boerger**
Vice President,
Treasurer

**Salvador Miñarro Villalobos**
Vice President,
General Manager,
Mexico and Latin America

**Timothy T. Paige**
Vice President,
Human Resources

**Stephanie A. Streeter**
Chief Executive Officer

**Daniel P. Ibele**
Vice President,
General Manager,
United States and Canada

**Antoine Jordans**
Vice President,
General Manager,
Europe, Middle East, Africa

**Gary L. Moreau**
Vice President,
General Manager,
China and Asia Pacific

**Susan A. Kovach**
Vice President,
General Counsel,
Secretary

# Five-Year Summary of Selected Financial Data

Selected Financial Information included in Registrant's 2013 Annual Report to Shareholders.

| *Dollars in thousands, except per-share amounts* | 2013[b] [e] [f] | 2012[e] [f] | 2011[e] [f] | 2010[e] [f] | 2009[b][e][g] |
|---|---|---|---|---|---|
| **Operating Results:** | | | | | |
| Net sales | $ 818,811 | $ 825,287 | $ 817,056 | $ 799,794 | $ 748,635 |
| Gross profit [b] [e] | $ 187,339 | $ 195,185 | $ 168,739 | $ 168,013 | $ 133,145 |
| Gross profit margin | 22.9% | 23.7% | 20.7% | 21.0% | 17.8 % |
| Selling, general and administrative expenses | $ 109,981 | $ 113,896 | $ 105,545 | $ 97,390 | $ 94,900 |
| Income from operations (IFO) [b] [e] | $ 72,499 | $ 81,289 | $ 63,475 | $ 68,821 | $ 36,614 |
| IFO margin | 8.9% | 9.8% | 7.8% | 8.6% | 4.9 % |
| Other income (expense) [e] [f] | $ 1,207 | $ (30,887) | $ 5,228 | $ 58,018 | $ 4,053 |
| Earnings before interest and income taxes (EBIT) [b] [e] [f] | $ 73,706 | $ 50,402 | $ 68,703 | $ 126,839 | $ 40,667 |
| EBIT margin | 9.0% | 6.1% | 8.4% | 15.9% | 5.4 % |
| Interest expense [g] | $ 32,006 | $ 37,727 | $ 43,419 | $ 45,171 | $ 66,705 |
| Income (loss) before income taxes [b] [e] [f] [g] | $ 41,700 | $ 12,675 | $ 25,284 | $ 81,668 | $ (26,038) |
| Provision for income taxes | $ 13,241 | $ 5,709 | $ 1,643 | $ 11,582 | $ 2,750 |
| Effective tax rate | 31.8% | 45.0% | 6.5% | 14.2% | (10.6)% |
| Net income (loss) [b] [e] [f] [g] | $ 28,459 | $ 6,966 | $ 23,641 | $ 70,086 | $ (28,788) |
| Net income margin | 3.5% | 0.8% | 2.9% | 8.8% | (3.8)% |
| **Per-Share Amounts:** | | | | | |
| Diluted net income (loss) [b] [e] [f] [g] | $ 1.31 | $ 0.33 | $ 1.14 | $ 3.51 | $ (1.90) |
| Dividends paid | $ — | $ — | $ — | $ — | $ — |
| **Other Information:** | | | | | |
| EBIT | $ 73,706 | $ 50,402 | $ 68,703 | $ 126,839 | $ 40,667 |
| Depreciation & amortization [b] | $ 43,969 | $ 41,471 | $ 42,188 | $ 41,115 | $ 43,166 |
| EBITDA [c] [e] [f] | $ 117,675 | $ 91,873 | $ 110,891 | $ 167,954 | $ 83,833 |
| EBITDA margin | 14.4% | 11.1% | 13.6% | 21.0% | 11.2 % |
| Adjusted EBITDA [c] [h] | $ 134,401 | $ 132,404 | $ 113,089 | $ 114,958 | $ 90,141 |
| Adjusted EBITDA margin | 16.4% | 16.0% | 13.8% | 14.4% | 12.0 % |
| Employees | 6,437 | 6,663 | 6,907 | 7,005 | 6,857 |
| **Balance Sheet Data:** | | | | | |
| Total assets | $ 829,990 | $ 802,176 | $ 799,569 | $ 818,971 | $ 791,514 |
| Total liabilities | $ 699,181 | $ 777,700 | $ 771,789 | $ 807,705 | $ 858,421 |
| Working Capital [a] | $ 173,050 | $ 172,687 | $ 175,145 | $ 181,152 | $ 170,900 |
| % of net sales | 21.1% | 20.9% | 21.4% | 22.6% | 22.8 % |
| Total borrowings - net | $ 411,903 | $ 466,467 | $ 397,360 | $ 447,125 | $ 515,239 |
| **Cash Flow Data:** | | | | | |
| Net cash provided by operating activities | $ 72,729 | $ 8,497 | $ 55,351 | $ 47,699 | $ 102,148 |
| Capital expenditures | $ 49,407 | $ 32,720 | $ 41,420 | $ 28,247 | $ 17,005 |
| Proceeds from asset sales and other | $ 81 | $ 647 | $ 17,700 | $ — | $ 265 |
| Payment of interest on New PIK Notes | $ — | $ — | $ — | $ 29,400 | $ — |
| Free Cash Flow [d] | $ 23,403 | $ (23,576) | $ 31,631 | $ 48,852 | $ 85,408 |

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

*(b) Includes $1,699 in 2013 of depreciation expense included in restructuring charges related to the capacity realignment at our Shreveport, Louisiana, manufacturing facility, net of $(166) depreciation related to our furnace malfunction in Toledo, Ohio. Also, 2009 includes $705 of increased depreciation expense included in restructuring charges relating to the Syracuse, New York, manufacturing facility closure.*

*(c) We believe that EBITDA (earnings before interest, taxes, depreciation and amortization) and Adjusted EBITDA (adjusted earnings before interest, taxes, depreciation and amortization), non-GAAP financial measures, are useful metrics for evaluating our financial performance, as they are measures that we use internally to assess performance.*

*(d) We believe that Free Cash Flow (net cash provided by operating activities, less capital expenditures, plus proceeds from asset sales and other and payment of interest on New PIK Notes), is a useful metric for evaluating our financial performance, as it is the measure that we use internally to assess performance.*

*(e) Includes special charges of $19,663, $4,306 and $2,515 in 2013, 2012 and 2011, respectively, and disclosed in notes 5, 7, 9, 12 and 18 to the Consolidated Financial Statements. In 2012, we also incurred charges of $5,150 for severance. In 2011, we also incurred charges of $2,722 for CEO transition expenses, $1,105 for severance and $(84) for restructuring charges. In 2010, we incurred $2,498 of restructuring charges related to the closure of Syracuse, New York, manufacturing facility, our Mira Loma, California, distribution center and the decorating operations at our Shreveport, Louisiana, manufacturing facility, $1,047 in equity offering fees, and a $2,696 write down of certain after-processing equipment within our EMEA segment, net of a $945 insurance claim recovery recorded in the Americas segment. In 2009, we incurred $3,823 related to the closure of Syracuse, New York, manufacturing facility, our Mira Loma, California, distribution center and the decorating operations at our Shreveport, Louisiana, manufacturing facility and $3,190 in pension settlement charges.*

*(f) Includes $(2,518), $(31,075), $(2,803) and $58,292 for (loss) gain on redemption of debt in 2013, 2012, 2011 and 2010, respectively. In 2013, we also incurred a net gain of $3,922 on a furnace malfunction at our Toledo, Ohio, manufacturing facility. Also, 2011 includes a gain of $6,863 on the sale of land at our Libbey Holland facility and sale of substantially all of the assets of Traex.*

*(g) Interest expense includes a special charge of $2,700 in 2009 to write off finance fees incurred in connection with the exchange of the old PIK Notes.*

*(h) Excludes items noted in (e) and (f) above.*

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

# FORM 10-K

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the fiscal year ended December 31, 2013**

**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)*

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

| Title of Each Class | Name of Each Exchange on Which Registered |
|---|---|
| Common Stock, $.01 par value | NYSE MKT |

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

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

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

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

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

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

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

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

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

The aggregate market value (based on the consolidated tape closing price on June 30, 2013) of the voting stock beneficially held by non-affiliates of the registrant was approximately $492,904,289. For the sole purpose of making this calculation, the term "non-affiliate" has been interpreted to exclude directors and executive officers of the registrant. Such interpretation is not intended to be, and should not be construed to be, an admission by the registrant or such directors or executive officers that any such persons are "affiliates" of the registrant, as that term is defined under the Securities Act of 1934.

The number of shares of common stock, $.01 par value, of the registrant outstanding as of February 28, 2014 was 21,377,290.

**DOCUMENTS INCORPORATED BY REFERENCE**

Certain information required by Items 10, 11, 12, 13 and 14 of Form 10-K is incorporated by reference into Part III hereof from the registrant's Proxy Statement for the Annual Meeting of Shareholders to be held May 13, 2014 ("Proxy Statement").

Certain information required by Part II of this Form 10-K is incorporated by reference from registrant's 2013 Annual Report to Shareholders where indicated.

## TABLE OF CONTENTS

*This Annual Report on Form 10-K, including "Management's Discussion and Analysis of Financial Condition and Results of Operations," contains forward-looking statements regarding future events and future results that are subject to the safe harbors created under the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended. Libbey desires to take advantage of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. These statements are based on current expectations, estimates, forecasts and projections, and the beliefs and assumptions of our management. Words such as "expect," "anticipate," "target," "believe," "intend," "may," "planned," "potential," "should," "will," "would," variations of such words, and similar expressions are intended to identify these forward-looking statements. In addition, any statements that refer to projections of our future financial performance, our anticipated growth and trends in our businesses, and other characterizations of future events or circumstances are forward-looking statements. Readers are cautioned that these forward-looking statements are only predictions and are subject to risks, uncertainties and assumptions that are difficult to predict. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. We undertake no obligation to revise or update any forward-looking statements for any reason.*

## PART I

## Item 1. Business

### *General*

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

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

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

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

### *Growth Strategy*

Our strategic vision is to be the premier provider of glass tableware and related products worldwide. Our Libbey 2015 strategy to accomplish this vision is built on these concepts:

- maximize Libbey's leadership position in key lines of business, including U.S. foodservice and Mexico foodservice and retail;
- increase profitability and improve Libbey's cash generation in Europe;
- accelerate growth in China;
- better leverage our manufacturing and distribution footprint; and
- continue to drive margin expansion and cash flow generation.

We seek to continue to increase our share and profitability of our core North American market in the U.S. foodservice and Mexico foodservice and retail channels by leveraging our leading market positions, superior product development capabilities, high customer service levels and broad distribution network. In China, we have significantly expanded in recent years the number of retail and foodservice distributors to which we sell. The growth in the number and geographic coverage of distributors to which we sell our products is expected to enable us to provide the service levels to our customers that are instrumental in increasing sales of our product. In our European facilities, we continue to explore ways to reduce indirect labor, as well as ways to generate new products and capabilities to more fully utilize our capacity, thus spreading the fixed costs over more pieces and improving cash flows while broadening the reach of our customer base.

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

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

After significantly strengthening our balance sheet in May 2012 by reducing interest rates and extending maturities, we continued to reduce our debt in 2013 by redeeming $45 million of our Senior Secured Notes and prepaying an additional RMB 60.0 million (approximately $9.8 million) of debt in China.

We expect 2014 will continue to present a fragile and challenged world marketplace, and, as a result, we expect growth in most of our markets to be modest. We do expect improving opportunities to grow our business in China and other key lines of business. We expect that, by devoting substantially all free cash flow in 2014 to either debt reduction or investments in new technology or new businesses, we will be better positioned to provide increasing returns to our shareholders.

***Products***

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

Through January 31, 2013, we had an agreement to be the exclusive distributor of Luigi Bormioli glassware in the United States, Canada and Mexico to foodservice users. Effective February 1, 2013, we have an agreement in which we will be the exclusive distributor of Spiegelau and Nachtmann glassware and serveware products to the U.S. foodservice industry. Spiegelau is known for its fine stemware and other drinkware assortments. Nachtmann offers a variety of upscale serveware, decorative products, stemware and drinkware for finer dining establishments.

***Customers***

The customers for our tableware products include approximately 500 foodservice distributors in the United States and Canada. In the retail channel, we sell to mass merchants, department stores, retail distributors, national retail chains and specialty housewares stores. In addition, our business-to-business channel primarily includes customers that use glass containers for candle and floral applications, gourmet food packaging companies, and various OEM applications. In Mexico, we sell to retail mass merchants and wholesale distributors, as well as candle and food packers and various OEM users of custom-molded glass. In Europe, we market glassware to retailers, distributors and decorators that service the retail, foodservice and highly developed business-to-business channel, which includes large breweries and distilleries for which products are decorated with company logos for promotional and resale purposes. We also have other customers who use our products for promotional or other private uses. In China, we sell primarily to distributors and wholesalers. No single customer accounts for 10 percent or more of our sales, although the loss of any of our major customers could have a meaningful effect on us.

### *Sales, Marketing and Distribution*

In 2013, approximately 73 percent of our sales were to customers located in North America, and approximately 27 percent of our sales were to customers located outside of North America. We sell our products to over 100 countries around the world, competing in the tableware markets of Europe, Middle East and Africa (EMEA), Latin America and Asia Pacific, as well as North America.

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

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

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

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

*Foodservice*

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

*Retail*

Our primary customers in the retail channel include national and international mass merchants. In recent years, we have increased our overall retail sales via specialty housewares stores and value-oriented retailers. Based on data we received from Retail Tracking Services of NPD Group, we continue to maintain our leading U.S. market share in the retail market for casual glass beverageware.  Royal Leerdam® and Crisa® products, from Libbey Holland and Libbey Mexico respectively, are sold to similar retail customers in Europe and Mexico, while Libbey Portugal is increasingly positioned with retailers on the Iberian Peninsula. With this retail representation, we are positioned to successfully introduce profitable new products. We also operate outlet stores located at or near several of our manufacturing locations. In addition, we sell select items in the United States on the internet at www.libbey.com.

*Business-to-Business*

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

### *Seasonality*

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

### *Backlog*

As of December 31, 2013, our backlog was approximately $112.3 million, compared to approximately $72.5 million at December 31, 2012. The increase was caused by increased demand by our customers primarily in Europe, as orders have reached more traditional levels due to the continuing economic recovery. Backlog includes orders confirmed with a purchase order for products scheduled to be shipped to customers in a future period. Because orders may be changed and/or canceled, we do not believe that our backlog is necessarily indicative of actual sales for any future period and expect that the majority of these orders will be fulfilled within the current year.

### *Manufacturing and Sourcing*

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

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

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

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

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

### *Materials*

Our primary materials are sand, lime, soda ash, corrugated packaging and colorants. Historically, these materials have been available in adequate supply from multiple sources. However, there may be temporary shortages of certain materials due to weather or other factors, including disruptions in supply caused by material transportation or production delays. Such shortages have not previously had, and are not expected in the future to have, a material adverse effect on our operations. Natural gas is the primary source of energy in our production processes, and periodic variability in the price for natural gas has had and could continue to have an impact on our profitability. Historically, we have used natural gas hedging contracts for a portion of our expected purchases to partially mitigate this impact in North America and Europe. We also experience fluctuations in the freight cost to deliver materials due to the cost of diesel fuel to our facilities, and such changes may affect our earnings and cash flow.

***Research and Development***

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

We employ a team of engineers, in addition to external consultants and University collaboration studies in sciences, to conduct research and development. Our expenditures on research and development activities related to new and/or improved products and processes were $3.4 million in 2013, $2.9 million in 2012 and $3.1 million in 2011. These costs were expensed as incurred.

***Patents, Trademarks and Licenses***

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

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

***Competitors***

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

Competitors in glass tableware include, among others:

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

Other materials such as plastics also compete with glassware.

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

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

Competitors in metalware include, among others:

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

***Environmental Matters***

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

We have shipped, and we continue to ship, waste materials for off-site disposal. However, we are not named as a potentially responsible party with respect to any waste disposal site matters pending prior to June 24, 1993, the date of Libbey's initial public offering and separation from Owens-Illinois, Inc. (Owens-Illinois). Owens-Illinois has been named as a potentially responsible party or other participant in connection with certain waste disposal sites to which we also may have shipped wastes prior to June 24, 1993. We may bear some responsibility in connection with those shipments. Pursuant to an indemnification agreement between Owens-Illinois and Libbey, Owens-Illinois has agreed to defend and hold us harmless against any costs or liabilities we may incur in connection with any such matters identified and pending as of June 24, 1993, and to indemnify us for any liability that results from these matters in excess of $3 million. We believe that if it is necessary to draw upon this indemnification, collection is probable.

Pursuant to the indemnification agreement referred to above, Owens-Illinois is defending us with respect to the King Road landfill. In January 1999, the Board of Commissioners of Lucas County, Ohio instituted a lawsuit against Owens-Illinois, Libbey and numerous other defendants in the U.S. District Court for the Northern District of Ohio to recover costs incurred to address contamination from the King Road landfill formerly operated by the County. The Board of Commissioners dismissed the lawsuit without prejudice in October 2000. In September 2012, the Ohio Department of Environmental Protection (“Ohio EPA”) selected the remedy to be implemented by the County; however, members of a group of potentially responsible parties have appealed Ohio EPA's decision, and Ohio EPA is reconsidering the extent of the required remedy. In view of the uncertainty as to any re-filing of the suit, the remedy, and the number of potentially responsible parties and potential defenses, we are unable to quantify our exposure with respect to the King Road landfill.

On October 10, 1995, Syracuse China Company, our wholly-owned subsidiary, acquired from The Pfaltzgraff Co. (now known as TPC York, Inc., which we refer to as "TPC York") and certain of its subsidiary corporations, the assets operated by them as Syracuse China. TPC York and the New York State Department of Environmental Conservation, which we refer to as the DEC, entered into an Order on Consent effective November 1, 1994, that required TPC York to develop a remedial action plan for and to remediate a landfill, as well as wastewater sludge ponds and adjacent wetlands located on property that Syracuse China Company purchased. Although Syracuse China was not a party to the Order on Consent, as part of the Asset Purchase Agreement with TPC York, which we refer to as the APA, Syracuse China agreed to share a part of the remediation and related expense up to the lesser of 50 percent of such costs or $1.35 million. The approved remedy has been implemented and Syracuse China's payment obligation under the APA has been satisfied.

In addition, Syracuse China has been named as a potentially responsible party by reason of its potential ownership of certain property that adjoins its former plant and that has been designated a subsite of the Onondaga Lake Superfund Site. We believe that any contamination of the subsite was caused by and will be remediated by owners of this site at no cost to Syracuse China. We believe that, even if Syracuse China were deemed to be responsible for any expense in connection with the contamination of the subsite, it is likely that a portion of the expense would be paid by TPC York pursuant to the APA.

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

By letter dated October 30, 2009, the EPA notified Syracuse China and several other potentially responsible parties of potential liability for response costs in connection with the Lower Ley Creek subsite ("Ley Creek Subsite") of the Onondaga Lake Superfund Site. Although it is reasonably possible that the Company or Syracuse China may have liability in connection with the Ley Creek Subsite, we are unable to estimate the magnitude of the potential liability of the Company or Syracuse China associated with the Ley Creek Subsite.

Under the APA, we and TPC York will share any costs for off-premise liability of the kind described above up to an aggregate of $7.5 million. We have no reason to believe that the indemnification would not be honored if it were to become necessary for us to draw upon that indemnification.

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

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

Although we have modified and continue to modify our manufacturing processes and technologies in an effort to reduce our emissions and increase energy efficiency, capital expenditures for property, plant and equipment for environmental control activities were not material during 2013 or 2012 and are not expected to increase significantly in 2014.

### *Employees*

Our employees are vital to achieving our vision to be “the premier provider of tabletop glassware and related products worldwide” and our mission “to create value by delivering quality products, great service and strong financial results through the power of our people worldwide.” We strive to achieve our vision and mission through our values of customer focus, performance, continuous improvement, teamwork, respect and development.

We employed 6,437 persons at December 31, 2013. Approximately 71 percent of our employees are employed outside the U.S., and the majority of our employees are paid hourly and covered by collective bargaining agreements. Libbey Holland's collective bargaining agreement with its unionized employees expires on July 1, 2014. The agreement with our unionized employees in Shreveport, Louisiana expires on December 15, 2014. Agreements with our unionized employees in Toledo, Ohio expire on September 30, 2016. Libbey Mexico's collective bargaining agreements with its unionized employees have no expiration, but wages are reviewed annually and benefits are reviewed every two years. Libbey Portugal does not have a written collective bargaining agreement with its unionized employees but does have an oral agreement that is revisited annually. Libbey China does not have written collective bargaining agreements with its unionized employees but does consult with the unions on various matters.

## Executive Officers of the Registrant

Our executive officers have a wealth of business knowledge, experience and commitment to Libbey. The average years of industry experience of all of our executive officers is over 16 years. On November 30, 2013, Mr. Richard I. Reynolds, formerly Executive Vice President, Strategy Program Management, retired from Libbey after more than 43 years of service with the Company.

| Name and Title | Professional Background |
|---|---|
| Kenneth A. Boerger<br>Vice President<br>and Treasurer | Mr. Boerger, 55, has been Vice President and Treasurer of Libbey Inc. since July 1999. From 1994 to July 1999, Mr. Boerger was Corporate Controller and Assistant Treasurer. Since joining the Company in 1984, Mr. Boerger has held various financial and accounting positions. He has been involved in the Company's financial matters since 1980, when he joined Owens-Illinois, Inc., Libbey's former parent company. |
| Sherry L. Buck<br>Vice President,<br>Chief Financial Officer | Ms. Buck, 50, joined Libbey as Vice President, Chief Financial Officer on August 1, 2012. Ms. Buck came to Libbey from Whirlpool Corporation (NYSE: WHR), which she joined in 1993 and where she most recently served as Chief Financial Officer, Global Product and Enterprise Cost Leadership, since October 2010. From 2009 to October 2010, Ms. Buck was Vice President, Finance - U.S., and from 2007 to the end of 2008 she served as Vice President, Cost Leadership. Previous roles with Whirlpool included Vice President, Finance - International and Corporate Vice President, Business Performance Management. |
| Daniel P. Ibele<br>Vice President,<br>General Manager, U.S. and Canada | Mr. Ibele, 53, has served as Libbey Inc.'s Vice President, General Manager, U.S. and Canada, since August 1, 2012. From June 2010 until that date, Mr. Ibele was Vice President, Global Sales and Marketing. From June 2006 to June 2010, Mr. Ibele was Vice President, General Sales Manager, North America of the Company. From the time he joined Libbey in 1983 until 2006, Mr. Ibele held various marketing and sales positions of increasing responsibility. |
| Susan A. Kovach<br>Vice President,<br>General Counsel and Secretary | Ms. Kovach, 54, has been Vice President, General Counsel and Secretary of Libbey Inc. since July 2004, having joined Libbey in December 2003 as Vice President, Associate General Counsel and Assistant Secretary. Ms. Kovach was Of Counsel to Dykema Gossett PLLC from 2001 through November 2003. She served from 1997 to 2001 as Vice President, General Counsel and Corporate Secretary of Omega Healthcare Investors, Inc. (NYSE: OHI) and from 1998 to 2000 as Vice President, General Counsel and Corporate Secretary of Omega Worldwide, Inc., a NASDAQ-listed firm. Prior to joining Omega Healthcare Investors, Inc., Ms. Kovach was a partner in Dykema Gossett PLLC from 1995 through November 1997 and an associate in Dykema Gossett PLLC from 1985 to 1995. |
| Timothy T. Paige<br>Vice President,<br>Human Resources | Mr. Paige, 56, has served as Vice President, Human Resources since March 2012. From December 2002 until February 2012, he was Vice President, Administration, and from January 1997 until December 2002, Mr. Paige was Vice President and Director of Human Resources of the Company. From May 1995 to January 1997, Mr. Paige was Director of Human Resources of the Company. Prior to joining the Company, Mr. Paige was employed by Frito-Lay, Inc. in human resources management positions. |
| Stephanie A. Streeter<br>Chief Executive Officer | Ms. Streeter, 56, has served as Chief Executive Officer and a director of Libbey since August 1, 2011. Prior to joining Libbey on July 1, 2011, Ms. Streeter was interim Chief Executive Officer of the United States Olympic Committee from March 2009 to March 2010 and served on its Board of Directors from 2004 to 2009. Ms. Streeter also was employed as Chairman and Chief Executive Officer of Banta Corporation, a NYSE-listed provider of printing, supply chain management and related services that was acquired by R.R. Donnelley & Sons Company (NYSE: RRD) in 2007. She joined Banta in 2001 as President and Chief Operating Officer and was appointed Chief Executive Officer in 2002. A member of the Board of Directors of Banta from 2001 to 2007, she was elected Chairman in 2004. Prior to joining Banta, Ms. Streeter was Chief Operating Officer at Idealab. Ms. Streeter also spent 14 years at Avery Dennison Corporation in a variety of product and business management positions. She was Group Vice President of Worldwide Office Products from 1996 to 2000. Ms. Streeter is a member of the Boards of Directors of The Goodyear Tire & Rubber Company (NYSE: GT) (since 2008), Kohl's Corporation (NYSE: KSS) (since 2007) and Catalyst (since 2005). |

## Item 1A. Risk Factors

The following factors are the most significant factors that can impact year-to-year comparisons and may affect the future performance of our businesses. New risks may emerge, and management cannot predict those risks or estimate the extent to which they may affect our financial performance.

## Risks associated with market conditions

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

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

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

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

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

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

Competitors in glass tableware include, among others:

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

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

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

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

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

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

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

We have not funded, and under Mexican law we are not obligated to fund, our Mexican pension plan. As of December 31, 2013, the unfunded amount of the projected benefit obligation for the Mexican pension plan was $39.7 million. In addition, although we have closed participation in our U.S. pension and post-retirement welfare plans, many of our employees participate in, and many of our former employees are entitled to benefits under, our U.S. and non-U.S. defined benefit pension plans and post-retirement welfare plans.

In connection with our employee pension and postretirement welfare plans, we are exposed to market risks associated with changes in the various capital markets. Changes in long-term interest rates affect the discount rate that is used to measure our obligations and related expense. Our total pension and postretirement welfare expense, including pension settlement charges, for all U.S. and non-U.S. plans was $20.4 million and $27.3 million for the fiscal years ended December 31, 2013 and 2012, respectively. We expect our total pension and postretirement welfare expense for all U.S. and non-U.S. plans to decrease to $14.4 million in 2014. Volatility in the capital markets affects the performance of our pension plan asset performance and related pension expense. Based on 2013 year-end data, sensitivity to these key market risk factors is as follows:

- A change of 1 percent in the discount rate would change our total pension and postretirement welfare expense by approximately $4.9 million.

- A change of 1 percent in the expected long-term rate of return on plan assets would change total pension expense by approximately $3.8 million.

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

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

Natural gas is the primary source of energy in most of our production processes. We do not have long-term contracts for natural gas and therefore are subject to market variables and widely fluctuating prices. Consequently, our operating results are strongly linked to the cost of natural gas. As of December 31, 2013, we had fixed price contracts in place for approximately 37.3 percent of our estimated 2014 natural gas needs with respect to our North American manufacturing facilities and approximately 45.5 percent of our estimated 2014 natural gas needs with respect to our international manufacturing facilities. In some countries in which we operate, including China, our ability to put fixed priced contracts in place is limited. We spent $37.2 million and $37.6 million, respectively on natural gas for the year ended December 31, 2013 and 2012. We have no way of predicting to what extent natural gas prices will rise in the future. To the extent that we are not able to offset increases in natural gas prices, such as by passing along the cost to our customers, these increases could adversely impact our margins and operating performance.

## Operational Risks

***If we are unable to renegotiate collective bargaining agreements successfully when they expire, organized strikes or work stoppages by unionized employees may have an adverse effect on our operating performance.***

We are party to collective bargaining agreements that cover most of our manufacturing employees. Libbey Holland's collective bargaining agreement with its unionized employees expires on July 1, 2014. The agreement with our unionized employees in Shreveport, Louisiana expires on December 15, 2014, and the agreements with our unionized employees in Toledo, Ohio expire on September 30, 2016. Libbey Mexico's collective bargaining agreements with its unionized employees have no expiration, but wages are reviewed annually and benefits are reviewed every two years. Libbey Portugal does not have a written collective bargaining agreement with its unionized employees but does have an oral agreement that is revisited annually. Libbey China does not have written collective bargaining agreements with its unionized employees but does consult with the unions on various matters.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- the inability to integrate effectively the operations, products, technologies and personnel of the acquired companies (some of which may be spread out in different geographic regions) and to achieve expected synergies;
- the potential disruption of existing business and diversion of management's attention from day-to-day operations;
- the inability to maintain uniform standards, controls, procedures and policies or correct deficient standards, controls, procedures and policies, including internal controls and procedures sufficient to satisfy regulatory requirements of a public company in the U.S.;
- the incurrence of contingent obligations that were not anticipated at the time of the acquisitions;
- the failure to obtain necessary transition services such as management services, information technology services and others;
- the need or obligation to divest portions of the acquired companies; and
- the potential impairment of relationships with customers.

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

## Financial risks

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

As of December 31, 2013, we had $413.2 million aggregate principal amount of debt outstanding. Although the indenture governing our $405.0 million senior secured notes does not contain financial covenants, both the indenture and our Amended and Restated Senior Secured Credit Agreement contain other covenants that limit our operational and financial flexibility, such as by:

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

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

In addition, our levels of indebtedness could:

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

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

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

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

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

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

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

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

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

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

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

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

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

We have recorded a significant amount of goodwill, which represents the excess of cost over the fair value of the net assets of the business acquired; other identifiable intangible assets, including trademarks and trade names; and fixed assets. Impairment of goodwill, identifiable intangible assets or fixed assets may result from, among other things, deterioration in our performance, adverse market conditions, adverse changes in applicable laws or regulations, including changes that restrict the activities of or affect the products sold by our business, and a variety of other factors. Under U.S. GAAP, we are required to charge the amount of any impairment immediately to operating income. In 2013 and 2012, we did not have any impairment related to goodwill or intangible assets. As of December 31, 2013, we had goodwill and other identifiable intangible assets of $186.7 million and net fixed assets of $265.7 million. During 2013, we incurred a fixed asset impairment charge of $1.9 million for the write-down of fixed assets to estimated fair market value related to our reduced manufacturing capacity at our Shreveport, Louisiana manufacturing facility. During 2012, we did not have an impairment related to fixed assets.

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

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

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

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

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

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

Our operations are capital intensive, requiring us to maintain a large fixed cost base. Our total capital expenditures were $49.4 million and $32.7 million for the years ended December 31, 2013 and 2012, respectively.

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

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

As part of our pension expense, we incurred pension settlement charges of $2.3 million and $4.1 million during 2013 and 2012, respectively. These charges were triggered by excess lump sum distributions to retirees and terminated vested employees. For further discussion of these charges, see note 9 to our consolidated financial statements for the year ended December 31, 2013. To the extent that we experience additional headcount shifts or changes, we may incur further expenses related to our employee pension and postretirement welfare plans, which could have a material adverse effect on our results of operations and financial condition.

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

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

***Governmental conversion controls over the foreign currencies in which we operate could affect our ability to convert the earnings of our foreign subsidiaries into U.S. dollars.***

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

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

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

We recognize the expected future tax benefit from deferred tax assets when realization of the tax benefit is considered more likely than not. Otherwise, a valuation allowance is applied against deferred tax assets. Assessing the recoverability of deferred tax assets requires management to make significant estimates related to expectations of future taxable income and the timing of reversals of temporary differences. To the extent that these factors differ significantly from estimates, our ability to realize the deferred tax assets could be impacted. Additionally, future changes in tax laws could impact our ability to obtain the future tax benefits represented by our deferred tax assets. As of December 31, 2013 and 2012, those jurisdictions having a net deferred tax asset position after valuation allowances had a balance of $9.4 million and $13.0 million, respectively.

**International risks**

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

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

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

Since 2010, fighting among rival drug cartels has led to unprecedented levels of violent crime in Monterrey, Mexico, where we have a large manufacturing facility. This violence presents several risks to our operations, including, among others, that our employees may be directly affected by the violence, that our employees may elect to relocate out of the Monterrey region in order to avoid the risk of violent crime to themselves or their families, that other multi-national companies who have withdrawn their expatriate employees from their operations in the Monterrey vicinity may attempt to lure our Monterrey-based executives with tempting job offers, and that our customers may become increasingly reluctant to visit our Monterrey facility, which could delay new business opportunities and other important aspects of our business. If any of these risks materializes, our business may be materially and adversely affected.

***High levels of inflation and high interest rates in China could adversely affect the operating results and cash flows of our operations there.***

The annual rate of inflation in China, as measured by changes in the Consumer Price Index, has shown volatility. Inflation during 2011 was around 5.0%. Although inflation in China during 2012 and 2013 slowed to 2.6%, Chinese media reports suggest that the inflation rate in 2014 is expected to rise. If this trend were to continue, Libbey China's operating results and cash flows could be adversely affected, thereby adversely affecting our results of operations and financial condition.

**Legal and Regulatory Risks**

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

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

- The cost, compliance and other risks associated with the often conflicting and highly prescriptive regulations we face, especially in the U.S., where inconsistent standards imposed by local, state and federal authorities can increase our exposure to litigation or governmental investigations or proceedings;

- The impact of new, potential or changing regulation that can affect our business plans, such as those relating to the content and safety of our products, as well as the risks and costs of our labeling and other disclosure practices;

- The risks and costs to us and our supply chain of increased focus by U.S. and overseas governmental authorities and non-governmental organizations on environmental matters, such as climate change, the reduction of greenhouse gases and water consumption, including as a result of initiatives that effectively impose a tax on carbon emissions;

- The impact of litigation trends, particularly in our major markets; the relative level of our defense costs, which vary from period to period depending on the number, nature and procedural status of pending proceedings; and the cost and other effects of settlements or judgments, which may require us to make disclosures or take other actions that may affect perceptions of our brand and products;

- The increasing costs and other effects of compliance with U.S. and overseas regulations affecting our workforce and labor practices, including regulations relating to wage and hour practices, immigration, healthcare, retirement and other employee benefits and unlawful workplace discrimination;

- The cost and disruption of responding to governmental audits, investigations or proceedings (including audits of abandoned and unclaimed property, tax audits and audits of pension plans and our compliance with wage and hour laws), whether or not they have merit, and the cost to resolve or contest the results of any such governmental audits, investigations or proceedings;

- The legal and compliance risks associated with information technology, such as the costs of compliance with privacy, consumer protection and other laws, the potential costs associated with alleged security breaches (including the loss of consumer confidence that may result and the risk of criminal penalties or civil liability to consumers or employees whose data is alleged to have been collected or used inappropriately) and potential challenges to the associated intellectual property rights or to our use of that intellectual property; and

- The impact of changes in financial reporting requirements, accounting principles or practices, including with respect to our critical accounting estimates, changes in tax accounting or tax laws (or authoritative interpretations relating to any of these matters), and the impact of settlements of pending or any future adjustments proposed by the IRS or other taxing authorities in connection with our tax audits, all of which will depend on their timing, nature and scope.

***We are subject to various environmental legal requirements and may be subject to new legal requirements in the future; these requirements could have a material adverse effect on our operations.***

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

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

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

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

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

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

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

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

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

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

Our success depends in part on our ability to protect our intellectual property rights. We rely on a combination of patent, trademark, copyright and trade secret laws, licenses, confidentiality and other agreements to protect our intellectual property rights. However, this protection may not be fully adequate. Our intellectual property rights may be challenged or invalidated, an infringement suit by us against a third party may not be successful and/or third parties could adopt trademarks similar to our own. In particular, third parties could design around or copy our proprietary furnace, manufacturing and mold technologies, which are important contributors to our competitive position in the glass tableware industry. We may be particularly susceptible to these challenges in countries where protection of intellectual property is not strong. In addition, we may be accused of infringing or violating the intellectual property rights of third parties. Any such claims, whether or not meritorious, could result in costly litigation and divert the efforts of our personnel. Our failure to protect our intellectual property or prevail in any intellectual property litigation could materially and adversely affect our competitive position, reduce net sales or otherwise harm our business.

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

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

## Item 1B. Unresolved Staff Comments

None.

### Item 2. Properties

At December 31, 2013 we occupied the following square footage at plants and warehouse/distribution facilities:

| | Americas | | EMEA | | U.S. Sourcing | | Other | |
|---|---|---|---|---|---|---|---|---|
| **Location** | **Owned** | **Leased** | **Owned** | **Leased** | **Owned** | **Leased** | **Owned** | **Leased** |
| ***Toledo, Ohio:*** | | | | | | | | |
| Manufacturing | 733,800 | — | | | | | | |
| Warehousing/Distribution | 713,100 | 408,200 | | | | | | |
| ***Shreveport, Louisiana:*** | | | | | | | | |
| Manufacturing | 525,000 | — | | | | | | |
| Warehousing/Distribution | 166,000 | 646,000 | | | | | | |
| ***Monterrey, Mexico:*** | | | | | | | | |
| Manufacturing | 558,000 | 126,000 | | | | | | |
| Warehousing/Distribution | 207,000 | 843,000 | | | | | | |
| ***Leerdam, Netherlands:*** | | | | | | | | |
| Manufacturing | | | 141,000 | — | | | | |
| Warehousing/Distribution | | | 127,000 | 442,000 | | | | |
| ***Laredo, Texas:*** | | | | | | | | |
| Warehousing/Distribution | 149,000 | 126,500 | | | | | | |
| ***West Chicago, Illinois:*** | | | | | | | | |
| Warehousing/Distribution | | | | | — | 249,000 | | |
| ***Marinha Grande, Portugal:*** | | | | | | | | |
| Manufacturing | | | 217,000 | — | | | | |
| Warehousing/Distribution | | | 193,000 | — | | | | |
| ***Langfang, China:*** | | | | | | | | |
| Manufacturing | | | | | | | 217,143 | — |
| Warehousing/Distribution | | | | | | | 232,000 | 67,167 |

These facilities have an aggregate floor space of 7.1 million square feet. We own approximately 59 percent and lease approximately 41 percent of this floor space. In addition to the facilities listed above, our headquarters (Toledo, Ohio), some warehouses (various locations), sales offices (various locations), showrooms (in Toledo, Ohio and New York) and various outlet stores are located in leased space. We also utilize various warehouses as needed on a month-to-month basis.

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

### Item 3. Legal Proceedings

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

### Item 4. Mine Safety Disclosures

Not applicable.

## PART II

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

***Common Stock and Dividends***

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

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| | Price Range | | Cash Dividend Declared | Price Range | | Cash Dividend Declared |
| | High | Low | | High | Low | |
| First Quarter | $ 19.77 | $ 17.80 | $— | $ 15.57 | $ 12.35 | $— |
| Second Quarter | $ 24.77 | $ 17.80 | $— | $ 15.54 | $ 12.72 | $— |
| Third Quarter | $ 26.00 | $ 20.70 | $— | $ 17.64 | $ 13.40 | $— |
| Fourth Quarter | $ 24.32 | $ 20.14 | $— | $ 19.94 | $ 14.80 | $— |

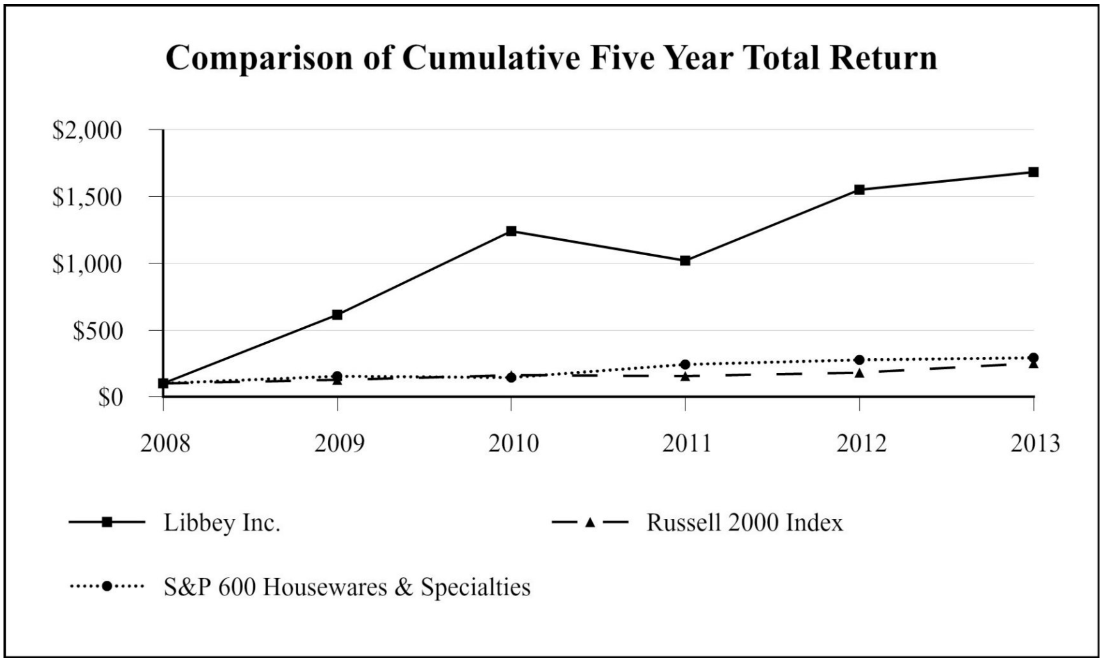
The closing market price of our common stock on February 28, 2014 was $23.29 per share.

On February 28, 2014, there were 772 registered common shareholders of record. Since February 2009, no dividends have been paid and we do not plan to declare any dividends in 2014. The declaration of future dividends is within the discretion of the Board of Directors of Libbey and depends upon, among other things, business conditions, earnings and the financial condition of Libbey.

***Comparison of Cumulative Total Returns***

The graph below compares the total stockholder return on our common stock to the cumulative total return for the Russell 2000 Index (“Russell 2000”), a small-cap index, and the Standard & Poor's Housewares & Specialties Index, a capitalization-weighted index that measures the performance of the housewares sector of the Standard & Poor's SmallCap Index. We selected the Housewares & Specialties Index because at the end of 2013 there is only one other glass tableware manufacturer with stock publicly traded in the U.S. The indices reflect the year-end market value of an investment in the stock of each company in the index, including additional shares assumed to have been acquired with cash dividends, if any.

The graph assumes an $100 investment in our common stock on January 1, 2008, and also assumes investments of $100 in each of the Russell 2000, and the Housewares & Specialties Index, respectively, on January 1, 2008. The value of these investments on December 31 of each year from 2008 through 2013 is shown in the table below the graph.




| Company/Index | Base Period Dec 2008 | Indexed Returns Years Ending Dec 2009 | Dec 2010 | Dec 2011 | Dec 2012 | Dec 2013 |
|---|---|---|---|---|---|---|
| **Libbey Inc.** | **100** | 612.00 | 1,237.60 | 1,019.20 | 1,548.00 | 1,680.00 |
| **Russell 2000 Index** | **100** | 127.17 | 161.32 | 154.59 | 179.86 | 249.69 |
| **S&P 600 Housewares & Specialties** | **100** | 152.97 | 142.98 | 242.12 | 274.87 | 291.15 |

***Equity Compensation Plan Information***

Following are the number of securities and weighted average exercise price thereof under our compensation plans approved and not approved by security holders as of December 31, 2013:

| Plan Category | Number of Securities to be Issued Upon Exercise of Outstanding Options and Rights | Weighted Average Exercise Price of Outstanding Options and Rights | Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans |
|---|---|---|---|
| Equity compensation plans approved by security holders | 988,780 | $ 14.07 | 1,175,652 |
| Equity compensation plans not approved by security holders | — | — | — |
| Total | 988,780 | $ 14.07 | 1,175,652 |

***Issuer Purchases of Equity Securities***

Following is a summary of the 2013 fourth quarter activity in our share repurchase program:

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as part of Publicly Announced Plans or Programs | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs(1) |
|---|---|---|---|---|
| October 1 to October 31, 2013 . . . . . . . . . | — | — | — | 1,000,000 |
| November 1 to November 30, 2013 . . . . . | — | — | — | 1,000,000 |
| December 1 to December 31, 2013 . . . . . | — | — | — | 1,000,000 |
| Total . . . . . . . . . . . . . . . . . . . . . . . . . . . . | — | — | — | 1,000,000 |

(1) We announced on December 10, 2002, that our Board of Directors authorized the purchase of up to 2,500,000 shares of our common stock in the open market and negotiated purchases. There is no expiration date for this authorization. In 2003, 1,500,000 shares of our common stock were purchased for $38.9 million. No additional shares were purchased from 2004 through the year ended December 31, 2013. Our ABL Facility and the indentures governing the Senior Secured Notes significantly restrict our ability to repurchase additional shares.

**Item 6. Selected Financial Data**

Information with respect to Selected Financial Data is incorporated by reference to our 2013 Annual Report to Shareholders.

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

**Forward Looking Statements**

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

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

**General Overview**

Headquartered in Toledo, Ohio, we believe that we have the largest manufacturing, distribution and service network among glass tableware manufacturers in the Western Hemisphere and that we are one of the largest glass tableware manufacturers in the world. Our product portfolio consists of an extensive line of high quality, machine-made glass tableware, including casual glass beverageware, in addition to ceramic dinnerware, metal flatware, hollowware and serveware. We sell our products to foodservice, retail, and business-to-business customers in over 100 countries, with our sales to customers within North America accounting for approximately 73 percent of our total sales. We are the largest manufacturer and marketer of casual glass beverageware in North America for the foodservice and retail channels. Additionally, we believe we are a leading manufacturer and marketer of casual glass beverageware in Europe, the Middle East and Africa (EMEA) and have a growing presence in Asia Pacific.

Effective January 1, 2013, we revised our reporting segments to align with our regionally focused organizational structure, which we believe enables us to better serve customers across the globe. Under this structure, we now report financial results for the Americas, EMEA, U.S. Sourcing and Other. In addition, sales and segment EBIT reflect end market reporting pursuant to which sales and related costs are included in segment EBIT based on the geographical destination of the sale. The revised segment results do not affect any previously reported consolidated financial results. Our three reportable segments are defined below. Our operating segment that does not meet the criteria to be a reportable segment is disclosed as Other.

Americas—includes worldwide sales of manufactured and sourced glass tableware having an end market destination in North and South America.

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

U.S. Sourcing—includes U.S. sales of sourced ceramic dinnerware, metal tableware, hollowware, and serveware.

Other —includes worldwide sales of manufactured and sourced glass tableware having an end market destination in Asia Pacific. Plastic items were included in this segment until we sold substantially all of the assets of our Traex subsidiary on April 28, 2011.

**Executive Overview**

During 2013, the environment in which we operate proved challenging and we expect it to remain so into 2014. The U.S. continued to experience a generally uncertain economic environment. U.S. consumer sentiment deteriorated in the fourth quarter to the weakest level in the past four quarters, and major foodservice indices indicate continued declining restaurant traffic. Many of our largest U.S. retail customers are reporting decreased traffic and average unit retail reductions compared to 2012. While the Mexican economy was stable for the first half of 2013, in the second half of 2013 significant fiscal reform reduced consumer confidence, which drives a sizable portion of the economy. The European economy remains fragile and uneven. The rate of economic growth within China has slowed considerably compared to 2012. Specifically affecting our business is the very tight credit environment and Chinese government tightening on consumption and entertaining, referred to as the "Eight Regulations". Despite these conditions, we achieved a number of financial highlights in 2013 as a result of our commitment to improving our cost structure while leveraging our leadership positions in key lines of business and strengthening our balance sheet. Among the highlights are the following:

- 2013 net sales were $818.8 million.
- 2013 income from operations was $72.5 million.
- 2013 Adjusted EBITDA of $134.4 million, surpassing our previous historical best reached in 2012 of $132.4 million.

Additionally, we continued to strengthen our balance sheet during 2013. On May 7, 2013, we redeemed an aggregate principal amount of $45.0 million of our Senior Secured Notes. In addition, we pre-paid the final €3.3 million (approximately $4.5 million) principal balance, along with accrued interest, on our BES Euro Line on August 14, 2013. Libbey China pre-paid the remaining RMB 60.0 million (approximately $9.8 million) outstanding principal balance on its RMB Loan Contract in 2013. The payments in respect to the RMB Loan Contract were not due until 2014. As of December 31, 2013, we had available capacity of $70.5 million under our ABL credit facility, with no outstanding borrowings under our ABL Facility and $42.2 million in cash on hand.

Libbey continues to successfully implement "Libbey 2015", our comprehensive business strategy launched in 2012 to improve our financial position and our ability to compete effectively in the market today and into the future. Libbey 2015 is centered on reducing our costs and boosting efficiency, reinforcing our leadership position in key channels (particularly U.S. foodservice and Mexico foodservice and retail), accelerating growth in China and reducing our liabilities and the working capital required to operate the core business. In February 2013, we announced our plan to exit sales of certain glassware items, realign production in North America and reduce manufacturing capacity at our Shreveport, Louisiana facility, all within our Americas segment. On May 30, 2013 we commenced the activities we announced in February, and we will substantially complete the relocation of a portion of the production from Shreveport, Louisiana to our Toledo, Ohio and Monterrey, Mexico locations in the first quarter of 2014. In connection with this plan, we expect to incur a pretax charge in the range of approximately $8.0 million to $10.0 million. We expect approximately $5.5 million of the pretax charge to result in cash expenditures. We recorded a pretax charge of $6.5 million in 2013, which included employee termination costs, fixed asset impairment charges, depreciation expense and other restructuring expenses. We expect the realignment to result in 2014 cost savings of $7.0 million to 9.0 million. (See note 7 to the Consolidated Financial Statements for a further discussion.)

In addition, during 2013 we took steps to position Libbey for future growth. In particular, during the first four months of the year, we rebuilt, expanded and added capacity to a furnace in Monterrey, Mexico to make it the largest of its kind in the Western Hemisphere. In October 2013, we ratified our collective bargaining agreements with our unions in Toledo, Ohio. Working with Louisiana Economic Development we announced, in November 2013, a $20.0 million investment that will bring new glass-making technology to our Shreveport, Louisiana manufacturing plant. To reinforce our leadership in key market channels throughout the world, during 2013 we made substantial investments in increasing our sales force, training and development and marketing expense. We believe this will result in increased revenue and profit in future years.

We also undertook a comprehensive analysis of our healthcare plans and the provisions of the Affordable Care Act (ACA) that will impact us over the next several years. As a result we made substantial changes to our healthcare plans for both salaried and hourly associates in the United States that were effective January 1, 2014. The changes were made in part to ensure we do not trigger the ACA excise tax penalty on high cost plans that is scheduled to take effect in 2018.

## Results of Operations

The following table presents key results of our operations for the years 2013, 2012 and 2011:

| Year ended December 31,<br>(dollars in thousands, except percentages and per-share amounts) | 2013 | 2012 | 2011 |
|---|---|---|---|
| Net sales | $ 818,811 | $ 825,287 | $ 817,056 |
| Gross profit (2) | $ 187,339 | $ 195,185 | $ 168,739 |
| *Gross profit margin* | *22.9%* | *23.7%* | *20.7%* |
| Income from operations (IFO) (2)(3) | $ 72,499 | $ 81,289 | $ 63,475 |
| *IFO margin* | *8.9%* | *9.8%* | *7.8%* |
| Earnings before interest and income taxes (EBIT)(1)(2)(3)(4) | $ 73,706 | $ 50,402 | $ 68,703 |
| *EBIT margin* | *9.0%* | *6.1%* | *8.4%* |
| Earnings before interest, taxes, depreciation and amortization (EBITDA)(1)(2)(3)(4) | $ 117,675 | $ 91,873 | $ 110,891 |
| *EBITDA margin* | *14.4%* | *11.1%* | *13.6%* |
| Adjusted EBITDA(1) | $ 134,401 | $ 132,404 | $ 113,089 |
| *Adjusted EBITDA margin* | *16.4%* | *16.0%* | *13.8%* |
| Net income (2)(3)(4) | $ 28,459 | $ 6,966 | $ 23,641 |
| *Net income margin* | *3.5%* | *0.8%* | *2.9%* |
| Diluted net income per share | $ 1.31 | $ 0.33 | $ 1.14 |

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

*(2) 2013 includes a net $8.4 million loss of production at our Toledo, Ohio, manufacturing facility due to a furnace malfunction, $0.4 million of pension settlement charges and $1.7 million of accelerated depreciation on fixed assets that were impaired from discontinuing production of certain glassware in North America and reducing manufacturing capacity at our Shreveport, Louisiana, facility. 2012 includes severance charges of $3.3 million related to the implementation of our new strategic plan. 2011 includes a $1.8 million accrual for an unclaimed property audit, a $0.8 million write-down of unutilized fixed assets in our Americas segment and $0.2 million of restructuring charges. (See notes 5, 7, 9 and 18 to the Consolidated Financial Statements.)*

*(3) In addition to item (2) above, 2013 includes $4.9 million in charges related to discontinuing production of certain glassware in North America and reducing manufacturing capacity at our Shreveport, Louisiana, facility, $1.8 million of pension settlement charges, $1.8 million for abandoned property charges and $0.7 million for executive retirement. 2012 includes $1.9 million of severance related to the implementation of our new strategic plan and $4.3 million of pension curtailment and settlement charges related to the U.S. plans. 2011 includes $2.7 million of CEO transition expenses ($1.7 million of non-cash charges related to accelerated vesting of previously issued equity compensation, with the remainder related to relocation expenses, search fees and other), $0.9 million for an unclaimed property audit, $1.1 million for severance, offset by an equipment credit of $0.8 million and a restructuring credit of $0.3 million related to the closure of the decorating operations at our Shreveport manufacturing facility. (See notes 5, 7, 9 and 18 to the Consolidated Financial Statements.)*

*(4) In addition to item (3) above, 2013 includes a net gain of $3.9 million related to the furnace malfunction at our Toledo, Ohio manufacturing facility and a loss of $2.5 million related to the redemption of $45.0 million of Senior Secured Notes in May 2013. 2012 includes a loss of $31.1 million for the write-off of unamortized finance fees and discounts and call premium payments on the ABL Facility and $360.0 million of 10.0 percent Senior Secured Notes redeemed in May and June 2012, partially offset by the write-off of the debt carrying value adjustment related to the termination of the $80.0 million interest rate swap. 2011 includes a net gain of $3.4 million related to the gain on the sale of substantially all of the assets of Traex, income of $3.4 million related to the gain on the sale of land at our Libbey Holland facility, a loss of $2.8 million related to the redemption of $40.0 million of 10.0 percent Senior Secured Notes and an equipment credit of $0.2 million. (See notes 6, 7, 17 and 18 to the Consolidated Financial Statements).*

**Discussion of 2013 vs. 2012 Results of Operations**

***Net Sales***

For the year ended December 31, 2013, net sales decreased 0.8 percent to $818.8 million, compared to $825.3 million in the prior year. The decrease in net sales was attributable to decreased sales of $19.9 million in the Americas, offset by an increase of $11.7 million and $6.1 million in EMEA and U.S. Sourcing, respectively.

The following table summarizes net sales by operating segment:

| Year ended December 31, (dollars in thousands) | 2013 | 2012 |
|---|---|---|
| Americas | $ 560,840 | $ 580,734 |
| EMEA | 146,455 | 134,778 |
| U.S. Sourcing | 78,302 | 72,234 |
| Other | 33,214 | 37,541 |
| Consolidated | $ 818,811 | $ 825,287 |

***Net Sales — Americas***

Net sales in the Americas were $560.8 million, compared to $580.7 million in 2012, a decrease of 3.4 percent (a decrease of 4.0 percent excluding currency fluctuation). The primary contributor was a 7.7 percent decrease in sales within our retail channel of distribution. Our retail channel was impacted by our decision to exit the sale of certain low margin items as we reconfigured our Americas manufacturing footprint, a loss of share on very price competitive items and softness in consumer spending and reduced traffic. Net sales in our foodservice and business-to-business channels were relatively flat compared to the prior year.

***Net Sales — EMEA***

Net sales in EMEA were $146.5 million, compared to $134.8 million in 2012, an increase of 8.7 percent (an increase of 5.4 percent excluding currency fluctuation). The primary contributor to the increased net sales was increased shipments to EMEA customers in all channels of distribution and the favorable currency impact.

***Net Sales — U.S. Sourcing***

Net sales in U.S. Sourcing were $78.3 million, compared to $72.2 million in 2012, an increase of 8.4 percent. The primary contributors to the increased sales were increased shipments in our foodservice channel.

***Gross Profit***

Gross profit decreased to $187.3 million in 2013, compared to $195.2 million in the prior year. Gross profit as a percentage of net sales decreased to 22.9 percent, compared to 23.7 percent in the prior year. The primary drivers of the $7.8 million decline in gross profit were decreased production activity net of volume-related production costs due to planned furnace rebuilds; relocation of production as part of our realignment; and the furnace malfunction at our Toledo, Ohio manufacturing facility ($24.0 million); and accelerated depreciation related to our North American capacity realignment and furnace rebuilds ($2.5 million). Partially offsetting these unfavorable impacts were a reduction in labor, benefit and pension expenses of $14.3 million and a favorable currency impact of $4.7 million.

***Income From Operations***

Income from operations for the year ended December 31, 2013 decreased $8.8 million, to $72.5 million, compared to $81.3 million in the prior year. Income from operations as a percentage of net sales was 8.9 percent for the year ended December 31, 2013, compared to 9.8 percent in the prior year. The decrease in income from operations is the result of the decrease in gross profit (discussed above), a $4.9 million charge related to discontinuation of production of certain glassware in North America and reduction of manufacturing capacity at our Shreveport, Louisiana, manufacturing facility, $1.8 million of abandoned property expense, and $1.8 million of increased selling and marketing expenses. Partially offsetting these unfavorable expenses was a favorable $7.4 million reduction in labor, benefit and pension expense.

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

EBIT for the year ended December 31, 2013 increased by $23.3 million, or 46.2 percent, to $73.7 million in 2013 from $50.4 million in 2012. EBIT as a percentage of net sales increased to 9.0 percent in 2013, compared to 6.1 percent in the prior year. The increase in EBIT is a result of the $28.6 million decrease in loss on redemption of debt and the favorable impact of $3.9 million associated with the furnace malfunction in Toledo, Ohio, partially offset by the decrease in income from operations (discussed above).

***Segment EBIT***

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

| | December 31, 2013 | | |
|---|---|---|---|
| **(dollars in thousands)** | **Americas** | **EMEA** | **U.S. Sourcing** |
| Segment EBIT, December 31, 2012 | $ 95,833 | $ (714) | $ 11,381 |
| Sales, excluding currency | 69 | 2,522 | 1,054 |
| Manufacturing and distribution | 24 | (421) | (1,217) |
| Selling, general, administrative and other income/expense | 884 | (764) | (1,466) |
| Effects of changing foreign currency rates | 3,448 | 251 | — |
| Segment EBIT, December 31, 2013 | $ 100,258 | $ 874 | $ 9,752 |

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

***Segment EBIT — Americas***

Segment EBIT increased to $100.3 million in 2013, compared to $95.8 million in 2012. Segment EBIT as a percentage of net sales for the Americas increased to 17.9 percent in 2013, compared to 16.5 percent in the prior year. The primary drivers of the $4.4 million increase in Segment EBIT were reduced production related labor, benefit and pension expense of $10.9 million, a favorable currency impact of $3.4 million, reduced repair and maintenance expense of $3.9 million, reduced rent and lease expense of $0.6 million and reduced selling, general, administrative and other income (expense) of $0.9 million. Partially offsetting these favorable items were the unfavorable impact of $17.2 million resulting from decreased production activity net of lower volume-related production costs due to a significant furnace rebuild, and relocation of production as part of our North American manufacturing realignment.

***Segment EBIT — EMEA***

Segment EBIT increased to $0.9 million in 2013, compared to ($0.7) million in 2012. Segment EBIT as a percentage of net sales for EMEA increased to 0.6 percent in 2013, compared to (0.5) percent in the prior-year. The primary driver of the $1.6 million increase in Segment EBIT was the impact of actions taken relative to our Libbey 2015 Strategy to improve cash generation in Europe. The new strategy resulted in a favorable sales impact from increased volume and improved mix of $2.5 million. Partially offsetting this were increases in energy costs of $0.8 million.

***Segment EBIT — U.S. Sourcing***

Segment EBIT decreased to $9.8 million in 2013, compared to $11.4 million in 2012. Segment EBIT as a percentage of net sales for U.S. Sourcing decreased to 12.5 percent in 2013, compared to 15.8 percent in the prior-year. The primary driver of the $1.6 million decrease in Segment EBIT was increased selling, general and administrative expense of $1.5 million resulting from additional workers compensation expense and corporate allocations stemming from increased selling and marketing costs.

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

EBITDA increased by $25.8 million in 2013, to $117.7 million, compared to $91.9 million in 2012. As a percentage of net sales, EBITDA increased to 14.4 percent in 2013, from 11.1 percent in 2012. The key contributors to the increase in EBITDA were those factors discussed above under Earnings Before Interest and Income Taxes (EBIT) and $2.5 million of additional depreciation expense (including $1.7 million of accelerated depreciation on certain fixed assets included in the North American manufacturing capacity realignment).

***Adjusted EBITDA***

Adjusted EBITDA increased by $2.0 million in 2013, to $134.4 million, compared to $132.4 million. As a percentage of net sales, Adjusted EBITDA was 16.4 percent for 2013, compared to 16.0 percent in 2012. The key contributors to the increase in Adjusted EBITDA were those factors discussed above under Earnings Before Interest, Taxes, Depreciation & Amortization (EBITDA) and the elimination of the special items noted below in the reconciliation of net income to EBIT, EBITDA and Adjusted EBITDA.

| **Year ended December 31, (dollars in thousands)** | **2013** | **2012** |
|---|---|---|
| Net income | $ 28,459 | $ 6,966 |
| Add: Interest expense | 32,006 | 37,727 |
| Add: Provision for income taxes | 13,241 | 5,709 |
| Earnings before interest and income taxes (EBIT) | 73,706 | 50,402 |
| Add: Depreciation and amortization | 43,969 | 41,471 |
| Earnings before interest, taxes, deprecation and amortization (EBITDA) | 117,675 | 91,873 |
| Add: Special items before interest and taxes: | | |
| Loss on redemption of debt (see note 6) (1) | 2,518 | 31,075 |
| Severance | — | 5,150 |
| Pension curtailment and settlement charge (see note 9) (2) | 2,252 | 4,306 |
| Furnace malfunction (see note 18) (3) | 4,428 | — |
| Restructuring charges (see note 7) (4) | 6,544 | — |
| Abandoned property (see note 18) | 1,781 | — |
| Executive retirement (see note 12) | 736 | — |
| Depreciation expense included in special items and also in depreciation and amortization above | (1,533) | — |
| Adjusted EBITDA | $ 134,401 | $ 132,404 |

*(1) Loss on redemption of debt for 2013 includes the write-off of unamortized finance fees and call premium on the $45.0 million Senior Secured Notes redeemed in May 2013. Loss on redemption of debt for 2012 relates to the write-off of unamortized finance fees and discounts and call premium payments on the ABL Facility and $360.0 million former Senior Secured Notes redeemed in May and June 2012, partially offset by the write-off of the debt carrying value adjustment related to the termination of the $80.0 million interest rate swap.*

*(2) The pension settlement charge for 2013 and 2012 relates to excess lump sum distributions from the U.S. plans. In addition, 2012 included a pension curtailment charge resulting from the announcement that, as of January 1, 2013, we were ceasing annual company contribution credits to the cash balance accounts in our Libbey U.S. Salaried Pension Plans and SERP.*

*(3) Furnace malfunction relates to loss of production of $8.9 million and disposal of fixed assets of $0.5 million, net of a $5.0 million insurance recovery, at our Toledo, Ohio, manufacturing facility.*

*(4) Restructuring charges relate to discontinuing production of certain glassware in North America and reducing manufacturing capacity at our Shreveport, Louisiana, facility.*

*We sometimes refer to data derived from consolidated financial information but not required by GAAP to be presented in financial statements. Certain of these data are considered "non-GAAP financial measures" under Securities and Exchange Commission (SEC) Regulation G. We believe that non-GAAP data provide investors with a more complete understanding of underlying results in our core business and trends. In addition, we use non-GAAP data internally to assess performance. Although we believe that the non-GAAP financial measures presented enhance investors' understanding of our business and performance, these non-GAAP measures should not be considered an alternative to GAAP.*

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

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

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

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

*We believe that EBITDA is an important supplemental measure for investors in evaluating operating performance in that it provides insight into company profitability and cash flow. Libbey's senior management uses this measure internally to measure profitability and to set performance targets for managers. EBITDA also allows for a measure of comparability to other companies with different capital and legal structures, which accordingly may be subject to different interest rates and effective tax rates, and to companies that may incur different depreciation and amortization expenses or impairment charges.*

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

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

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

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

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

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

We recorded net income of $28.5 million, or $1.31 per diluted share, in 2013, compared to $7.0 million, or $0.33 per diluted share, in 2012. Net income as a percentage of net sales was 3.5 percent in 2013, compared to 0.8 percent in the prior year. The increase in net income and diluted net income per share is generally due to the factors discussed in EBIT above, a $5.7 million reduction in interest expense, and a $7.5 million increase in the provision for income taxes. The reduction in interest expense is primarily the result of lower interest rates on the Senior Secured Notes and lower debt levels due to the redemption of $45.0 million Senior Secured Notes in May 2013. The effective tax rate was 31.8 percent for 2013 compared to 45.0 percent in 2012. The effective tax rate was influenced by jurisdictions with recorded valuation allowances, the impact of tax legislation in certain foreign jurisdictions, changes in the mix of earnings in countries with differing statutory tax rates, changes in accruals related to uncertain tax positions and foreign withholding tax.

## Discussion of 2012 vs. 2011 Results of Operations

### *Net Sales*

For the year ended December 31, 2012, net sales increased 1.0 percent to $825.3 million, compared to $817.1 million in the prior year. The increase in net sales was attributable to increased sales in our Americas and U.S. Sourcing segments partially offset by decreased sales in our EMEA segment.

The following table summarizes net sales by operating segment:

| Year ended December 31, (dollars in thousands) | 2012 | 2011 |
|---|---|---|
| Americas | $ 580,734 | $ 571,394 |
| EMEA | 134,778 | 144,575 |
| U.S. Sourcing | 72,234 | 65,601 |
| Other | 37,541 | 35,486 |
| Consolidated | $ 825,287 | $ 817,056 |

#### *Net Sales — Americas*

Net sales in the Americas were $580.7 million in 2012, compared to $571.4 million in 2011, an increase of 1.6 percent (an increase of 2.9 percent excluding currency fluctuation). The primary contributors were a 3.8 percent increase and 5.2 percent increase in sales within our foodservice and business-to-business channels of distribution resulting from increased shipments to our customers and improved mix. Partially offsetting these was a 2.0 percent decrease in sales within our retail channel, primarily resulting from unfavorable effects of currency.

#### *Net Sales — EMEA*

Net sales in EMEA were $134.8 million in 2012, compared to $144.6 million in 2011, a decrease of 6.8 percent. The decrease in sales is driven by the unfavorable effects of currency. Excluding currency fluctuations, net sales would have increased 0.6 percent.

#### *Net Sales — U.S. Sourcing*

Net sales in the U.S. Sourcing segment were $72.2 million in 2012, compared to $65.6 million in 2011, an increase of 10.1 percent. This increase in sales resulted from increased shipments and improved mix in our foodservice channel.

### *Gross Profit*

Gross profit increased to $195.2 million in 2012, compared to $168.7 million in the prior year. Gross profit as a percentage of net sales increased to 23.7 percent, compared to 20.7 percent in the prior year. The primary drivers of the $26.4 million gross profit increase were a $22.5 million impact from changes in sales volume and mix, increased production activity net of volume-related production costs of $3.3 million, lower natural gas costs of $3.6 million, lower direct material costs (primarily packaging) of $2.6 million and lower freight costs of $1.0 million in 2012 compared to 2011, offset by $3.3 million in severance, $2.6 million from increased employee incentive accruals and a $1.9 million adverse currency impact due to the changes in the value of the Mexican peso and euro. Further, 2011 included an $1.8 million expense for an unclaimed property audit and an asset write-down of $0.8 million. 2011 also included gross profit of $1.0 million related to Traex, substantially all of the assets of which were sold in late April 2011.

### *Income From Operations*

Income from operations for the year ended December 31, 2012 increased $17.8 million, to $81.3 million, compared to $63.5 million in the prior year. Income from operations as a percentage of net sales was 9.8 percent for the year ended December 31, 2012, compared to 7.8 percent in the prior year. The increase in income from operations is a result of gross profit fluctuations (discussed above), net of an $8.4 million increase in selling, general and administrative expenses. The increase in selling, general and administrative expense is attributable to $4.5 million of pension settlement and curtailment charges, $3.1 million of severance expense related to organizational changes and implementation of our new strategy, $2.1 million of additional legal and professional fees, $1.1 million of additional selling and marketing expenses and $2.0 million from increased employee incentive accruals, offset by a favorable currency impact of $1.5 million as well as $2.7 million in CEO transition expenses in 2011 that did not repeat in 2012.

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

EBIT for the year ended December 31, 2012 decreased by $18.3 million, or 26.6 percent, to $50.4 million in 2012 from $68.7 million in 2011. EBIT as a percentage of net sales decreased to 6.1 percent in 2012, compared to 8.4 percent in the prior year. The decrease in EBIT is a result of a $28.3 million increase in loss on redemption of debt from the debt refinancing (write-off of unamortized finance fees and discounts and call premium payments related to the redemption of our former Senior Secured Notes), partially offset by an increase in income from operations (discussed above). 2011 also included a $3.4 million gain on the sale of land at our Libbey Holland facility and a $3.4 million gain on the sale of substantially all of the assets of Traex.

***Segment EBIT***

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

| | December 31, 2012 | | |
|---|---|---|---|
| **(dollars in thousands)** | **Americas** | **EMEA** | **U.S. Sourcing** |
| Segment EBIT, December 31, 2011 | $ 74,725 | $ 3,924 | $ 10,394 |
| Sales, excluding currency | 21,104 | (2,406) | 1,812 |
| Manufacturing and distribution | 771 | (3,062) | 316 |
| Selling, general, administrative and other income/expense | (457) | 1,061 | (1,141) |
| Effects of changing foreign currency rates | (310) | (231) | — |
| Segment EBIT, December 31, 2012 | $ 95,833 | $ (714) | $ 11,381 |

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

***Segment EBIT — Americas***

Segment EBIT increased to $95.8 million in 2012, compared to $74.7 million in 2011. Segment EBIT as a percentage of net sales for the Americas increased to 16.5 percent in 2012, compared to 13.1 percent in the prior year. The primary drivers of the $21.1 million increase in Segment EBIT were a $21.1 million favorable impact from changes in sales volume and mix.

***Segment EBIT — EMEA***

Segment EBIT decreased to ($0.7) million in 2012, compared to $3.9 million in 2011. Segment EBIT as a percentage of net sales for EMEA decreased to (0.5) percent in 2012, compared to 2.7 percent in the prior-year. The primary drivers of the $4.6 million decrease in Segment EBIT were a $2.4 million unfavorable impact from changes in sales volume and mix and $2.7 million of increased energy costs. These unfavorable items were partially offset by reduced selling, general, administrative and other income (expense) of $1.1 million primarily resulting from lower labor and benefit expenses and reduced allocations.

***Segment EBIT — U.S. Sourcing***

Segment EBIT increased by $1.0 million, or 9.5 percent, to $11.4 million in 2012, compared to $10.4 million in 2011. Segment EBIT as a percentage of net sales remained flat compared to 2011. The impact of increased sales to World Tableware and Syracuse China customers contributed $1.8 million to the increased Segment EBIT. Partially offsetting this was an increase in selling, general and administrative expenses from increased allocations resulting from higher selling and marketing costs.

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

EBITDA decreased by $19.0 million in 2012, to $91.9 million, compared to $110.9 million in 2011. As a percentage of net sales, EBITDA decreased to 11.1 percent in 2012, from 13.6 percent in 2011. The key contributors to the decrease in EBITDA were those factors discussed above under EBIT.

### *Adjusted EBITDA*

Adjusted EBITDA increased by $19.3 million in 2012, to $132.4 million, compared to $113.1 million. As a percentage of net sales, Adjusted EBITDA was 16.0 percent for 2012, compared to 13.8 percent in 2011. The key contributors to the increase in Adjusted EBITDA were those factors discussed above under Earnings Before Interest, Taxes, Depreciation & Amortization (EBITDA) and the elimination of the special items noted below in the reconciliation of net income to EBIT, EBITDA and Adjusted EBITDA.

| **Year ended December 31, (dollars in thousands)** | **2012** | **2011** |
|---|---|---|
| Net income | $ 6,966 | $ 23,641 |
| Add: Interest expense | 37,727 | 43,419 |
| Add: Provision for income taxes | 5,709 | 1,643 |
| Earnings before interest and income taxes (EBIT) | 50,402 | 68,703 |
| Add: Depreciation and amortization | 41,471 | 42,188 |
| Earnings before interest, taxes, deprecation and amortization (EBITDA) | 91,873 | 110,891 |
| Add: Special items before interest and taxes: | | |
| Loss on redemption of debt (see note 6) (1) | 31,075 | 2,803 |
| Severance (2) | 5,150 | 1,105 |
| Pension curtailment and settlement charge (see note 9) (3) | 4,306 | — |
| Gain on sale of land at Libbey Holland facility | — | (3,445) |
| Gain on sale of Traex (see note 17) | — | (3,418) |
| CEO transition expenses | — | 2,722 |
| Abandoned property (see note 18) | — | 2,719 |
| Equipment credit | — | (1,021) |
| Fixed asset write-down (see note 5) (4) | — | 817 |
| Facility closure credit (5) | — | (84) |
| Adjusted EBITDA | $ 132,404 | $ 113,089 |

*(1) Loss on redemption of debt relates to the write-off of unamortized finance fees and discounts and call premium payments on the ABL Facility and $360.0 million former Senior Secured Notes redeemed in May and June 2012, partially offset by the write-off of the debt carrying value adjustment related to the termination of the $80.0 million interest rate swap. 2011 includes the write-off of unamortized finance fees and discounts and call premium payments on the $40.0 million former Senior Secured Notes redeemed in March 2011.*

*(2) The 2012 severance charges relate to the implementation of our new strategic plan.*

*(3) The pension settlement charge relates to excess lump sum distributions from the U.S. plans. The pension curtailment charge resulted from the announcement that, as of January 1, 2013, we were ceasing annual company contribution credits to the cash balance accounts in our Libbey U.S. Salaried Pension Plans and SERP.*

*(4) Fixed asset impairment charges are related to unutilized fixed assets in our Americas segment.*

*(5) Facility closure credit is related to the closure of our Syracuse, New York, manufacturing facility and the decorating operations at our Shreveport manufacturing facility.*

*We sometimes refer to data derived from consolidated financial information but not required by GAAP to be presented in financial statements. Certain of these data are considered "non-GAAP financial measures" under SEC Regulation G. We believe that certain non-GAAP data provide investors with a more complete understanding of underlying results in our core business and trends. In addition, we use non-GAAP data internally to assess performance. Although we believe that the non-GAAP financial measures presented enhance investors' understanding of our business and performance, these non-GAAP measures should not be considered an alternative to GAAP. For our definition of these non-GAAP measures and certain limitations, see the Adjusted EBITDA section in the Discussion of 2013 vs. 2012 Results of Operations above.*

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

We recorded net income of $7.0 million, or $0.33 per diluted share, in 2012, compared to $23.6 million, or $1.14 per diluted share, in 2011. Net income as a percentage of net sales was 0.8 percent in 2012, compared to 2.9 percent in the prior year. The reduction in net income and diluted net income per share is generally due to the factors discussed in EBIT above, a $5.7 million reduction in interest expense, and a $4.1 million increase in the provision for income taxes. The reduction in interest expense is primarily the result of lower interest rates in the last seven months of 2012 from refinancing our senior notes. The effective tax rate was 45.0 percent for 2012 compared to 6.5 percent in 2011. The effective tax rate was influenced by non-deductible foreign currency losses related to our Mexican operations, an increase in foreign withholding taxes and activity in jurisdictions with recorded valuation allowances and changes in the mix of earnings in countries with differing statutory tax rates.

**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. At December 31, 2013, we had no borrowings outstanding under our $100.0 million ABL Facility and we had $6.2 million in letters of credit issued under that facility. We had $70.5 million of unused availability remaining under the ABL Facility at December 31, 2013, as compared to $68.6 million of unused availability at December 31, 2012. In addition, we had $42.2 million of cash on hand at December 31, 2013, compared to $67.2 million of cash on hand at December 31, 2012. Of our total cash on hand at December 31, 2013 and December 31, 2012, $20.1 million and $23.6 million, respectively, were held in foreign subsidiaries and can be repatriated primarily through the repayment of intercompany loans without creating additional income tax expense. For further information regarding potential dividends from our non-U.S. subsidiaries, see note 8 to the Consolidated Financial Statements.

On May 7, 2013, Libbey Glass Inc. redeemed an aggregate principal amount of $45.0 million of our outstanding Senior Secured Notes due 2020. We funded this redemption using cash on hand and borrowings under our ABL Facility.

On August 14, 2013, Libbey Portugal pre-paid the final €3.3 million (approximately $4.5 million) principal payment along with accrued and unpaid interest on its BES Euro Line, which was scheduled to mature in December 2013. Additionally, Libbey China pre-paid the remaining RMB 60.0 million (approximately $9.8 million) outstanding principal balance on its RMB Loan Contract (construction loan) in 2013. The payments in respect to the RMB Loan Contract were not due until 2014.

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

***Balance Sheet and Cash Flows***

***Cash and Equivalents***

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

***Working Capital***

The following table presents our working capital components:

| **December 31,<br>(dollars in thousands, except percentages and DSO, DIO, DPO and DWC)** | **2013** | **2012** |
|---|---|---|
| Accounts receivable — net | $ 94,549 | $ 80,850 |
| Less: Receivable on furnace malfunction insurance claim | 5,000 | — |
| Accounts receivable — net, excluding receivable on insurance claim | $ 89,549 | $ 80,850 |
| *DSO* [(1)] | *39.9* | *35.8* |
| Inventories — net | $ 163,121 | $ 157,549 |
| *DIO* [(2)] | *72.7* | *69.7* |
| Accounts payable | $ 79,620 | $ 65,712 |
| *DPO* [(3)] | *35.5* | *29.1* |
| Working capital [(4)] | $ 173,050 | $ 172,687 |
| *DWC* [(5)] | *77.1* | *76.4* |
| *Percentage of net sales* | *21.1%* | *20.9%* |

*(1) Days sales outstanding (DSO) measures the number of days it takes to turn receivables into cash.*
*(2) Days inventory outstanding (DIO) measures the number of days it takes to turn inventory into cash.*
*(3) Days payable outstanding (DPO) measures the number of days it takes to pay the balances of our accounts payable.*

(4) *Working capital is defined as net accounts receivable excluding receivables on insurance claims related to the furnace malfunction plus net inventories less accounts payable. See below for further discussion as to the reasons we believe this non-GAAP financial measure is useful.*

(5) *Days working capital (DWC) measures the number of days it takes to turn our working capital into cash.*

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

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

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

Working capital, defined as net accounts receivable excluding receivables on insurance claims related to the furnace malfunction plus net inventories less accounts payable, increased by $0.4 million in 2013, compared to 2012. As a percentage of net sales, working capital increased to 21.1 percent in 2013, compared to 20.9 percent in 2012. Working capital remained flat with the prior year, as the result of higher inventories and receivables offset by higher accounts payable. The impact of currency increased total working capital by $1.3 million at December 31, 2013, primarily driven by the euro and Chinese RMB.

***Borrowings***

The following table presents our total borrowings:

| (dollars in thousands) | Interest Rate | Maturity Date | December 31, 2013 | December 31, 2012 |
|---|---|---|---|---|
| Borrowings under ABL Facility | floating | May 18, 2017 | $ — | $ — |
| Senior Secured Notes | 6.875% (1) | May 15, 2020 | 405,000 | 450,000 |
| Promissory Note | 6.00% | January, 2014 to September, 2016 | 681 | 903 |
| RMB Loan Contract | floating | January, 2014 | — | 9,522 |
| RMB Working Capital Loan | floating | September, 2014 | 5,157 | — |
| BES Euro Line | floating | December, 2013 | — | 4,362 |
| AICEP Loan | 0.00% | January, 2016 to July 30, 2018 | 2,389 | 1,272 |
| Total borrowings | | | 413,227 | 466,059 |
| Plus — carrying value adjustment on debt related to the Interest Rate Agreement (1) | | | (1,324) | 408 |
| Total borrowings — net (2) (3) | | | $ 411,903 | $ 466,467 |

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

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

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

We had total borrowings of $413.2 million at December 31, 2013, compared to total borrowings of $466.1 million at December 31, 2012. The $52.8 million decrease in borrowings was primarily the result of the previously discussed $45.0 million aggregate principal redemption on our Senior Secured Notes due 2020. Additional borrowing decreases were attributed to the RMB 60.0 million (approximately $9.8 million) pre-payment of the RMB Loan Contract and €3.3 million (approximately $4.5 million) pre-payment on the BES Euro Line. On September 2, 2013, Libbey China entered into an RMB 31.5 million (approximately $5.2 million) working capital loan to cover seasonal working capital needs.

Of our total borrowings, $50.2 million, or approximately 12.1 percent, was subject to variable interest rates at December 31, 2013. A change of one percentage point in such rates would result in a change in interest expense of approximately $0.5 million on an annual basis.

Included in interest expense is the amortization of discounts, warrants and other financing fees. These items amounted to $1.8 million, $2.4 million and $4.4 million for the years ended December 31, 2013, 2012 and 2011, respectively.

***Cash Flow***

The following table presents key drivers to our Free Cash Flow for 2013, 2012 and 2011.

| **Year ended December 31, (dollars in thousands)** | **2013** | **2012** | **2011** |
|---|---|---|---|
| Net cash provided by operating activities | $ 72,729 | $ 8,497 | $ 55,351 |
| Capital expenditures | (49,407) | (32,720) | (41,420) |
| Net proceeds from sale of Traex | — | — | 12,478 |
| Proceeds from asset sales and other | 81 | 647 | 5,222 |
| Free Cash Flow (1) | $ 23,403 | $ (23,576) | $ 31,631 |

*(1) We define Free Cash Flow as net cash provided by operating activities less capital expenditures plus proceeds from asset sales (including the sale of substantially all of the assets of Traex). The most directly comparable U.S. GAAP financial measure is net cash provided by operating activities.*

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

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

***Discussion of 2013 vs. 2012 Cash Flow***

Our net cash provided by operating activities was $72.7 million in 2013, compared to $8.5 million in 2012, or an increase of $64.2 million. Contributing to the improvement in cash provided by operating activities were a reduction in pension and non-pension postretirement payments of $92.9 million, of which $79.7 million represents the 2012 contribution to our U.S. pension plans to fully fund our target obligations under the Employee Retirement Income Security Act, and a reduction in interest payments of $14.1 million. Partially offsetting these were an unfavorable cash flow impact of working capital (accounts receivable, inventories and accounts payable) of $6.9 million, unfavorable impact of labor related accruals of $14.6 million, increased income tax payments of $7.5 million, payments in settlement of abandoned property audits of $4.5 million, an unfavorable change in prepaid expenses of $3.7 million, restructuring cash payments of $2.6 million and 2012 interest rate swap proceeds of $3.6 million.

Our net cash used in investing activities was ($49.3) million and ($32.1) million in the 2013 and 2012, respectively, primarily representing capital expenditures.

Net cash provided by (used in) financing activities was a use of ($49.1) million in 2013, compared to a source of $32.3 million in 2012, or a change of $81.4 million. Contributing to the decrease in net cash provided by (used in) financing activities in 2013 were the redemption of $45.0 million of Senior Secured Notes, together with the payment of $1.4 million of related call premiums, and other debt net repayments of $8.2 million, partially offset by cash received from stock option exercises of $5.4 million. During 2012, we received Senior Secured Note proceeds of $450.0 million, offset by former Senior Note payments of $360.0 million, call premium payments of $23.6 million, debt issuance costs of $13.5 million, and other debt net repayments of $21.9 million.

At December 31, 2013, our cash balance was $42.2 million, a decrease of $25.0 million from $67.2 million at December 31, 2012.

Our Free Cash Flow was $23.4 million during 2013, compared to ($23.6) million in 2012, an improvement of $47.0 million. The primary contributors to this change were the $64.2 million favorable cash flow impact from operating activities in 2013, as discussed above, offset by an additional $16.7 million in capital expenditures.

*Discussion of 2012 vs. 2011 Cash Flow*

Our net cash provided by operating activities was $8.5 million in 2012, compared to $55.4 million in 2011, or a reduction of $46.9 million. The major factors impacting cash flow from operations were the unfavorable cash flow of $67.3 million in changes from the pension and non-pension postretirement benefits, which includes the $79.7 million contribution to the U.S. pension plans from the Senior Secured Note proceeds, the $16.7 million reduction in net income and $9.5 million from changes in accrued interest and amortization of discounts, warrants and finance fees, partially offset by $33.4 million of favorable cash flow impact related to our debt refinancing and $12.8 million change in income taxes resulting primarily from lower tax payments.

Net cash used in investing activities was $32.1 million in 2012, compared to $23.7 million in 2011. During 2012, we had capital expenditures of $32.7 million, offset by proceeds of $0.6 million from asset sales. During 2011, we had capital expenditures of $41.4 million, offset by proceeds of $12.5 million on the sale of substantially all of the assets of Traex and $5.2 million from other asset sales, primarily from the sale of land at our Libbey Holland facility and Syracuse China facility.

Net cash provided by (used in) financing activities was a source of $32.3 million in 2012, compared to a use of ($49.5) million in 2011, or a change of $81.7 million. During 2012, we received Senior Secured Note proceeds of $450.0 million, offset by former Senior Secured Note payments of $360.0 million, call premium payments of $23.6 million, debt issuance costs of $13.5 million, and other debt payments of $23.1 million. During 2011, we redeemed $40.0 million of our former Senior Secured Notes and made other debt repayments of $14.1 million, paid a related call premium of $1.2 million, partially offset by warrant proceeds of $5.5 million.

At December 31, 2012, our cash balance was $67.2 million, an increase of $8.9 million from $58.3 million at December 31, 2011.

Free Cash Flow was ($23.6) million in 2012, compared to $31.6 million in 2011, a reduction of $55.2 million. The primary contributors to this change were the reduction in cash flows from operating activities, primarily driven by our contribution of $79.7 million to our U.S. pension plans and the prior year cash proceeds on the sale of Traex assets and other asset sales, offset by a decrease in capital expenditures in the current period, all as discussed above.

***Derivatives***

We had an Interest Rate Agreement (Old Rate Agreement) in place through April 18, 2012 with respect to $80.0 million of our former Senior Secured Notes as a means to mange our fixed to variable interest rate ratio. On April 18, 2012, we called the Old Rate Agreement at fair value and received proceeds of $3.6 million.

On June 18, 2012, we entered into an Interest Rate Agreement with a notional amount of $45.0 million that is to mature in 2020 (New Rate Agreement). The New Rate Agreement was executed in order to convert a portion of the Senior Secured Notes fixed rate debt into floating rate debt and maintain a capital structure containing fixed and floating rate debt. Prior to May 15, 2015, but not more than once in any twelve-month period, the counterparty may call up to 10 percent of the New Rate Agreement at a call price of 103 percent. The New Rate Agreement is callable at the counterparty's option, in whole or in part, at any time on or after May 15, 2015 at set call premiums. At July 1, 2013, we de-designated 10 percent of the New Rate Agreement representing $4.5 million in order to keep the designated notional amount of the New Rate Agreement in alignment with 10 percent of our Senior Secured Notes. The variable interest rate for our borrowings related to the New Rate Agreement at December 31, 2013, excluding applicable fees, is 5.50 percent. This New Rate Agreement expires on May 15, 2020. Total remaining Senior Secured Notes not covered by the New Rate Agreement have a fixed interest rate of 6.875 percent per year through May 15, 2020. If the counterparty to this New Rate Agreement were to fail to perform, this New Rate Agreement would no longer afford us a variable rate. However, we do not anticipate non-performance by the counterparty. The interest rate swap counterparty was rated A+, as of December 31, 2013, by Standard and Poor's.

The fair market value for the New Rate Agreement was a $2.1 million liability at December 31, 2013 and a $0.3 million asset at December 31, 2012. The fair market value of the New Rate Agreement is based on the market standard methodology of netting the discounted expected future fixed cash receipts and the discounted future variable cash payments. The variable cash payments are based on an expectation of future interest rates derived from observed market interest rate forward curves.

We also use commodity futures contracts related to forecasted future North American natural gas requirements. The objective of these futures contracts is to reduce the effects of fluctuations and price movements in the underlying commodity. We consider our forecasted natural gas requirements in determining the quantity of natural gas to hedge. We combine the forecasts with historical observations to establish the percentage of forecast eligible to be hedged, typically ranging from 40 percent to

70 percent of our anticipated requirements up to eighteen months in the future. The fair values of these instruments are determined from market quotes. At December 31, 2013, we had commodity futures contracts for 1,520,000 million British Thermal Units (BTUs) of natural gas with a fair market value of a $0.4 million asset. We have hedged a portion of our forecasted transactions through June 2015. At December 31, 2012, we had commodity futures contracts for 2,400,000 million BTUs of natural gas with a fair market value of a $0.4 million liability. The counterparties for these derivatives were rated BBB+ or better as of December 31, 2013, by Standard & Poor's.

***Share Repurchase Program***

Since mid-1998, we have repurchased 5,125,000 shares for $141.1 million, as authorized by our Board of Directors. As of December 31, 2013, authorization remains for the purchase of an additional 1,000,000 shares. During 2013 and 2012, we did not repurchase any common stock. Our debt agreements significantly restrict our ability to repurchase additional shares.

***Contractual Obligations***

The following table presents our existing contractual obligations at December 31, 2013 and related future cash requirements:

| | Payments Due by Period | | | | |
|---|---|---|---|---|---|
| **Contractual Obligations[(1)]<br>(dollars in thousands)** | **Total** | **Less than 1 Year** | **1-3 Years** | **3-5 Years** | **More than 5 Years** |
| Borrowings | $ 413,227 | $ 5,391 | $ 1,242 | $ 1,594 | $ 405,000 |
| Interest payments[(2)] | 181,272 | 28,107 | 55,711 | 55,688 | 41,766 |
| Long-term operating leases | 83,667 | 15,070 | 18,588 | 16,144 | 33,865 |
| Pension and nonpension[(3)] | 11,079 | 11,079 | — | — | — |
| Purchase obligations[(4)] | 51,940 | 28,956 | 16,709 | 6,275 | — |
| Long-term incentive plans | 3,348 | 1,602 | 1,746 | — | — |
| Total obligations | $ 744,533 | $ 90,205 | $ 93,996 | $ 79,701 | $ 480,631 |

*(1) Amounts reported in local currencies have been translated at 2013 exchange rates.*

*(2) The obligations for interest payments are based on December 31, 2013 debt levels and interest rates.*

*(3) This amount represents 2014 expected contributions to our global pension and nonpension benefit plans. We have not estimated pension contributions beyond 2013 due to the significant impact that return on plan assets and changes in discount rates might have on such amounts.*

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

In addition to the above, we have commercial commitments secured by letters of credit and guarantees. Our letters of credit outstanding at December 31, 2013, totaled $6.2 million.

We are unable to make a reasonably reliable estimate as to when cash settlement with taxing authorities may occur for our unrecognized tax benefits. Therefore, our liability for unrecognized tax benefits of $1.3 million at December 31, 2013 is not included in the table above. See note 8 to the Consolidated Financial Statements for additional information.

## CRITICAL ACCOUNTING ESTIMATES

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

### Revenue Recognition

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

**Allowance for Doubtful Accounts**

Our accounts receivable balance, net of reserves, was $94.5 million in 2013, compared to $80.9 million in 2012. The reserve balance was $5.8 million in 2013, compared to $5.7 million in 2012. The allowance for doubtful accounts is established through charges to the provision for bad debts. We regularly evaluate the adequacy of the allowance for doubtful accounts based on historical trends in collections and write-offs, our judgment as to the probability of collecting accounts and our evaluation of business risk. This evaluation is inherently subjective, as it requires estimates that are susceptible to revision as more information becomes available. Accounts are determined to be uncollectible when the debt is deemed to be worthless or only recoverable in part and are written off at that time through a charge against the allowance.

**Slow-Moving and Obsolete Inventory**

We identify slow-moving or obsolete inventories and estimate appropriate loss provisions accordingly. We recognize inventory loss provisions based upon excess and obsolete inventories driven primarily by future demand forecasts. At December 31, 2013, our inventories were $163.1 million, with loss provisions of $4.9 million, compared to inventories of $157.5 million and loss provisions of $4.1 million at December 31, 2012.

**Asset Impairment**

***Fixed Assets***

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

Determination as to whether and how much an asset is impaired involves significant management judgment involving highly uncertain matters, including estimating the future success of product lines, future sales volumes, future selling prices and costs, alternative uses for the assets, and estimated proceeds from disposal of the assets. However, the impairment reviews and calculations are based on estimates and assumptions that take into account our business plans and long-term investment decisions. During 2013, we decided to reduce manufacturing capacity at our Shreveport, Louisiana, manufacturing facility, which represented an indicator of impairment for that asset group. Accordingly, our impairment analysis resulted in a write-down of our carrying value for those assets to the estimated fair value less cost to sell. In 2011, we wrote down unutilized fixed assets within the Americas segment. Both impairments are disclosed in note 5 to the Consolidated Financial Statements. There were no indicators of impairment noted in 2012 that required an impairment analysis to be performed for the Company's property, plant and equipment.

In accordance with FASB ASC 360, we also perform an impairment analysis for our definite useful lived intangible assets when factors indicating impairment are present. There were no indicators of impairment noted in 2013 or 2012 that would require an impairment analysis to be performed for our definite useful lived intangible assets.

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

Goodwill at December 31, 2013 was $167.4 million, representing approximately 20.2 percent of total assets. Goodwill represents the excess of cost over fair value of assets acquired for each reporting unit. Our reporting units represent the lowest level of the business for which financial statements are prepared internally, and may represent a single facility (operating component) or a group of plants under a common management team. Goodwill impairment tests are completed for each reporting unit as of October 1 of each year, or more frequently in certain circumstances where impairment indicators arise. When performing our test for impairment, we use an approach which includes a discounted cash flow analysis, incorporating the weighted average cost of capital of a hypothetical third party buyer to compute the fair value of each reporting unit. These cash flow projections are based in part on sales projections for the next several years, capital spending trends and investment in working capital to support anticipated sales growth, which are updated at least annually and reviewed by management. The fair value is then compared to the carrying value. To the extent that fair value exceeds the carrying value, no impairment exists. However, to the extent the carrying value exceeds fair value, we compare the implied fair value of goodwill to its book value to determine if an impairment charge should be recorded.

The discount rates used in present value calculations are updated annually. We also use available market value information to evaluate fair value. The total of the fair values of the segments less debt was reconciled to end-of-year total market capitalization. For locations with recorded goodwill, the discount rates used in the 2013 goodwill impairment analysis ranged from 11.6 percent to 13.9 percent, as compared to a range of 11.1 percent to 12.9 percent used in the 2012 test. The cash flow terminal growth rates used in the 2013 goodwill impairment analysis for all locations ranged from 2.0 percent to 4.0 percent, as compared to a range of 1.0 percent to 2.0 percent in the 2012 goodwill impairment analysis. Management believes these rates are reasonably conservative based upon historical growth rates and its expectations of future economic conditions in the markets in which we operate. Any changes in the discount rate or cash flow terminal growth rate would move in tandem. For example, the discount rate is higher in part due to increased uncertainty as to our ability to meet short term and long term forecasts. As such, if we were to increase the cash flow terminal growth rate, we would also increase the discount rate.

The discounted cash flow model used to determine fair value for the goodwill analysis is most sensitive to the discount rate and terminal cash flow growth rate assumptions. A sensitivity analysis was performed on these factors for all reporting units and it was determined, assuming all other assumptions remain constant, that the discount rate used could be increased by a factor of 30 percent of the discount rate or the terminal cash flow growth rate could decrease to zero and the fair value of all reporting units with goodwill would still exceed their carrying values. Significant changes in the estimates and assumptions used in calculating the fair value of the segments and the recoverability of goodwill or differences between estimates and actual results could result in impairment charges in the future.

Based on the results of our annual impairment test, the estimated fair values of all three reporting units that have goodwill were substantially in excess of their carrying values, with the estimated fair values of each reporting unit exceeding its carrying value by at least 30.0 percent. As of October 1, 2013, 2012 and 2011, our review did not indicate an impairment of goodwill.

Individual indefinite life intangible assets are also evaluated for impairment on an annual basis, or more frequently in certain circumstances where impairment indicators arise. Total indefinite life intangible assets at December 31, 2013 were $12.4 million, representing 1.5 percent of total assets. When performing our test for impairment, we use a discounted cash flow method (based on a relief from royalty calculation) to compute the fair value, which is then compared to the carrying value of the indefinite life intangible asset. To the extent that fair value exceeds the carrying value, no impairment exists. This was done as of October 1st for each year presented. As of October 1, 2013, 2012 and 2011, our review did not indicate an impairment of indefinite life intangible assets.

**Self-Insurance Reserves**

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

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

**Pension Assumptions**

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

| | U.S. Plans | | Non-U.S. Plans | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Discount rate | 4.83% to 5.12% | 3.98% to 4.22% | 3.70% to 8.50% | 3.70% to 7.00% |
| Rate of compensation increase | —% to —% | —% to —% | 2.00% to 4.30% | 2.00% to 4.30% |

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

| | U.S. Plans | | | Non-U.S. Plans | | |
|---|---|---|---|---|---|---|
| | 2013 | 2012 | 2011 | 2013 | 2012 | 2011 |
| Discount rate | 3.98% to 4.97% | 3.87% to 5.22% | 5.50% to 5.76% | 3.70% to 7.00% | 5.80% to 8.25% | 5.40% to 8.25% |
| Expected long-term rate of return on plan assets | 7.50% | 7.75% | 8.00% | 3.60% | 5.10% | 4.80% |
| Rate of compensation increase | —% to —% | 2.25% to 4.50% | 2.25% to 4.50% | 2.00% to 4.30% | 2.00% to 4.30% | 2.00% to 4.30% |

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

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

To determine the expected long-term rate of return on plan assets, we consider the current and expected asset allocations, as well as historical and expected returns on various categories of plan assets. Our determination of the reasonableness of our expected long-term rate of return on plan assets at December 31 is highly quantitative by nature and used to measure the earnings effects for the subsequent year. We evaluate the current asset allocations and expected returns under four sets of conditions: a maximum time available for each asset class; a common history where all asset class returns are computed with the same overall start date of January 1990; a 10-year historical return; and forecasted returns using the Black-Litterman method. Based upon the current asset allocation mix and the Black-Litterman method, the forecasted return is 6.49 percent. The actual return on plan assets from July 1, 1993 (inception) through December 31, 2013 was 8.82 percent and 8.64 percent for the U.S. hourly and salary pension plans, respectively.

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

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

- A change of 1.0 percent in the discount rate would change our total pension expense by approximately $4.6 million.
- A change of 1.0 percent in the expected long-term rate of return on plan assets would change total pension expense by approximately $3.8 million.

**Nonpension Postretirement Assumptions**

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

| | U.S. Plans | | Non-U.S. Plans | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Discount rate | 4.74% | 3.85% | 4.36% | 3.71% |

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

| | U.S. Plans | | | Non-U.S. Plans | | |
|---|---|---|---|---|---|---|
| | 2013 | 2012 | 2011 | 2013 | 2012 | 2011 |
| Discount rate | 3.85% | 4.91% | 5.34% | 3.71% | 3.97% | 4.86% |

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

| | U.S. Plans | | Non-U.S. Plans | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Initial health care trend | 7.50% | 7.00% | 7.50% | 7.00% |
| Ultimate health care trend | 5.00% | 5.00% | 5.00% | 5.00% |
| Years to reach ultimate trend rate | 10 | 8 | 10 | 8 |

Sensitivity to change in key assumptions is as follows:

- A change of 1.0 percent in the discount rate would change the nonpension postretirement expense by $0.3 million.
- A change of 1.0 percent in the health care trend rate would not have a material impact upon the nonpension postretirement expense.

**Income Taxes**

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

Income taxes are accounted for under the asset and liability method. Deferred income tax assets and liabilities are recognized for estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and tax attribute carry-forwards. Deferred income tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. FASB ASC 740 "Income Taxes," requires that a valuation allowance be recorded when it is more likely than not that some portion or all of the deferred income tax assets will not be realized. Deferred income tax assets and liabilities are determined separately for each tax jurisdiction in which we conduct our operations or otherwise incur taxable income or losses. In the United States, Portugal and the Netherlands, we have recorded a valuation allowance against our deferred income tax assets.

Management's decision to maintain the full valuation allowance in place against its U.S. net deferred tax asset was made based on sufficient negative evidence outweighing the positive evidence. The valuation allowance in the U.S. has been maintained since 2007 and a significant piece of evidence used in our assessment has been a history of cumulative losses through 2012. The weight applied to the other subjective evidence, such as projected financial results, has been limited. Despite its historical losses, the U.S. moved into a three year cumulative income position during the fourth quarter of 2013. Before we would change our judgment on the need for a full valuation allowance, a sustained period of operating profitability is required. Considering the duration and magnitude of our U.S. operating losses, the current U.S. economic environment and the competitive landscape, it is our judgment that we have not yet achieved profitability of a duration and magnitude sufficient to release our valuation allowance against our deferred tax assets. If we generate significant pre-tax earnings in the U.S. in 2014 and plans for 2015 and beyond show continued profitability, we may have sufficient evidence to release all or a significant portion of our valuation allowance on our U.S. deferred tax assets during 2014.

**Derivatives and Hedging**

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

One of the requirements that we must evaluate when determining whether a contract qualifies for hedge accounting treatment is whether or not the contract is deemed effective. A contract is deemed effective if the change in the fair value of the derivative contract offsets, within a specified range, the change in the fair value of the hedged item. At the inception of the contract, we first determine if the relationship between the hedged contract and the hedged item meets the strict criteria to qualify for an exemption to the effectiveness testing. If the relationship does not meet these criteria, then we must test the effectiveness at the inception of the contract and quarterly thereafter. If the relationship fails this test at any time, we are required to discontinue hedge accounting treatment prospectively. As of July 1, 2013, we de-designated 10 percent, or $4.5 million, of our New Rate Agreement. As a result, the mark-to-market of the $4.5 million portion of the New Rate Agreement is recorded in other income (expense) on the Consolidated Statement of Operations. See note 13 to the Consolidated Financial Statements.

**Stock-Based Compensation Expense**

We account for stock-based compensation in accordance with FASB ASC 718, "Compensation - Stock Compensation" and FASB ASC 505-50, "Equity - Equity Based Payments to Non-Employees", which requires the measurement and recognition of compensation expense for all share-based payment awards made to our employees and directors. Stock-based compensation expense recognized under FASB ASC 718 and FASB ASC 050-50 for fiscal 2013, 2012 and 2011 was $5.1 million, $3.3 million and $5.0 million, respectively. During 2013 and 2011, there were non-cash compensation charges of $0.7 million and $1.7 million, respectively, related to accelerated vesting of previously issued equity compensation.

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

**Restructuring**

Accruals have been recorded in conjunction with our restructuring actions. These accruals include estimates primarily related to facility consolidations and closures, capacity realignment, employment reductions and contract termination costs. Actual costs may vary from these estimates. Restructuring-related accruals are reviewed on a quarterly basis, and changes to restructuring actions are appropriately recognized when identified.

**Legal and other contingencies**

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

Syracuse China Company, our wholly-owned subsidiary, has been designated as one of eight potentially responsible parties with respect to the Lower Ley Creek sub-site of the Onondaga Lake Superfund site. Although it is reasonably possible that Syracuse China may have liability in connection with the Lower Ley Creek sub-site, at this time we are unable to estimate the magnitude of the potential liability.

During the second quarter of 2013, we completed an unclaimed property audit, agreeing to pay $4.5 million, which included $2.7 million accrued during 2011.

Finally, we have filed an insurance claim (which remains open) in connection with a 2013 furnace malfunction at our Toledo, Ohio manufacturing facility. At December 31, 2013, partial insurance proceeds of $5.0 million were recognized in accounts receivable. The insurance claim is still ongoing and the amount of future recovery is uncertain at this time.

**New Accounting Standards**

In February 2013, the FASB issued Accounting Standards Update 2013-02, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income" (ASU 2013-02), which amends Topic 220 Comprehensive Income. ASU 2013-02 requires companies to present, either in a note or parenthetically on the face of the financial statements, the effect of amounts reclassified from each component of accumulated other comprehensive income based on its source and the income statement line items affected by the reclassification. This update is effective for interim and annual reporting periods beginning after December 15, 2012. Required disclosures have been made in our Consolidated Financial Statements at December 31, 2013.

## Item 7A. Qualitative and Quantitative Disclosures about Market Risk

### Currency

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

### Interest Rates

We have an Interest Rate Agreement (New Rate Agreement) with respect to $45.0 million of debt in order to convert a portion of the Senior Secured Notes fixed rate debt into floating rate debt and maintain a capital structure containing fixed and floating rate debt. The interest rate for our borrowings related to the New Rate Agreement at December 31, 2013 is 5.50 percent per year. The New Rate Agreement expires on May 15, 2020. Total remaining Senior Secured Notes not covered by the New Rate Agreement have a fixed interest rate of 6.875 percent. If the counterparty to the New Rate Agreement were to fail to perform, the New Rate Agreement would no longer provide the desired results. However, we do not anticipate nonperformance by the counterparty. The counterparty was rated A+ as of December 31, 2013, by Standard and Poor's.

### Natural Gas

We are also exposed to market risks associated with changes in the price of natural gas. We use commodity futures contracts related to forecasted future natural gas requirements of our manufacturing operations in North America. The objective of these futures contracts is to limit the fluctuations in prices paid and potential volatility in earnings or cash flows from price movements in the underlying natural gas commodity. We consider the forecasted natural gas requirements of our manufacturing operations in determining the quantity of natural gas to hedge. We combine the forecasts with historical observations to establish the percentage of forecast to be hedged, typically ranging from 40 percent to 70 percent of our anticipated requirements up to six quarters in the future. For our natural gas requirements that are not hedged, we are subject to changes in the price of natural gas, which affect our earnings. If the counterparties to these futures contracts were to fail to perform, we would no longer be protected from natural gas fluctuations by the futures contracts. However, we do not anticipate nonperformance by these counterparties. All counterparties were rated BBB+ or better by Standard and Poor's as of December 31, 2013.

**Retirement Plans**

We are exposed to market risks associated with changes in the various capital markets. Changes in long-term interest rates affect the discount rate that is used to measure our benefit obligations and related expense. Changes in the equity and debt securities markets affect the performance of our pension plans' asset performance and related pension expense. Sensitivity to these key market risk factors is as follows:

- A change of 1.0 percent in the discount rate would change our total annual pension and nonpension postretirement expense by approximately $4.9 million.
- A change of 1.0 percent in the expected long-term rate of return on plan assets would change annual pension expense by approximately $3.8 million.

## Item 8. Financial Statements and Supplementary Data

## Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Libbey Inc.

We have audited the accompanying consolidated balance sheets of Libbey Inc. as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive income (loss), shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2013. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Libbey Inc. at December 31, 2013 and 2012, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Libbey Inc.'s internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) and our report dated March 12, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Toledo, Ohio
March 12, 2014

## Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Libbey Inc.

We have audited Libbey Inc.'s internal control over financial reporting as of December 31, 2013 based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) (the COSO criteria). Libbey Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report of Management. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

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

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Libbey Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Libbey Inc. as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive income (loss), shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2013 and our report dated March 12, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Toledo, Ohio
March 12, 2014

## Libbey Inc.
## Consolidated Balance Sheets

| December 31, (dollars in thousands, except per share amounts) | Footnote Reference | 2013 | 2012 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | | $ 42,208 | $ 67,208 |
| Accounts receivable — net | (note 3) | 94,549 | 80,850 |
| Inventories — net | (note 3) | 163,121 | 157,549 |
| Prepaid and other current assets | (notes 3 & 8) | 24,838 | 12,997 |
| **Total current assets** | | 324,716 | 318,604 |
| Pension asset | (note 9) | 33,615 | 10,196 |
| Purchased intangible assets — net | (note 4) | 19,325 | 20,222 |
| Goodwill | (note 4) | 167,379 | 166,572 |
| Deferred income taxes | (note 8) | 5,759 | 9,830 |
| Derivative asset | (notes 13 & 15) | 19 | 298 |
| Other assets | (notes 3 & 8) | 13,515 | 18,300 |
| Total other assets | | 239,612 | 225,418 |
| Property, plant and equipment — net | (notes 5 & 7) | 265,662 | 258,154 |
| **Total assets** | | $ 829,990 | $ 802,176 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | |
| Accounts payable | | $ 79,620 | $ 65,712 |
| Salaries and wages | | 32,403 | 41,405 |
| Accrued liabilities | (note 3) | 41,418 | 42,863 |
| Accrued income taxes | (note 8) | 1,374 | 2,282 |
| Pension liability (current portion) | (note 9) | 3,161 | 613 |
| Non-pension postretirement benefits (current portion) | (note 10) | 4,758 | 4,739 |
| Derivative liability | (notes 13 & 15) | — | 420 |
| Deferred income taxes | (note 8) | — | 3,213 |
| Long-term debt due within one year | (note 6) | 5,391 | 4,583 |
| **Total current liabilities** | | 168,125 | 165,830 |
| Long-term debt | (note 6) | 406,512 | 461,884 |
| Pension liability | (note 9) | 40,033 | 60,909 |
| Non-pension postretirement benefits | (note 10) | 59,065 | 71,468 |
| Deferred income taxes | (note 8) | 11,672 | 7,537 |
| Other long-term liabilities | (note 3) | 13,774 | 10,072 |
| **Total liabilities** | | 699,181 | 777,700 |
| **Shareholders' equity:** | | | |
| Common stock, par value $.01 per share, 50,000,000 shares authorized, 21,316,480 shares issued in 2013 (20,835,489 shares issued in 2012) | | 213 | 209 |
| Capital in excess of par value | | 323,367 | 313,377 |
| Retained deficit | | (119,611) | (148,070) |
| Accumulated other comprehensive loss | (note 14) | (73,160) | (141,040) |
| **Total shareholders' equity** | | 130,809 | 24,476 |
| **Total liabilities and shareholders' equity** | | $ 829,990 | $ 802,176 |

See accompanying notes

## Libbey Inc.
## Consolidated Statements of Operations

| Year ended December 31, (dollars in thousands, except per share amounts) | Footnote Reference | 2013 | 2012 | 2011 |
|---|---|---|---|---|
| Net sales | (note 2) | $ 818,811 | $ 825,287 | $ 817,056 |
| Freight billed to customers | | 3,344 | 3,165 | 2,396 |
| **Total revenues** | | 822,155 | 828,452 | 819,452 |
| Cost of sales | (notes 2 & 7) | 634,816 | 633,267 | 650,713 |
| **Gross profit** | | 187,339 | 195,185 | 168,739 |
| Selling, general and administrative expenses | | 109,981 | 113,896 | 105,545 |
| Special charges | (note 7) | 4,859 | — | (281) |
| **Income from operations** | | 72,499 | 81,289 | 63,475 |
| Loss on redemption of debt | (note 6) | (2,518) | (31,075) | (2,803) |
| Other income (expense) | (notes 7, 17 & 18) | 3,725 | 188 | 8,031 |
| **Earnings before interest and income taxes** | | 73,706 | 50,402 | 68,703 |
| Interest expense | (note 6) | 32,006 | 37,727 | 43,419 |
| **Income before income taxes** | | 41,700 | 12,675 | 25,284 |
| Provision for income taxes | (note 8) | 13,241 | 5,709 | 1,643 |
| **Net income** | | $ 28,459 | $ 6,966 | $ 23,641 |
| **Net income per share:** | | | | |
| Basic | (note 11) | $ 1.34 | $ 0.33 | $ 1.17 |
| Diluted | (note 11) | $ 1.31 | $ 0.33 | $ 1.14 |
| **Weighted average shares:** | | | | |
| Outstanding | (note 11) | 21,217 | 20,876 | 20,170 |
| Diluted | (note 11) | 21,742 | 21,315 | 20,808 |

See accompanying notes

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

| Year ended December 31, (dollars in thousands) | Footnote Reference | 2013 | 2012 | 2011 |
|---|---|---|---|---|
| Net income | | $ 28,459 | $ 6,966 | $ 23,641 |
| Other comprehensive income (loss): | | | | |
| Pension and other postretirement benefit adjustments, net of tax | (note 14) | 60,953 | (17,891) | (14,833) |
| Change in fair value of derivative instruments, net of tax | (note 14) | 732 | 2,859 | (1,249) |
| Foreign currency translation adjustments | (note 14) | 6,195 | 2,364 | (1,344) |
| Other comprehensive income (loss), net of tax | | 67,880 | (12,668) | (17,426) |
| **Comprehensive income (loss)** | | $ 96,339 | $ (5,702) | $ 6,215 |

See accompanying notes

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

| (dollars in thousands, except share amounts) | Common Stock Shares | Common Stock Amount | Capital in Excess of Par Value | Retained Deficit | Accumulated Other Comprehensive Loss (note 14) | Total |
|---|---|---|---|---|---|---|
| Balance December 31, 2010 | 19,682,506 | $ 197 | $ 300,692 | $ (178,677) | $ (110,946) | $ 11,266 |
| Net income | | | | 23,641 | | 23,641 |
| Other comprehensive income (loss) | | | | | (17,426) | (17,426) |
| Stock compensation expense (note 12) | | | 5,016 | | | 5,016 |
| Stock issued | 174,527 | 1 | (177) | | | (176) |
| Exercise of warrants (note 6) | 485,309 | 5 | 5,454 | | | 5,459 |
| Balance December 31, 2011 | 20,342,342 | 203 | 310,985 | (155,036) | (128,372) | 27,780 |
| Net income | | | | 6,966 | | 6,966 |
| Other comprehensive income (loss) | | | | | (12,668) | (12,668) |
| Stock compensation expense (note 12) | | | 3,321 | | | 3,321 |
| Stock issued | 493,147 | 6 | (929) | | | (923) |
| Balance December 31, 2012 | 20,835,489 | 209 | 313,377 | (148,070) | (141,040) | 24,476 |
| Net income | | | | 28,459 | | 28,459 |
| Other comprehensive income (loss) | | | | | 67,880 | 67,880 |
| Stock compensation expense (note 12) | | | 5,063 | | | 5,063 |
| Stock issued | 480,991 | 4 | 4,927 | | | 4,931 |
| Balance December 31, 2013 | 21,316,480 | $ 213 | $ 323,367 | $ (119,611) | $ (73,160) | $ 130,809 |

See accompanying notes

# Libbey Inc.
## Consolidated Statements of Cash Flows

| Year ended December 31, (dollars in thousands) | Footnote Reference | 2013 | 2012 | 2011 |
|---|---|---|---|---|
| **Operating activities:** | | | | |
| Net income | | $ 28,459 | $ 6,966 | $ 23,641 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | |
| Depreciation and amortization | (notes 4 & 5) | 43,969 | 41,471 | 42,188 |
| (Gain) loss on asset sales and disposals | | 514 | 446 | (5,941) |
| Change in accounts receivable | | (12,674) | 7,187 | 3,076 |
| Change in inventories | | (3,932) | (10,969) | (221) |
| Change in accounts payable | | 12,190 | 6,285 | 403 |
| Accrued interest and amortization of discounts and finance fees | | 1,496 | (6,433) | 3,047 |
| Call premium on senior notes | (note 6) | 1,350 | 23,602 | 1,203 |
| Write-off of finance fee & discounts on senior notes and ABL | (note 6) | 1,168 | 10,975 | 1,600 |
| Pension & non-pension postretirement benefits | (notes 9 & 10) | 7,746 | (76,344) | (9,074) |
| Restructuring | (note 7) | 2,212 | — | (828) |
| Accrued liabilities & prepaid expenses | | (17,507) | 322 | 1,917 |
| Income taxes | (note 8) | (1,804) | 1,628 | (11,200) |
| Share-based compensation expense | | 5,063 | 3,321 | 5,016 |
| Other operating activities | | 4,479 | 40 | 524 |
| **Net cash provided by operating activities** | | 72,729 | 8,497 | 55,351 |
| **Investing activities:** | | | | |
| Additions to property, plant and equipment | | (49,407) | (32,720) | (41,420) |
| Net proceeds from sale of Traex | (note 17) | — | — | 12,478 |
| Proceeds from asset sales and other | | 81 | 647 | 5,222 |
| **Net cash used in investing activities** | | (49,326) | (32,073) | (23,720) |
| **Financing activities:** | | | | |
| Borrowings on ABL credit facility | (note 6) | 51,000 | — | 50,089 |
| Repayments on ABL credit facility | (note 6) | (51,000) | — | (50,089) |
| Other repayments | (note 6) | (14,270) | (23,116) | (14,108) |
| Other borrowings | (note 6) | 6,094 | 1,234 | 365 |
| Proceeds from (payments on) 6.875% senior notes | (note 6) | (45,000) | 450,000 | — |
| Payments on 10% senior notes | (note 6) | — | (360,000) | (40,000) |
| Call premium on senior notes | (note 6) | (1,350) | (23,602) | (1,203) |
| Proceeds from exercise of warrants | | — | — | 5,459 |
| Stock options exercised | | 5,384 | 1,231 | 482 |
| Debt issuance costs and other | (note 6) | — | (13,475) | (463) |
| **Net cash provided by (used in) financing activities** | | (49,142) | 32,272 | (49,468) |
| Effect of exchange rate fluctuations on cash | | 739 | 221 | (130) |
| Increase (decrease) in cash | | (25,000) | 8,917 | (17,967) |
| Cash & cash equivalents at beginning of year | | 67,208 | 58,291 | 76,258 |
| **Cash & cash equivalents at end of year** | | $ 42,208 | $ 67,208 | $ 58,291 |
| **Supplemental disclosure of cash flow information:** | | | | |
| Cash paid during the year for interest | | $ 30,008 | $ 44,105 | $ 40,025 |
| Cash paid during the year for income taxes | | $ 10,855 | $ 3,402 | $ 10,230 |

See accompanying notes

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

## 1. Description of the Business

Libbey is a leading global manufacturer and marketer of glass tableware products. We believe we have the largest manufacturing, distribution and service network among glass tableware manufacturers in the Western Hemisphere, in addition to supplying to key markets throughout the world. We produce glass tableware in five countries and sell to customers in over 100 countries. We design and market, under our Libbey®, Crisa®, Royal Leerdam®, World® Tableware, Syracuse® China and Crisal Glass® brand names (amongst others), an extensive line of high-quality glass tableware, ceramic dinnerware, metal flatware, hollowware and serveware items for sale primarily in the foodservice, retail and business-to-business markets. Our sales force presents our products to the global marketplace in a coordinated fashion. We own and operate two glass tableware manufacturing plants in the United States as well as glass tableware manufacturing plants in the Netherlands (Libbey Holland), Portugal (Libbey Portugal), China (Libbey China) and Mexico (Libbey Mexico). Until April 28, 2011, we also owned and operated a plastics plant in Wisconsin. On April 28, 2011, we sold substantially all of the assets of the Traex® plastics product line, including the Traex name®, to the Vollrath Company (see note 17 for discussion on this transaction). In addition, we import products from overseas in order to complement our line of manufactured items. The combination of manufacturing and procurement allows us to compete in the global tableware market by offering an extensive product line at competitive prices.

## 2. Significant Accounting Policies

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

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

***Revenue Recognition*** Revenue is recognized when products are shipped and title and risk of loss have passed to the customer. Revenue is recorded net of returns, discounts and incentives offered to customers. We estimate returns, discounts and incentives at the time of sale based on the terms of the agreements, historical experience and forecasted sales. We continually evaluate the adequacy of these methods used to estimate returns, discounts and incentives.

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

***Accounts Receivable and Allowance for Doubtful Accounts*** We record trade receivables when revenue is recorded in accordance with our revenue recognition policy and relieve accounts receivable when payments are received from customers. The allowance for doubtful accounts is established through charges to the provision for bad debts. We regularly evaluate the adequacy of the allowance for doubtful accounts based on historical trends in collections and write-offs, our judgment as to the probability of collecting accounts and our evaluation of business risk. This evaluation is inherently subjective, as it requires estimates that are susceptible to revision as more information becomes available. Accounts are determined to be uncollectible when the debt is deemed to be worthless or only recoverable in part and are written off at that time through a charge against the allowance.

***Inventory Valuation*** Inventories are valued at the lower of cost or market. The last-in, first-out (LIFO) method is used for our U.S. glass inventories, which represented 25.3 percent and 30.6 percent of our total inventories in 2013 and 2012, respectively. The remaining inventories are valued using either the first-in, first-out (FIFO) or average cost method. For those inventories valued on the LIFO method, the excess of FIFO cost over LIFO, was $14.5 million and $15.0 million in 2013 and 2012, respectively. Cost includes the cost of materials, direct labor, in-bound freight and the applicable share of manufacturing overhead.

***Purchased Intangible Assets and Goodwill*** Financial Accounting Standards Board Accounting Standards Codification™ ("FASB ASC") Topic 350 - "Intangibles-Goodwill and other" ("FASB ASC 350") requires goodwill and purchased indefinite life intangible assets to be reviewed for impairment annually, or more frequently if impairment indicators arise. Intangible assets with lives restricted by contractual, legal or other means will continue to be amortized over their useful lives. As of October 1st of each year, we update our separate impairment evaluations for both goodwill and indefinite life intangible assets. In 2013, 2012 and 2011, our October 1st assessment did not indicate any impairment of goodwill or indefinite life intangibles. There were also no indicators of impairment at December 31, 2013. For further disclosure on goodwill and intangibles, see note 4.

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

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

Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Measurement of an impairment loss for long-lived assets that we expect to hold and use is based on the fair value of the asset. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell. In 2013, we wrote down fixed assets within the Americas segment as a result of our decision to reduce manufacturing capacity at our Shreveport, Louisiana, manufacturing facility. See notes 5 and 7 for further disclosure.

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

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

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

We also provide certain postretirement health care and life insurance benefits covering substantially all U.S. and Canadian salaried employees hired before January 1, 2004 and a majority of our union hourly employees (excluding employees hired at Shreveport after 2008 and at Toledo after September 30, 2010). Effective January 1, 2013, the existing healthcare benefit for salaried retirees age 65 and older ceased. We now provide a Retiree Health Reimbursement Arrangement (RHRA) that supports salaried retirees in purchasing a Medicare plan that meets their needs. Also effective January 1, 2013, we reduced the maximum life insurance benefit for salaried retirees to $10,000. Employees are generally eligible for benefits upon reaching a certain age and completion of a specified number of years of creditable service. Benefits for most hourly retirees are determined by collective bargaining. Under a cross-indemnity agreement, Owens-Illinois, Inc. assumed liability for the nonpension postretirement benefit of our retirees who had retired as of June 24, 1993. Therefore, the benefits related to these retirees are not included in our liability. For further discussion see note 10.

***Income Taxes*** Income taxes are accounted for under the asset and liability method. Deferred income tax assets and liabilities are recognized for estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and tax attribute carry-forwards. Deferred income tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. FASB ASC Topic 740, “Income Taxes,” requires that a valuation allowance be recorded when it is more likely than not that some portion or all of the deferred income tax assets will not be realized.

Deferred income tax assets and liabilities are determined separately for each tax jurisdiction in which we conduct our operations or otherwise incur taxable income or losses. In the United States, Portugal and the Netherlands, we have recorded valuation allowances against our deferred income tax assets. For further discussion see note 8.

***Derivatives*** We account for derivatives in accordance with FASB ASC Topic 815 "Derivatives and Hedging" ("FASB ASC 815"). We hold derivative financial instruments to hedge certain of our interest rate risks associated with long-term debt, commodity price risks associated with forecasted future natural gas requirements and foreign exchange rate risks associated with occasional transactions denominated in a currency other than the U.S. dollar. These derivatives (except for the foreign currency contracts) qualify for hedge accounting since the hedges are highly effective, and we have designated and documented contemporaneously the hedging relationships involving these derivative instruments. While we intend to continue to meet the conditions for hedge accounting, if hedges do not qualify as highly effective or if we do not believe that forecasted transactions would occur, the changes in the fair value of the derivatives used as hedges would be reflected in earnings. Cash flows from fair value hedges of debt and short-term forward exchange contracts are classified as an operating activity. Cash flows of currency swaps, interest rate swaps, and commodity futures contracts are classified as operating activities. See additional discussion at note 13.

***Foreign Currency Translation*** Assets and liabilities of non-U.S. subsidiaries that operate in a local currency environment, where that local currency is the functional currency, are translated to U.S. dollars at exchange rates in effect at the balance sheet date, with the resulting translation adjustments directly recorded to a separate component of accumulated other comprehensive loss. Income and expense accounts are translated at average exchange rates during the year. The effect of exchange rate changes on transactions denominated in currencies other than the functional currency is recorded in other income (expense). Gain (loss) on currency translation was $(0.3) million, $(0.8) million and $(0.3) million for the year ended December 31, 2013, 2012 and 2011, respectively.

***Stock-Based Compensation Expense*** We account for stock-based compensation expense in accordance with FASB ASC Topic 718, “Compensation — Stock Compensation,” ("FASB ASC 718") and FASB ASC Topic 505-50, “Equity-Based Payments to Non-Employees”("FASB ASC 505-50"). Stock-based compensation cost is measured based on the fair value of the equity instruments issued. FASB ASC Topics 718 and 505-50 apply to all of our outstanding unvested stock-based payment awards. Stock-based compensation expense charged to the Consolidated Statement of Operations was a pre-tax charge of $5.1 million, $3.3 million and $5.0 million for 2013, 2012 and 2011, respectively. Non-cash compensation charges of $0.7 million and $1.7 million related to accelerated vesting of previously issued equity compensation was included in 2013 and 2011, respectively. See note 12 for additional information.

***Research and Development*** Research and development costs are charged to selling, general and administrative expense in the Consolidated Statements of Operations when incurred. Expenses for 2013, 2012 and 2011, respectively, were $3.4 million, $2.9 million and $3.1 million.

***Advertising Costs*** We expense all advertising costs as incurred, and the amounts were immaterial for all periods presented.

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

***Reclassifications*** Certain amounts in prior years' financial statements, including segment information, have been reclassified to conform to the presentation used in the year ended December 31, 2013.

***New Accounting Standards***

In February 2013, the FASB issued Accounting Standards Update 2013-02, “Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income” (ASU 2013-02), which amends Topic 220 Comprehensive Income. ASU 2013-02 requires companies to present, either in a note or parenthetically on the face of the financial statements, the effect of amounts reclassified from each component of accumulated other comprehensive income based on its source and the income statement line items affected by the reclassification. This update is effective for interim and annual reporting periods beginning after December 15, 2012. Required disclosures have been made in our Consolidated Financial Statements at December 31, 2013.

## 3. Balance Sheet Details

The following table provides detail of selected balance sheet items:

| December 31, (dollars in thousands) | 2013 | 2012 |
|---|---|---|
| **Accounts receivable:** | | |
| Trade receivables | $ 87,499 | $ 79,624 |
| Other receivables (see note 18) | 7,050 | 1,226 |
| Total accounts receivable, less allowances of $5,846 and $5,703 | $ 94,549 | $ 80,850 |
| **Inventories:** | | |
| Finished goods | $ 144,945 | $ 139,888 |
| Work in process | 1,615 | 1,188 |
| Raw materials | 4,558 | 4,828 |
| Repair parts | 10,550 | 10,283 |
| Operating supplies | 1,453 | 1,362 |
| Total inventories, less loss provisions of $4,913 and $4,091 | $ 163,121 | $ 157,549 |
| **Prepaid and other current assets:** | | |
| Value added tax | $ 6,697 | $ 3,850 |
| Prepaid expenses | 8,396 | 5,036 |
| Deferred income taxes | 5,840 | 4,070 |
| Prepaid income taxes | 3,511 | — |
| Derivative asset | 394 | 41 |
| Total prepaid and other current assets | $ 24,838 | $ 12,997 |
| **Other assets:** | | |
| Deposits | $ 919 | $ 936 |
| Finance fees — net of amortization | 10,472 | 13,539 |
| Other assets | 2,124 | 3,825 |
| Total other assets | $ 13,515 | $ 18,300 |
| **Accrued liabilities:** | | |
| Accrued incentives | $ 17,830 | $ 17,783 |
| Workers compensation | 7,108 | 7,128 |
| Medical liabilities | 3,433 | 3,537 |
| Interest | 3,331 | 3,732 |
| Commissions payable | 1,067 | 1,478 |
| Contingency liability | — | 2,719 |
| Restructuring liability | 289 | — |
| Other accrued liabilities | 8,360 | 6,486 |
| Total accrued liabilities | $ 41,418 | $ 42,863 |
| **Other long-term liabilities:** | | |
| Deferred liability | $ 7,424 | $ 5,591 |
| Derivative liability | 2,073 | — |
| Other long-term liabilities | 4,277 | 4,481 |
| Total other long-term liabilities | $ 13,774 | $ 10,072 |

## 4. Purchased Intangible Assets and Goodwill

***Purchased Intangibles***

Changes in purchased intangibles balances are as follows:

| (dollars in thousands) | 2013 | 2012 |
|---|---|---|
| Beginning balance | $ 20,222 | $ 21,200 |
| Amortization | (1,069) | (1,069) |
| Foreign currency impact | 172 | 91 |
| Ending balance | $ 19,325 | $ 20,222 |

Purchased intangible assets are composed of the following:

| December 31, (dollars in thousands) | 2013 | 2012 |
|---|---|---|
| Indefinite life intangible assets | $ 12,404 | $ 12,316 |
| Definite life intangible assets, net of accumulated amortization of $15,226 and $14,054 | 6,921 | 7,906 |
| Total | $ 19,325 | $ 20,222 |

Amortization expense for definite life intangible assets was $1.1 million, $1.1 million and $1.2 million for years 2013, 2012 and 2011, respectively.

Indefinite life intangible assets are composed of trade names and trademarks that have an indefinite life and are therefore individually tested for impairment on an annual basis, or more frequently in certain circumstances where impairment indicators arise, in accordance with FASB ASC 350. Our measurement date for impairment testing is October 1st of each year. When performing our test for impairment of individual indefinite life intangible assets, we use a relief from royalty method to determine the fair market value that is compared to the carrying value of the indefinite life intangible asset. The inputs used for this analysis are considered as Level 3 inputs in the fair value hierarchy. See note 15 for further discussion of the fair value hierarchy. Our October 1st review for 2013 and 2012 did not indicate impairment of our indefinite life intangible assets. There were also no indicators of impairment at December 31, 2013.

The remaining definite life intangible assets at December 31, 2013 primarily consist of customer relationships that are amortized over a period ranging from 13 to 20 years. The weighted average remaining life on the definite life intangible assets is 6.5 years at December 31, 2013.

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

| 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|
| $1,069 | $1,069 | $1,069 | $1,069 | $1,069 |

***Goodwill***

Changes in goodwill balances are as follows:

| (dollars in thousands) | 2013 Americas | 2013 U.S. Sourcing | 2013 Total | 2012 Americas | 2012 US Sourcing | 2012 Total |
|---|---|---|---|---|---|---|
| Beginning balance: | | | | | | |
| Goodwill | $ 164,457 | $ 16,990 | $ 181,447 | $ 164,457 | $ 16,990 | $ 181,447 |
| Accumulated impairment losses | (9,434) | (5,441) | (14,875) | (9,434) | (5,441) | (14,875) |
| Net beginning balance | 155,023 | 11,549 | 166,572 | 155,023 | 11,549 | 166,572 |
| Other | 807 | — | 807 | — | — | — |
| Ending balance: | | | | | | |
| Goodwill | 165,264 | 16,990 | 182,254 | 164,457 | 16,990 | 181,447 |
| Accumulated impairment losses | (9,434) | (5,441) | (14,875) | (9,434) | (5,441) | (14,875) |
| Net ending balance | $ 155,830 | $ 11,549 | $ 167,379 | $ 155,023 | $ 11,549 | $ 166,572 |

Goodwill impairment tests are completed for each reporting unit on an annual basis, or more frequently in certain circumstances where impairment indicators arise. The inputs used for this analysis are considered as Level 3 inputs in the fair value hierarchy. See note 15 for further discussion of the fair value hierarchy. When performing our test for impairment, we use an approach which includes a discounted cash flow analysis, incorporating the weighted average cost of capital of a hypothetical third party buyer to compute the fair value of each reporting unit. The fair value is then compared to the carrying value. To the extent that fair value exceeds the carrying value, no impairment exists. However, to the extent the carrying value exceeds the fair value, we compare the implied fair value of goodwill to its book value to determine if an impairment should be recorded. Our annual review was performed as of October 1st for each year presented, and our review for 2013 and 2012 did not indicate an impairment of goodwill. There were also no indicators of impairment at December 31, 2013.

## 5. Property, Plant and Equipment

Property, plant and equipment consists of the following:

| December 31, (dollars in thousands) | 2013 | 2012 |
|---|---|---|
| Land | $ 21,452 | $ 20,168 |
| Buildings | 89,734 | 86,498 |
| Machinery and equipment | 459,244 | 449,805 |
| Furniture and fixtures | 14,468 | 13,662 |
| Software | 20,490 | 19,987 |
| Construction in progress | 17,064 | 21,308 |
| Gross property, plant and equipment | 622,452 | 611,428 |
| Less accumulated depreciation | 356,790 | 353,274 |
| Net property, plant and equipment | $ 265,662 | $ 258,154 |

Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 3 to 14 years for equipment and furnishings and 10 to 40 years for buildings and improvements. Software consists of internally developed and purchased software packages for internal use. Capitalized costs include software packages, installation, and/or certain internal labor costs. These costs are generally amortized over a five-year period. Depreciation expense was $42.8 million, $40.3 million and $40.9 million for the years 2013, 2012 and 2011, respectively.

During 2013, we wrote down fixed assets within the Americas segment as a result of our decision to reduce manufacturing capacity at our Shreveport, Louisiana, manufacturing facility. A non-cash charge of $1.9 million was recorded in special charges on the Consolidated Statements of Operations to adjust certain machinery and equipment to the estimated fair market value. See note 7 for further discussion of these restructuring charges.

During 2011, we wrote down unutilized fixed assets within the Americas segment. The non-cash charge of $0.8 million was included in cost of sales on the Consolidated Statements of Operations.

In 2010, we wrote down certain after-processing equipment within the Europe, the Middle East and Africa (EMEA) segment that was no longer being used in our production process. During 2011, we received a $1.0 million credit from the supplier of this equipment which was recorded in the Americas segment.

**6. Borrowings**

On May 18, 2012, we completed the refinancing of substantially all of the existing indebtedness of our wholly-owned subsidiaries Libbey Glass Inc. (Libbey Glass) and Libbey Europe B.V. (Libbey Europe). The refinancing included:

- the entry into an amended and restated credit agreement with respect to our ABL Facility;
- the issuance of $450.0 million in aggregate principal amount of 6.875 percent Senior Secured Notes of Libbey Glass due 2020;
- the repurchase and cancellation of $320.0 million of Libbey Glass's then outstanding 10.0 percent Senior Secured Notes due 2015; and
- the redemption of $40.0 million of Libbey Glass's then outstanding 10.0 percent Senior Secured Notes (completed June 29, 2012).

We used the proceeds of the offering to fund the repurchase and redemption of $320.0 million of the 10.0 percent Senior Secured Notes, pay related fees and expenses, and contribute $79.7 million to our U.S. pension plans to fully fund our target obligations under ERISA.

On June 29, 2012, we used the remaining proceeds of the 6.875 percent Senior Secured Notes, together with cash on hand, to redeem the remaining $40.0 million of 10.0 percent Senior Secured Notes and to pay related fees.

The above transactions included charges of $23.6 million for an early call premium and $11.0 million for the write off of the remaining financing fees and discounts from the 10.0 percent Senior Secured Notes and were considered in the computation of the loss on redemption of debt.

In 2006, we issued detachable warrants to purchase 485,309 shares of Libbey Inc. common stock concurrently with the issuance of payment-in-kind notes (PIK notes). These warrants, which did not have voting rights, were exercised in November 2011 at an exercise price of $11.25 per share, totaling approximately $5.5 million.

Borrowings consist of the following:

| (dollars in thousands) | Interest Rate | Maturity Date | December 31, 2013 | December 31, 2012 |
|---|---|---|---|---|
| Borrowings under ABL Facility. . | floating | May 18, 2017 | $ — | $ — |
| Senior Secured Notes. . . . . . . . . . | 6.875% (1) | May 15, 2020 | 405,000 | 450,000 |
| Promissory Note. . . . . . . . . . . . . . | 6.00% | January, 2014 to September, 2016 | 681 | 903 |
| RMB Loan Contract. . . . . . . . . . . | floating | January, 2014 | — | 9,522 |
| RMB Working Capital Loan . . . . | floating | September, 2014 | 5,157 | — |
| BES Euro Line. . . . . . . . . . . . . . . | floating | December, 2013 | — | 4,362 |
| AICEP Loan. . . . . . . . . . . . . . . . . | 0.00% | January, 2016 to July 30, 2018 | 2,389 | 1,272 |
| Total borrowings. . . . . . . . . . | | | 413,227 | 466,059 |
| Plus — carrying value adjustment on debt related to the Interest Rate Agreement (1) . . . . . . . | | | (1,324) | 408 |
| Total borrowings — net . . . . . . | | | 411,903 | 466,467 |
| Less — long term debt due within one year . . . . . . | | | 5,391 | 4,583 |
| Total long-term portion of borrowings — net. . . . . . | | | $ 406,512 | $ 461,884 |

(1) See Interest Rate Agreement under "Senior Secured Notes" below and in note 13.

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

| 2014 | 2015 | 2016 | 2017 | 2018 | Thereafter |
|---|---|---|---|---|---|
| $5,391 | $249 | $993 | $797 | $797 | $405,000 |

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

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

All borrowings under the ABL Facility are secured by:

- a first-priority security interest in substantially all of the existing and future personal property of Libbey Glass and its domestic subsidiaries (Credit Agreement Priority Collateral);
- a first-priority security interest in:
    - 100 percent of the stock of Libbey Glass and 100 percent of the stock of substantially all of Libbey Glass's present and future direct and indirect domestic subsidiaries;
    - 100 percent of the non-voting stock of substantially all of Libbey Glass's first-tier present and future foreign subsidiaries; and
    - 65 percent of the voting stock of substantially all of Libbey Glass's first-tier present and future foreign subsidiaries
- a first-priority security interest in substantially all proceeds and products of the property and assets described above; and
- a second-priority security interest in substantially all of the owned real property, equipment and fixtures in the United States of Libbey Glass and its domestic subsidiaries, subject to certain exceptions and permitted liens (Notes Priority Collateral).

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

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

Swingline borrowings are limited to $15.0 million, with swingline borrowings for Libbey Europe being limited to the US equivalent of $7.5 million. Loans comprising each CBFR (CB Floating Rate) Borrowing, including each Swingline Loan, bear interest at the CB Floating Rate plus the Applicable Rate, and euro-denominated swingline borrowings (Eurocurrency Loans) bear interest calculated at the Netherlands swingline rate, as defined in the ABL Facility. The Applicable Rates for CBFR Loans and Eurocurrency Loans vary depending on our aggregate remaining availability. The Applicable Rates for CBFR Loans and Eurocurrency Loans were 0.50 percent and 1.50 percent, respectively, at December 31, 2013. Libbey pays a quarterly Commitment Fee, as defined by the ABL Facility, on the total credit provided under the ABL Facility. The Commitment Fee was 0.375 percent at December 31, 2013. No compensating balances are required by the Agreement. The Agreement does not require compliance with a fixed charge coverage ratio covenant, unless aggregate unused availability falls below $10.0 million. If our aggregate unused ABL availability were to fall below $10.0 million, the fixed charge coverage ratio requirement would be 1:00 to 1:00. Libbey Glass and Libbey Europe have the option to increase the ABL Facility by $25.0 million. There were no Libbey Glass or Libbey Europe borrowings under the facility at December 31, 2013 or at December 31, 2012. Interest is payable on the last day of the interest period, which can range from one month to six months depending on the maturity of each individual borrowing on the facility.

The borrowing base under the ABL Facility is determined by a monthly analysis of the eligible accounts receivable and inventory. The borrowing base is the sum of (a) 85 percent of eligible accounts receivable and (b) the lesser of (i) 85 percent of the net orderly liquidation value (NOLV) of eligible inventory, (ii) 65 percent of eligible inventory, or (iii) $75.0 million.

The available total borrowing base is offset by rent reserves totaling $0.7 million as of December 31, 2013. There were no mark-to-market reserves for natural gas contracts offsetting the borrowing base as of December 31, 2013. The ABL Facility also provides for the issuance of $30.0 million of letters of credit, which are applied against the $100.0 million limit. At December 31, 2013, we had $6.2 million in letters of credit outstanding under the ABL Facility. Remaining unused availability under the ABL Facility was $70.5 million at December 31, 2013, compared to $68.6 million under the ABL Facility at December 31, 2012.

***Senior Secured Notes***

On May 18, 2012, Libbey Glass closed its offering of the $450.0 million Senior Secured Notes. The notes offering was issued at par and had related fees of approximately $13.2 million. These fees will be amortized to interest expense over the life of the notes.

The Senior Secured Notes were issued pursuant to an Indenture, dated May 18, 2012 (Notes Indenture), between Libbey Glass, the Company, the domestic subsidiaries of Libbey Glass listed as guarantors therein (Subsidiary Guarantors and together with the Company, Guarantors), and The Bank of New York Mellon Trust Company, N.A., as trustee (Notes Trustee) and collateral agent. Under the terms of the Notes Indenture, the Senior Secured Notes bear interest at a rate of 6.875 percent per year and will mature on May 15, 2020. Although the Notes Indenture does not contain financial covenants, the Notes Indenture contains other covenants that restrict the ability of Libbey Glass and the Guarantors to, among other things:

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

The Notes Indenture provides for customary events of default. In the case of an event of default arising from bankruptcy or insolvency as defined in the Notes Indenture, all outstanding Senior Secured Notes will become due and payable immediately without further action or notice. If any other event of default under the Notes Indenture occurs or is continuing, the Notes Trustee or holders of at least 25 percent in aggregate principal amount of the then outstanding Senior Secured Notes may declare all the Senior Secured Notes to be due and payable immediately.

The Senior Secured Notes and the related guarantees under the Notes Indenture are secured by (i) first priority liens on the Notes Priority Collateral and (ii) second priority liens on the Credit Agreement Priority Collateral.

In connection with the sale of the Senior Secured Notes, Libbey Glass and the Guarantors entered into a registration rights agreement, dated May 18, 2012 (Registration Rights Agreement), under which they agreed to make an offer to exchange the Senior Secured Notes and the related guarantees for registered, publicly tradable notes and guarantees that have substantially identical terms to the Senior Secured Notes and the related guarantees, and in certain limited circumstances, to file a shelf registration statement that would allow certain holders of Senior Secured Notes to resell their respective Senior Secured Notes to the public. On November 6, 2012, we exchanged $450.0 million aggregate principal amount of 6.875 percent Senior Secured Notes due 2020 for an equal principal amount of a new issue of 6.875 percent Senior Secured Notes due 2020, which have been registered under the Securities act of 1933, as amended.

Prior to May 15, 2015, we may redeem in the aggregate up to 35 percent of the Senior Secured Notes with the net cash proceeds of one or more equity offerings at a redemption price of 106.875 percent of the principal amount, provided that at least 65 percent of the original principal amount of the Senior Secured Notes must remain outstanding after each redemption and that each redemption occurs within 90 days of the closing of the equity offering. In addition, prior to May 15, 2015, but not more than once in any twelve-month period, we may redeem up to 10 percent of the Senior Secured Notes at a redemption price of 103 percent plus accrued and unpaid interest. The Senior Secured Notes are redeemable at our option, in whole or in part, at any time on or after May 15, 2015 at set redemption prices together with accrued and unpaid interest.

On May 7, 2013, Libbey Glass redeemed an aggregate principal amount of $45.0 million of the Senior Secured Notes in accordance with the terms of the Notes Indenture. Pursuant to the terms of the Notes Indenture, the redemption price for the Senior Secured Notes was 103 percent of the principal amount of the redeemed Senior Secured Notes, plus accrued and unpaid interest. At completion of the redemption, the aggregate principal amount of the Senior Secured Notes outstanding was $405.0 million. In conjunction with this redemption, we recorded $2.5 million of expense, representing $1.3 million for an early call premium and $1.2 million for the write off of a pro rata amount of financing fees.

On March 25, 2011, Libbey Glass redeemed an aggregate principal amount of $40.0 million of the former Senior Secured Notes in accordance with the terms of the former Notes Indenture. Pursuant to the terms of the former Notes Indenture, the redemption price for the former Senior Secured Notes was 103 percent of the principal amount of the redeemed former Senior

Secured Notes, plus accrued and unpaid interest. At completion of the redemption, the aggregate principal amount of the former Senior Secured Notes outstanding was $360 million. In conjunction with this redemption, we recorded $2.8 million of expense, representing $1.2 million for an early call premium and $1.6 million for the write off of a pro rata amount of financing fees and discounts.

We had an Interest Rate Agreement (Old Rate Agreement) in place through April 18, 2012 with respect to $80.0 million of our former Senior Secured Notes as a means to manage our fixed to variable interest rate ratio. The Old Rate Agreement effectively converted this portion of our long-term borrowings from fixed rate debt to variable rate debt. The variable interest rate for our borrowings related to the Old Rate Agreement at April 18, 2012, excluding applicable fees, was 7.79 percent. Total remaining former Senior Secured Notes not covered by the Old Rate Agreement had a fixed interest rate of 10.0 percent per year. On April 18, 2012, the swap was called at fair value. We received proceeds of $3.6 million. During the second quarter of 2012, $0.1 million of the carrying value adjustment on debt related to the Old Rate Agreement was amortized into interest expense. Upon the refinancing of the former Senior Secured Notes, the remaining unamortized balance of $3.5 million of the carrying value adjustment on debt related to the Old Rate Agreement was recognized as a gain in the loss on redemption of debt on the Consolidated Statements of Operations.

On June 18, 2012, we entered into an Interest Rate Agreement (New Rate Agreement) with respect to $45.0 million of our Senior Secured Notes as a means to manage our fixed to variable interest rate ratio. The New Rate Agreement effectively converts this portion of our long-term borrowings from fixed rate debt to variable rate debt. Prior to May 15, 2015, but not more than once in any twelve-month period, the counterparty may call up to 10 percent of the New Rate Agreement at a call price of 103 percent. The New Rate Agreement is callable at the counterparty's option, in whole or in part, at any time on or after May 15, 2015 at set call premiums. The variable interest rate for our borrowings related to the New Rate Agreement at December 31, 2013, excluding applicable fees, is 5.50 percent. This New Rate Agreement expires on May 15, 2020. Total remaining Senior Secured Notes not covered by the New Rate Agreement have a fixed interest rate of 6.875 percent per year through May 15, 2020. If the counterparty to this New Rate Agreement were to fail to perform, this New Rate Agreement would no longer afford us a variable rate. However, we do not anticipate non-performance by the counterparty. The interest rate swap counterparty was rated A+, as of December 31, 2013, by Standard and Poor's.

The fair market value and related carrying value adjustment are as follows:

| (dollars in thousands) | December 31, 2013 | | December 31, 2012 | |
|---|---|---|---|---|
| Fair market value of Rate Agreement - asset (liability) | $ | (2,073) | $ | 298 |
| Adjustment to increase (decrease) the carrying value of the related long-term debt | $ | (1,324) | $ | 408 |

The fair value of the Old and New Rate Agreements are based on the market standard methodology of netting the discounted expected future fixed cash receipts and the discounted future variable cash payments. The variable cash payments are based on an expectation of future interest rates derived from observed market interest rate forward curves. See note 13 for further discussion and the net impact recorded on the Consolidated Statements of Operations.

***Promissory Note***

In September 2001, we issued a $2.7 million promissory note at an interest rate of 6.0 percent in connection with the purchase of our Laredo, Texas warehouse facility. At December 31, 2013 and 2012, we had $0.7 million and $0.9 million, respectively, outstanding on the promissory note. Principal and interest with respect to the promissory note are paid monthly.

***Notes Payable***

We have an overdraft line of credit for a maximum of €1.0 million. At December 31, 2013 and 2012, there were no borrowings under the facility, which had an interest rate of 5.80 percent. Interest with respect to the note is paid monthly.

***RMB Loan Contract***

On January 23, 2006, Libbey Glassware (China) Co., Ltd. (Libbey China), an indirect wholly owned subsidiary of Libbey Inc., entered into an eight-year RMB Loan Contract (RMB Loan Contract) with China Construction Bank Corporation Langfang Economic Development Area Sub-Branch (CCB). Pursuant to the RMB Loan Contract, CCB agreed to lend to Libbey China RMB 250.0 million, or the equivalent of approximately $40.9 million, for the construction of our production facility in China and the purchase of related equipment, materials and services. The obligations of Libbey China were secured by a guarantee executed by Libbey Inc. for the benefit of CCB and a mortgage lien on the Libbey China facility. The loan held a variable interest rate as announced by the People's Bank of China. Interest with respect to the loan was paid quarterly. As of December

31, 2012, the outstanding balance on the loan was RMB 60.0 million (approximately $9.5 million) which was paid in full in 2013 and no longer outstanding.

***RMB Working Capital Loan***

On September 2, 2013, Libbey China entered into a RMB 31.5 million (approximately $5.2 million) working capital loan with CCB to cover seasonal working capital needs. The 364-day loan matures on September 1, 2014, and bears interest at a variable rate as announced by the People's Bank of China. The annual interest rate was 6.3 percent at December 31, 2013 and interest is paid monthly. The obligation is secured by a mortgage lien on the Libbey China facility.

***BES Euro Line***

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

***AICEP Loan***

In July 2012, Libbey Portugal entered into a loan agreement with Agencia para Investmento Comercio Externo de Portugal, EPE (AICEP), the Portuguese Agency for investment and external trade. The amount of the loan is €1.7 million (approximately $2.4 million) at December 31, 2013 and has an interest rate of 0.0 percent. Semi-annual installments of principal are due beginning in January 2016 through the maturity date in July 2018.

***Fair Value of Borrowings***

The fair value of our debt has been calculated based on quoted market prices (Level 1 in the fair value hierarchy) for the same or similar issues. Our $405.0 million of Senior Secured Notes had an estimated fair value of $437.4 million at December 31, 2013. At December 31, 2012, the $450.0 million outstanding Senior Secured Notes had an estimated fair value of $488.3 million. The fair value of the remainder of our debt approximates carrying value at December 31, 2013 and 2012 due to variable rates.

***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. At December 31, 2013 we had no borrowings under our $100.0 million ABL Facility and $6.2 million in letters of credit issued under that facility. As a result, we had $70.5 million of unused availability remaining under the ABL Facility at December 31, 2013, as compared to $68.6 million of unused availability at December 31, 2012. In addition, we had $42.2 million of cash on hand at December 31, 2013, compared to $67.2 million of cash on hand at December 31, 2012.

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

## 7. Restructuring Charges

### *Capacity Realignment*

In February 2013, we announced plans to discontinue production of certain glassware in North America and reduce manufacturing capacity at our Shreveport, Louisiana, manufacturing facility. As a result, on May 30, 2013, we ceased production of certain glassware in North America, discontinued the use of a furnace at our Shreveport, Louisiana, manufacturing plant and began relocating a portion of the production from the idled furnace to our Toledo, Ohio, and Monterrey, Mexico, locations. These activities are all within the Americas segment and are expected to be completed during the first quarter of 2014. In connection with this plan, we expect to incur pretax charges in the range of approximately \$8.0 million to \$10.0 million. This estimate consists of: (i) up to \$4.0 million in fixed asset impairment charges and accelerated depreciation, (ii) up to \$2.0 million in severance and other employee related costs and (iii) up to \$4.0 million in other restructuring expenses. We expect approximately \$5.5 million of the pretax charge to result in cash expenditures. In 2013, we recorded a pretax charge of \$6.5 million. These charges included employee termination costs, fixed asset impairment charges, depreciation expense and other restructuring expenses. Employee termination costs include severance, medical benefits and outplacement services for the terminated employees. The write-down of fixed assets was to adjust certain machinery and equipment to the estimated fair market value.

The following table summarizes the pretax charge incurred in the Americas segment for the year 2013:

| (dollars in thousands) | 2013 |
|---|---|
| Accelerated depreciation & other | $ 1,685 |
| Included in cost of sales | 1,685 |
| | |
| Employee termination cost & other | 1,794 |
| Fixed asset write-down | 1,924 |
| Other restructuring expenses | 1,141 |
| Included in special charges | 4,859 |
| Total pretax charge | $ 6,544 |

The following is the capacity realignment reserve activity for the year ended December 31, 2013:

| (dollars in thousands) | Reserve Balance at January 1, 2013 | Total Charge to Earnings | Cash (payments) receipts | Non-cash Utilization | Reserve Balance at December 31, 2013 |
|---|---|---|---|---|---|
| Accelerated depreciation & other | $ — | $ 1,685 | $ — | $ (1,685) | $ — |
| Employee termination cost & other | — | 1,794 | (1,505) | — | 289 |
| Fixed asset write-down | — | 1,924 | — | (1,924) | — |
| Other restructuring expenses | — | 1,141 | (1,141) | — | — |
| Total | $ — | $ 6,544 | $ (2,646) | $ (3,609) | $ 289 |

## 8. Income Taxes

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

| Year ended December 31, (dollars in thousands) | 2013 | 2012 | 2011 |
|---|---|---|---|
| United States | $ 23,211 | $ (17,030) | $ (6,662) |
| Non-U.S. | 18,489 | 29,705 | 31,946 |
| Total income before income taxes | $ 41,700 | $ 12,675 | $ 25,284 |

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

| Year ended December 31, (dollars in thousands) | 2013 | 2012 | 2011 |
|---|---|---|---|
| **Current:** | | | |
| U.S. federal | $ 988 | $ (18) | $ 484 |
| Non-U.S. | 8,548 | 9,194 | 5,732 |
| U.S. state and local | 617 | (72) | 100 |
| Total current income tax provision (benefit) | 10,153 | 9,104 | 6,316 |
| **Deferred:** | | | |
| U.S. federal | 564 | 1,264 | (400) |
| Non-U.S. | 2,517 | (4,658) | (4,294) |
| U.S. state and local | 7 | (1) | 21 |
| Total deferred income tax provision (benefit) | 3,088 | (3,395) | (4,673) |
| **Total:** | | | |
| U.S. federal | 1,552 | 1,246 | 84 |
| Non-U.S. | 11,065 | 4,536 | 1,438 |
| U.S. state and local | 624 | (73) | 121 |
| Total income tax provision (benefit) | $ 13,241 | $ 5,709 | $ 1,643 |

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

| December 31, (dollars in thousands) | 2013 | 2012 |
|---|---|---|
| **Deferred income tax assets:** | | |
| Pension | $ — | $ 16,526 |
| Non-pension postretirement benefits | 22,749 | 27,198 |
| Other accrued liabilities | 18,084 | 20,213 |
| Receivables | 1,467 | 1,445 |
| Net operating loss and charitable contribution carry forwards | 32,806 | 45,592 |
| Tax credits | 10,953 | 9,770 |
| Total deferred income tax assets | 86,059 | 120,744 |
| **Deferred income tax liabilities:** | | |
| Property, plant and equipment | 22,053 | 23,196 |
| Inventories | 4,762 | 4,377 |
| Pension | 3,031 | — |
| Intangibles and other assets | 10,238 | 12,392 |
| Total deferred income tax liabilities | 40,084 | 39,965 |
| Net deferred income tax asset before valuation allowance | 45,975 | 80,779 |
| Valuation allowance | (46,048) | (77,629) |
| Net deferred income tax asset (liability) | $ (73) | $ 3,150 |

The net deferred income tax assets and liabilities at December 31 of the respective year-ends were included in the Consolidated Balance Sheets as follows:

| December 31,<br>(dollars in thousands) | 2013 | 2012 |
|---|---|---|
| Current deferred income tax asset | $ 5,840 | $ 4,070 |
| Non-current deferred income tax asset | 5,759 | 9,830 |
| Current deferred income tax liability | — | (3,213) |
| Non-current deferred income tax liability | (11,672) | (7,537) |
| Net deferred income tax asset (liability) | $ (73) | $ 3,150 |

The 2013 deferred income tax asset for net operating loss carry forwards of $32.8 million relates to pre-tax losses incurred in the Netherlands of $17.9 million, in Portugal of $9.1 million, in China of $2.3 million, in the U.S. of $66.0 million for federal and $96.0 million for state and local jurisdictions. Our foreign net operating loss carry forwards of $29.3 million will expire between 2014 and 2022. Our U.S. federal net operating loss carry forward of $66.0 million will expire between 2031 and 2033. This amount is lower than the actual amount reported on our U.S. federal income tax return by $5.2 million. The difference is attributable to tax deductions in excess of financial statement amounts for stock based compensation. When these amounts are realized, we will record a credit to additional paid in capital. The U.S. state and local net operating loss carry forward of $96.0 million will expire between 2014 and 2033. The 2012 deferred income tax asset for net operating loss carry forwards of $44.4 million relates to pre-tax losses incurred in the Netherlands of $15.9 million, in Portugal of $9.4 million, in China of $0.2 million, and in the U.S. of $107.2 million for federal and $107.1 million for state and local jurisdictions.

One of our legal entities in China had a tax holiday which expired effective December 31, 2012. In 2013, we recognized no benefit from the tax holiday. In 2012, we recognized a $0.5 million benefit. In 2011, we recognized no benefit due to net operating losses and a full valuation allowance in place.

The 2013 deferred tax credits of $11.0 million consist of $2.4 million U.S. federal tax credits and $8.6 million non-U.S. credits. The U.S. federal tax credits consist of foreign tax credits, general business research and development credits, and alternative minimum tax credits which will expire between 2024 and 2033 The non-U.S. credit of $8.6 million, which is related to withholding tax on inter-company debt in the Netherlands, can be carried forward indefinitely. The 2012 deferred tax credits of $9.8 million consist of $2.0 million U.S. federal tax credits and $7.8 million non-U.S. credits.

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

Management's decision to maintain the full valuation allowance in place against its U.S. net deferred tax asset was made based on sufficient negative evidence outweighing the positive evidence. The valuation allowance in the U.S. has been maintained since 2007 and a significant piece of evidence used in our assessment has been a history of cumulative tax losses through 2012. The weight applied to the other subjective evidence, such as projected financial results, has been limited. Despite its historical losses, the U.S. moved into a three year cumulative income position during the fourth quarter of 2013. Before we would change our judgment on the need for a full valuation allowance, a sustained period of operating profitability is required. Considering the duration and magnitude of our U.S. operating losses, the current U.S. economic environment and the competitive landscape, it is our judgment that we have not yet achieved profitability of a duration and magnitude sufficient to release our valuation allowance against our deferred tax assets. If we generate significant pre-tax earnings in the U.S. in 2014 and plans for 2015 and beyond show continued profitability, we may have sufficient evidence to release all or a significant portion of our valuation allowance on our U.S. deferred tax assets during 2014.

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

| Year ended December 31, (dollars in thousands) | 2013 | 2012 | 2011 |
|---|---|---|---|
| Beginning balance | $ 77,629 | $ 76,452 | $ 72,327 |
| Charge (benefit) to provision for income taxes | (9,302) | (1,805) | (2,313) |
| Charge (benefit) to other comprehensive income | (22,279) | 2,982 | 6,438 |
| Ending balance | $ 46,048 | $ 77,629 | $ 76,452 |

The valuation allowance decreased $31.6 million in 2013 from $77.6 million at December 31, 2012 to $46.0 million at December 31, 2013. The 2013 decrease of $31.6 million is attributable to the 2013 change in deferred tax assets, primarily related to the U.S. federal net operating loss carry forward and pension. The 2013 valuation allowance of $46.0 million consists of $35.0 million related to U.S. entities and $11.0 million related to non-U.S. entities. The valuation allowance increased $1.2 million in 2012 from $76.5 million at December 31, 2011 to $77.6 million at December 31, 2012. The 2012 increase in valuation allowance was attributable to the 2012 change in deferred tax assets, primarily related to the U.S. federal net operating loss carry forward partially offset by the release of the Chinese valuation allowance.

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

| Year ended December 31, | 2013 | 2012 | 2011 |
|---|---|---|---|
| Statutory U.S. federal income tax rate | 35.0 % | 35.0 % | 35.0 % |
| Increase (decrease) in rate due to: | | | |
| Non-U.S. income tax differential | (7.9) | (43.5) | (14.6) |
| U.S. state and local income taxes, net of related U.S. federal income taxes | 1.0 | (0.4) | 0.3 |
| U.S. federal credits | — | (0.9) | (0.3) |
| Permanent adjustments | 4.2 | 60.6 | (18.6) |
| Foreign withholding taxes | 4.8 | 12.0 | 6.7 |
| Valuation allowance | (16.8) | (10.6) | 3.7 |
| Deferred tax impact from 2014 Mexican tax reform | 10.2 | — | — |
| Other | 1.3 | (7.2) | (5.7) |
| Consolidated effective income tax rate | 31.8 % | 45.0 % | 6.5 % |

Income tax payments consisted of the following:

| Year ended December 31, (dollars in thousands) | 2013 | 2012 | 2011 |
|---|---|---|---|
| Total income tax payments, net of refunds | $ 13,916 | $ 4,399 | $ 15,124 |
| Less: credits or offsets | 3,061 | 997 | 4,894 |
| Cash paid, net | $ 10,855 | $ 3,402 | $ 10,230 |

There was approximately $6.9 million of accumulated undistributed earnings from non-U.S. subsidiaries in 2013 and none in 2012. We intend to reinvest any future undistributed earnings indefinitely into the majority of our non-U.S. operations. Determination of the net amount of unrecognized U.S. income tax and potential foreign withholdings with respect to these earnings is not practicable.

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

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

| (dollars in thousands) | 2013 | 2012 | 2011 |
|---|---|---|---|
| Beginning balance | $ 1,496 | $ 1,266 | $ 1,129 |
| Additions based on tax positions related to the current year | 325 | — | — |
| Changes due to lapse of statute of limitations | (509) | 230 | 137 |
| Ending balance | $ 1,312 | $ 1,496 | $ 1,266 |

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

| December 31, (dollars in thousands) | 2013 | 2012 | 2011 |
|---|---|---|---|
| Impact on the effective tax rate, if unrecognized tax benefits were recognized | $ 1,198 | $ 1,382 | |
| Interest and penalties, net of tax benefit, accrued in the Consolidated Balance Sheets | $ 537 | $ 662 | |
| Interest and penalties expense (benefit) recognized in the Consolidated Statements of Operations | $ (124) | $ (753) | $ (288) |

Based upon the outcome of tax examinations, judicial proceedings, or expiration of statutes of limitations, it is reasonably possible that the ultimate resolution of these unrecognized tax benefits may result in a payment that is materially different from the current estimate of the tax liabilities. It is also reasonably possible that gross unrecognized tax benefits related to U.S. and foreign exposures may decrease within the next twelve months by approximately $0.5 million to $0.8 million due to expiration of statutes of limitations.

We file income tax returns in the U.S. federal jurisdiction, and various state and foreign jurisdictions. As of December 31, 2013, the tax years that remained subject to examination by major tax jurisdictions were as follows:

| Jurisdiction | Open Years |
|---|---|
| Canada | 2010 – 2013 |
| China | 2010 – 2013 |
| Mexico | 2008 – 2013 |
| Netherlands | 2012 – 2013 |
| Portugal | 2009 – 2013 |
| United States | 2010 – 2013 |

## 9. Pension

We have pension plans covering the majority of our employees. Benefits generally are based on compensation and service for salaried employees and job grade and length of service for hourly employees. Our policy is to fund pension plans such that sufficient assets will be available to meet future benefit requirements. In addition, we have an unfunded supplemental employee retirement plan (SERP) that covers salaried U.S.-based employees of Libbey hired before January 1, 2006. The U.S. pension plans cover the salaried U.S.-based employees of Libbey hired before January 1, 2006 and most hourly U.S.-based employees (excluding employees hired at Shreveport after 2008 and at Toledo after September 30, 2010). Effective January 1, 2013, we ceased annual company contribution credits to the cash balance accounts in our Libbey U.S. Salaried Pension Plan and SERP. The non-U.S. pension plans cover the employees of our wholly owned subsidiaries in the Netherlands and Mexico. The plan in Mexico is primarily not funded.

### *Effect on Operations*

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

| Year ended December 31, (dollars in thousands) | U.S. Plans | | | Non-U.S. Plans | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2013 | 2012 | 2011 | 2013 | 2012 | 2011 | 2013 | 2012 | 2011 |
| Service cost (benefits earned during the period) | $ 4,739 | $ 5,957 | $ 5,491 | $ 2,862 | $ 1,749 | $ 1,553 | $ 7,601 | $ 7,706 | $ 7,044 |
| Interest cost on projected benefit obligation | 14,093 | 15,398 | 16,057 | 4,981 | 4,954 | 4,981 | 19,074 | 20,352 | 21,038 |
| Expected return on plan assets | (22,374) | (18,514) | (17,173) | (1,995) | (2,382) | (2,299) | (24,369) | (20,896) | (19,472) |
| Amortization of unrecognized: | | | | | | | | | |
| Prior service cost | 1,172 | 2,050 | 2,163 | 164 | 159 | 172 | 1,336 | 2,209 | 2,335 |
| Actuarial loss | 8,604 | 6,429 | 4,661 | 919 | 533 | 493 | 9,523 | 6,962 | 5,154 |
| Transition obligations | — | — | — | 84 | 102 | 125 | 84 | 102 | 125 |
| Settlement charge | 1,805 | 3,931 | — | 447 | 200 | 58 | 2,252 | 4,131 | 58 |
| Curtailment charge | — | 375 | — | — | — | — | — | 375 | — |
| Pension expense | $ 8,039 | $ 15,626 | $ 11,199 | $ 7,462 | $ 5,315 | $ 5,083 | $ 15,501 | $ 20,941 | $ 16,282 |

In 2013 and 2012, we incurred pension settlement charges of $2.3 million and $4.1 million, respectively. The pension settlement charges were triggered by excess lump sum distributions taken by employees, which required us to record unrecognized gains and losses in our pension plan accounts.

In May 2012, we used a portion of the proceeds of our debt refinancing to contribute $79.7 million to our U.S. pension plans to fully fund our target obligations under ERISA. During the second quarter of 2012, the pension expense calculation was not adjusted as a result of this discretionary contribution as it was not contemplated in the assumption set used for the expense determination for the year. As a result of the U.S. salaried plan re-measurement on July 31, 2012, the portion of this contribution related to this plan did affect the pension expense calculation.

### *Actuarial Assumptions*

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

| | U.S. Plans | | Non-U.S. Plans | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Discount rate | 4.83% to 5.12% | 3.98% to 4.22% | 3.70% to 8.50% | 3.70% to 7.00% |
| Rate of compensation increase | —% to —% | —% to —% | 2.00% to 4.30% | 2.00% to 4.30% |

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

| | U.S. Plans | | | Non-U.S. Plans | | |
|---|---|---|---|---|---|---|
| | 2013 | 2012 | 2011 | 2013 | 2012 | 2011 |
| Discount rate | 3.98% to 4.97% | 3.87% to 5.22% | 5.50% to 5.76% | 3.70% to 7.00% | 5.80% to 8.25% | 5.40% to 8.25% |
| Expected long-term rate of return on plan assets | 7.50% | 7.75% | 8.00% | 3.60% | 5.10% | 4.80% |
| Rate of compensation increase | —% to —% | 2.25% to 4.50% | 2.25% to 4.50% | 2.00% to 4.30% | 2.00% to 4.30% | 2.00% to 4.30% |

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

To determine the expected long-term rate of return on plan assets for our funded plans, we consider the current and expected asset allocations, as well as historical and expected returns on various categories of plan assets. The expected long-term rate of return on plan assets at December 31st is used to measure the earnings effects for the subsequent year. The assumed long-term rate of return on assets is applied to a calculated value of plan assets that recognizes gains and losses in the fair value of plan assets compared to expected returns over the next five years. This produces the expected return on plan assets that is included in pension expense. The difference between the expected return and the actual return on plan assets is deferred and amortized over five years. The net deferral of past asset gains (losses) affects the calculated value of plan assets and, ultimately, future pension expense (income).

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

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

Considering 2013 results, the disclosure below provides a sensitivity analysis of the impact that changes in the significant assumptions would have on 2013 and 2014 pension expense:

| Assumption (dollars in thousands) | Percentage Point Change | Estimated Effect on Annual Expense 2013 | Estimated Effect on Annual Expense 2014 |
|---|---|---|---|
| Discount rate | 1.0% | $ 4,100 | $ 4,600 |
| Long-term rate of return on assets | 1.0% | $ 3,400 | $ 3,800 |

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

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

| Year ended December 31, (dollars in thousands) | U.S. Plans | | Non-U.S. Plans | | Total | |
|---|---|---|---|---|---|---|
| | 2013 | 2012 | 2103 | 2012 | 2013 | 2012 |
| Change in projected benefit obligation: | | | | | | |
| Projected benefit obligation, beginning of year | $338,133 | $315,689 | $ 95,459 | $ 68,990 | $433,592 | $384,679 |
| Service cost | 4,739 | 5,957 | 2,862 | 1,749 | 7,601 | 7,706 |
| Interest cost | 14,093 | 15,398 | 4,981 | 4,954 | 19,074 | 20,352 |
| Exchange rate fluctuations | — | — | 2,150 | 3,727 | 2,150 | 3,727 |
| Actuarial (gain) loss | (25,324) | 34,151 | 2,237 | 20,223 | (23,087) | 54,374 |
| Plan participants' contributions | — | — | 1,108 | 1,087 | 1,108 | 1,087 |
| Curtailment effect | — | (5,711) | — | — | — | (5,711) |
| Settlements paid | (6,307) | (12,552) | — | (692) | (6,307) | (13,244) |
| Benefits paid | (15,225) | (14,799) | (6,078) | (4,579) | (21,303) | (19,378) |
| Projected benefit obligation, end of year | $310,109 | $338,133 | $102,719 | $ 95,459 | $412,828 | $433,592 |
| Change in fair value of plan assets: | | | | | | |
| Fair value of plan assets, beginning of year | $316,826 | $221,025 | $ 65,440 | $ 53,004 | $382,266 | $274,029 |
| Actual return on plan assets | 37,458 | 30,348 | (136) | 5,922 | 37,322 | 36,270 |
| Exchange rate fluctuations | — | — | 2,667 | 1,323 | 2,667 | 1,323 |
| Employer contributions | 75 | 92,804 | 7,421 | 9,375 | 7,496 | 102,179 |
| Plan participants' contributions | — | — | 1,108 | 1,087 | 1,108 | 1,087 |
| Settlements paid | (6,307) | (12,552) | — | (692) | (6,307) | (13,244) |
| Benefits paid | (15,225) | (14,799) | (6,078) | (4,579) | (21,303) | (19,378) |
| Fair value of plan assets, end of year | $332,827 | $316,826 | $ 70,422 | $ 65,440 | $403,249 | $382,266 |
| Funded ratio | 107.3% | 93.7% | 68.6% | 68.6% | 97.7% | 88.2% |
| Funded status and net accrued pension benefit asset (cost) | $ 22,718 | $ (21,307) | $ (32,297) | $ (30,019) | $ (9,579) | $ (51,326) |

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

| December 31, (dollars in thousands) | 2013 | 2012 |
|---|---|---|
| Non-current asset | $ 33,615 | $ 10,196 |
| Current liability | (3,161) | (613) |
| Long-term liability | (40,033) | (60,909) |
| Net accrued pension liability | $ (9,579) | $ (51,326) |

The pre-tax amounts recognized in accumulated other comprehensive loss as of December 31, 2013 and 2012, are as follows**:**

| Year ended December 31, (dollars in thousands) | U.S. Plans | | Non-U.S. Plans | | Total | |
|---|---|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| Net actuarial loss | $ 66,756 | $ 117,573 | $ 26,832 | $ 23,576 | $ 93,588 | $ 141,149 |
| Prior service cost | 1,976 | 3,148 | 1,071 | 1,194 | 3,047 | 4,342 |
| Transition obligation | — | — | 61 | 143 | 61 | 143 |
| Total cost | $ 68,732 | $ 120,721 | $ 27,964 | $ 24,913 | $ 96,696 | $ 145,634 |

The pre-tax amounts in accumulated other comprehensive loss as of December 31, 2013, that are expected to be recognized as components of net periodic benefit cost during 2014 are as follows:

| (dollars in thousands) | U.S. Plans | Non-U.S. Plans | Total |
|---|---|---|---|
| Net actuarial loss | $ 4,968 | $ 1,032 | $ 6,000 |
| Prior service cost | 1,059 | 169 | 1,228 |
| Transition obligation | — | 61 | 61 |
| Total cost | $ 6,027 | $ 1,262 | $ 7,289 |

Estimated contributions for 2014, as well as, contributions made in 2013 and 2012 to the pension plans are as follows:

| (dollars in thousands) | U.S. Plans | Non-U.S. Plans | Total |
|---|---|---|---|
| Estimated contributions in 2014 | $ 2,623 | $ 3,698 | $ 6,321 |
| Contributions made in 2013 | $ 75 | $ 7,421 | $ 7,496 |
| Contributions made in 2012 | $ 92,804 | $ 9,375 | $ 102,179 |

It is difficult to estimate future cash contributions to the pension plans, as such amounts are a function of actual investment returns, withdrawals from the plans, changes in interest rates and other factors uncertain at this time. It is possible that greater cash contributions may be required in 2014 than the amounts in the above table. Although a decline in market conditions, changes in current pension law and uncertainties regarding significant assumptions used in the actuarial valuations may have a material impact in future required contributions to our pension plans, we currently do not expect funding requirements to have a material adverse impact on current or future liquidity.

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

| Year<br>(dollars in thousands) | U.S. Plans | Non-U.S. Plans | Total |
|---|---|---|---|
| 2014 | $ 19,765 | $ 3,938 | $ 23,703 |
| 2015 | $ 17,798 | $ 2,900 | $ 20,698 |
| 2016 | $ 18,382 | $ 3,360 | $ 21,742 |
| 2017 | $ 19,073 | $ 3,679 | $ 22,752 |
| 2018 | $ 20,352 | $ 4,416 | $ 24,768 |
| 2019-2023 | $ 107,862 | $ 24,374 | $ 132,236 |

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

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for pension plans with an accumulated benefit obligation in excess of plan assets at December 31, 2013 and 2012 were as follows:

| December 31,<br>(dollars in thousands) | U.S. Plans | | Non-U.S. Plans | | Total | |
|---|---|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| Projected benefit obligation | $ 11,238 | $ 338,133 | $ 42,670 | $ 43,190 | $ 53,908 | $ 381,323 |
| Accumulated benefit obligation | $ 11,238 | $ 338,133 | $ 34,572 | $ 38,387 | $ 45,810 | $ 376,520 |
| Fair value of plan assets | $ 7,744 | $ 316,826 | $ 2,971 | $ 2,974 | $ 10,715 | $ 319,800 |

***Plan Asset Allocation***

The asset allocation for our U.S. pension plans at the end of 2013 and 2012 and the target allocation for 2014, by asset category, are as follows:

| | Target Allocation | Percent of Plan Assets at Year End | |
|---|---|---|---|
| U.S. Plans Asset Category | 2014 | 2013 | 2012 |
| Equity securities | 45% | 49% | 44% |
| Debt and fixed income securities | 35% | 32% | 37% |
| Real estate | 5% | 4% | 5% |
| Other | 15% | 15% | 14% |
| Total | 100% | 100% | 100% |

The asset allocation for our Libbey Holland pension plan at the end of 2013 and 2012 and the target allocation for 2014, by asset category, are as follows:

| | Target Allocation | Percent of Plan Assets at Year End | |
|---|---|---|---|
| Non-U.S. Plan Asset Category | 2014 | 2013 | 2012 |
| Equity securities | 26% | 24% | 17% |
| Debt securities | 61% | 61% | 68% |
| Real estate | 8% | 7% | 10% |
| Other | 5% | 8% | 5% |
| Total | 100% | 100% | 100% |

Libbey Mexico pension plan assets are all invested in debt securities.

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

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

The following table sets forth by level, within the fair value hierarchy established by FASB ASC Topic 820, our pension plan assets at fair value (see note 15 for further discussion of the fair value hierarchy) as of December 31, 2013 and 2012:

| December 31, 2013 (dollars in thousands) | Level One | Level Two | Level Three | Total |
|---|---|---|---|---|
| Cash & cash equivalents | $ — | $ 11,136 | $ — | $ 11,136 |
| Real estate | — | 14,543 | 5,105 | 19,648 |
| Equity securities | — | 177,413 | — | 177,413 |
| Debt securities | — | 139,926 | — | 139,926 |
| Hedge funds | — | — | 55,126 | 55,126 |
| Total | $ — | $ 343,018 | $ 60,231 | $ 403,249 |

| December 31, 2012<br>(dollars in thousands) | Level One | Level Two | Level Three | Total |
|---|---|---|---|---|
| Cash & cash equivalents | $ — | $ 781 | $ — | $ 781 |
| Real estate | — | 15,613 | 6,305 | 21,918 |
| Equity securities | — | 149,902 | — | 149,902 |
| Debt securities | — | 162,114 | — | 162,114 |
| Hedge funds | — | — | 47,551 | 47,551 |
| Total | $ — | $ 328,410 | $ 53,856 | $ 382,266 |

The change in fair value of Level 3 pension plan assets due to actual return on those assets was immaterial in 2013 and 2012. The following is a reconciliation for which Level three inputs were used in determining fair value:

| Year ended December 31,<br>(dollars in thousands) | 2013 | 2012 |
|---|---|---|
| Assets classified as Level 3 at the beginning of the year | $ 53,856 | $ 38,961 |
| Change in unrealized appreciation (depreciation) | 6,716 | 2,743 |
| Net purchases (sales) | (341) | 12,152 |
| Assets classified as Level 3 at the end of the year | $ 60,231 | $ 53,856 |

## 10. Nonpension Postretirement Benefits

We provide certain retiree health care and life insurance benefits covering our U.S. and Canadian salaried employees hired before January 1, 2004 and a majority of our union hourly employees (excluding employees hired at Shreveport after 2008 and at Toledo after September 30, 2010). Employees are generally eligible for benefits upon retirement and completion of a specified number of years of creditable service. Effective January 1, 2013, we ended our existing healthcare benefit for salaried retirees age 65 and older and instead provide a Retiree Health Reimbursement Arrangement (RHRA) that supports retirees in purchasing a Medicare plan that meets their needs. Also effective January 1, 2013, we reduced the maximum life insurance benefit for salaried retirees to $10,000. Benefits for most hourly retirees are determined by collective bargaining. The U.S. nonpension postretirement plans cover the hourly and salaried U.S.-based employees of Libbey (excluding those mentioned above). The non-U.S. nonpension postretirement plans cover the retirees and active employees of Libbey who are located in Canada. The postretirement benefit plans are not funded.

### *Effect on Operations*

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

| Year ended December 31,<br>(dollars in thousands) | U.S. Plans | | | Non-U.S. Plans | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2013 | 2012 | 2011 | 2013 | 2012 | 2011 | 2013 | 2012 | 2011 |
| Service cost (benefits earned during the period) | $ 1,190 | $ 1,470 | $ 1,359 | $ 2 | $ 2 | $ 2 | $ 1,192 | $ 1,472 | $ 1,361 |
| Interest cost on projected benefit obligation | 2,622 | 3,426 | 3,632 | 110 | 104 | 122 | 2,732 | 3,530 | 3,754 |
| Amortization of unrecognized: | | | | | | | | | |
| Prior service cost | 140 | 422 | 422 | — | — | — | 140 | 422 | 422 |
| Loss (gain) | 857 | 916 | 1,107 | — | (1) | (17) | 857 | 915 | 1,090 |
| Nonpension postretirement benefit expense | $ 4,809 | $ 6,234 | $ 6,520 | $ 112 | $ 105 | $ 107 | $ 4,921 | $ 6,339 | $ 6,627 |

***Actuarial Assumptions***

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

| | U.S. Plans | | Non-U.S. Plans | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Discount rate | 4.74% | 3.85% | 4.36% | 3.71% |

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

| | U.S. Plans | | | Non-U.S. Plans | | |
|---|---|---|---|---|---|---|
| | 2013 | 2012 | 2011 | 2013 | 2012 | 2011 |
| Discount rate | 3.85% | 4.91% | 5.34% | 3.71% | 3.97% | 4.86% |

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

| | U.S. Plans | | Non-U.S. Plans | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Initial health care trend | 7.50% | 7.00% | 7.50% | 7.00% |
| Ultimate health care trend | 5.00% | 5.00% | 5.00% | 5.00% |
| Years to reach ultimate trend rate | 10 | 8 | 10 | 8 |

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

The health care cost trend rate represents our expected annual rates of change in the cost of health care benefits. The trend rate noted above represents a forward projection of health care costs as of the measurement date.

Sensitivity to changes in key assumptions is as follows:

- A 1.0 percent change in the health care trend rate would not have a material impact upon the nonpension postretirement expense.
- A 1.0 percent change in the discount rate would change the nonpension postretirement expense by $0.3 million.

### *Accumulated Postretirement Benefit Obligation*

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

| Year ended December 31, (dollars in thousands) | U.S. Plans 2013 | U.S. Plans 2012 | Non-U.S. Plans 2013 | Non-U.S. Plans 2012 | Total 2013 | Total 2012 |
|---|---|---|---|---|---|---|
| Change in accumulated nonpension postretirement benefit obligation: | | | | | | |
| Benefit obligation, beginning of year | $ 73,523 | $ 70,541 | $ 2,684 | $ 2,676 | $ 76,207 | $ 73,217 |
| Service Cost | 1,190 | 1,470 | 2 | 2 | 1,192 | 1,472 |
| Interest cost | 2,622 | 3,426 | 110 | 104 | 2,732 | 3,530 |
| Plan participants' contributions | 810 | 1,307 | — | — | 810 | 1,307 |
| ERRP to be used to reduce retiree contribution | — | 76 | — | — | — | 76 |
| Plan amendments | — | (2,672) | — | — | — | (2,672) |
| Actuarial (gain) loss | (11,477) | 3,682 | 238 | (28) | (11,239) | 3,654 |
| Exchange rate fluctuations | — | — | (188) | 61 | (188) | 61 |
| Benefits paid | (5,551) | (4,307) | (140) | (131) | (5,691) | (4,438) |
| Benefit obligation, end of year | $ 61,117 | $ 73,523 | $ 2,706 | $ 2,684 | $ 63,823 | $ 76,207 |
| Funded status and accrued benefit cost | $ (61,117) | $ (73,523) | $ (2,706) | $ (2,684) | $ (63,823) | $ (76,207) |

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

| December 31, (dollars in thousands) | 2013 | 2012 |
|---|---|---|
| Current liability | $ 4,758 | $ 4,739 |
| Long-term liability | 59,065 | 71,468 |
| Total accrued postretirement benefit liability | $ 63,823 | $ 76,207 |

The pre-tax amounts recognized in accumulated other comprehensive loss as of December 31, 2013 and 2012, are as follows:

| Year ended December 31, (dollars in thousands) | U.S. Plans 2013 | U.S. Plans 2012 | Non-U.S. Plans 2013 | Non-U.S. Plans 2012 | Total 2013 | Total 2012 |
|---|---|---|---|---|---|---|
| Net actuarial loss (gain) | $ 7,760 | $ 20,087 | $ (62) | $ (316) | $ 7,698 | $ 19,771 |
| Prior service cost | (1,044) | (904) | — | — | (1,044) | (904) |
| Total cost (credit) | $ 6,716 | $ 19,183 | $ (62) | $ (316) | $ 6,654 | $ 18,867 |

The pre-tax amounts in accumulated other comprehensive loss at December 31, 2013, that are expected to be recognized as components of net periodic benefit cost during 2014 are as follows:

| Year ended December 31, (dollars in thousands) | U.S. Plans | Non-U.S. Plans | Total |
|---|---|---|---|
| Net actuarial loss | $ 267 | $ — | $ 267 |
| Prior service cost | 140 | — | 140 |
| Total cost | $ 407 | $ — | $ 407 |

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

| Fiscal Year (dollars in thousands) | U.S. Plans | Non-U.S. Plans | Total |
|---|---|---|---|
| 2014 | $ 4,468 | $ 290 | $ 4,758 |
| 2015 | $ 4,600 | $ 288 | $ 4,888 |
| 2016 | $ 4,794 | $ 286 | $ 5,080 |
| 2017 | $ 5,110 | $ 277 | $ 5,387 |
| 2018 | $ 5,326 | $ 269 | $ 5,595 |
| 2019-2023 | $ 24,259 | $ 1,039 | $ 25,298 |

## 11. Net Income per Share of Common Stock

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

| Year ended December 31, (dollars in thousands, except earnings per share) | 2013 | 2012 | 2011 |
|---|---|---|---|
| **Numerator for earnings per share:** | | | |
| Net income that is available to common shareholders | $ 28,459 | $ 6,966 | $ 23,641 |
| **Denominator for basic earnings per share:** | | | |
| Weighted average shares outstanding | 21,216,780 | 20,875,959 | 20,169,638 |
| Effect of stock options and restricted stock units | 525,393 | 439,252 | 492,557 |
| Effect of warrants | — | — | 145,882 |
| Total effect of dilutive securities | 525,393 | 439,252 | 638,439 |
| **Denominator for diluted earnings per share:** | | | |
| Adjusted weighted average shares and assumed conversions | 21,742,173 | 21,315,211 | 20,808,077 |
| Basic earnings per share | $ 1.34 | $ 0.33 | $ 1.17 |
| Diluted earnings per share | $ 1.31 | $ 0.33 | $ 1.14 |

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

## 12. Employee Stock Benefit Plans

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

***Equity Participation Plan Program Description***

We have an equity participation plan, the Amended and Restated Libbey Inc. 2006 Omnibus Incentive Plan, which we refer to as the Omnibus Plan. Up to a total of 2,960,000 shares of Libbey Inc. common stock are authorized for issuance as equity-based compensation under the Omnibus Plan. Under the Omnibus Plan, grants of equity-based compensation may take the form of stock options, stock appreciation rights, performance shares or units, restricted stock or restricted stock units or other stock-based awards. Employees and directors are eligible for awards under this plan. During 2013, there were grants of 203,825 stock options, 131,555 restricted stock units and 244,229 stock appreciation rights. During 2012, there were grants of 163,042 stock options, 215,180 restricted stock units and 3,000 stock appreciation rights. All option grants have an exercise price equal to the fair market value of the underlying stock on the grant date. The vesting period of options, stock appreciation rights and restricted stock units outstanding as of December 31, 2013, is generally four years. These instruments do not participate in dividends. All grants of equity-based compensation are amortized over the vesting period in accordance FASB ASC 718 expense attribution methodology. The impact of applying the provisions of FASB ASC 718 is a pre-tax compensation expense of $5.1 million, $3.3 million and $5.0 million in selling, general and administrative expenses in the Consolidated Statements of Operations for 2013, 2012 and 2011, respectively. During 2013 and 2011, there were non-cash compensation charges of $0.7 million and $1.7 million, respectively, related to accelerated vesting of previously issued equity compensation.

***Non-Qualified Stock Option Information***

The Black-Scholes option-pricing model was developed for use in estimating the value of traded options that have no vesting restrictions and are fully transferable. The Black-Scholes option-pricing model was used to estimate the grant-date fair value. The following table summarizes non-qualified stock option disclosures for 2013, 2012 and 2011:

| Year ended December 31, (dollars in thousands, except options and assumptions) | 2013 | 2012 | 2011 |
|---|---|---|---|
| Stock options granted | 203,825 | 163,042 | 168,939 |
| Stock option compensation expense included in the Consolidated Statements of Operations | $ 1,689 | $ 1,443 | $ 2,189 |
| Weighted-average grant-date fair value of options granted using the Black-Scholes model | $ 8.42 | $ 9.33 | $ 12.58 |
| Weighted average assumptions for stock option grants: | | | |
| Risk-free interest | 1.12% | 1.08% | 2.74% |
| Expected term | 6.3 years | 6.3 years | 6.3 years |
| Expected volatility | 44.51% | 77.94% | 88.15% |
| Dividend yield | 0.00% | 0.00% | 0.00% |

- The risk-free interest rate is based on the U.S. Treasury yield curve at the time of grant and has a term equal to the expected life.
- The expected term represents the period of time the options are expected to be outstanding. Prior to October 2013, the expected term was developed based on the Simplified Method defined by the SEC Staff Accounting Bulletin No. 107, “Share-Based Payment” (SAB 107) due to limited exercise activity over the past years given the volatility in the stock price. As a result of market stabilization and increased exercise activity, we changed our method for determining the expected term and now use the actual historical exercise activity.
- Prior to June 2012, the expected volatility was developed based on historic stock prices commensurate with the expected term of the option. We use projected data for expected volatility of our stock options based on the average of daily, weekly and monthly historical volatilities of our stock price over the expected term of the option and other economic data trended into future years. As a result of our May 2012 debt refinancing, we changed our method for determining expected volatility. Expected volatility is calculated based on a rolling average of the daily stock closing prices of a peer group of companies with a period equal to the expected life of the award. The peer group was used due to the Company having a period of history when we were more highly leveraged which is not relevant in evaluating expected volatility. The peer group was established using the criteria of similar industry, size, leverage and length of history. The impact of this change was immaterial.
- The dividend yield is calculated as the ratio based on our most recent historical dividend payments per share of common stock at the grant date to the stock price on the date of grant.

Information with respect to our stock option activity for 2013, 2012 and 2011 is as follows:

| Stock Options | Shares | Weighted-Average Exercise Price per Share | Weighted-Average Remaining Contractual Life (In Years) | Aggregate Intrinsic Value (in thousands) |
|---|---|---|---|---|
| Outstanding balance at January 1, 2011 | 1,714,934 | $ 15.58 | 6 | $ 6,710 |
| Granted | 168,939 | $ 16.72 | | |
| Exercised | (69,327) | $ 6.95 | | $ 681 |
| Canceled | (188,840) | $ 27.90 | | |
| Outstanding balance at December 31, 2011 | 1,625,706 | $ 14.63 | 4 | $ 3,957 |
| Granted | 163,042 | $ 13.96 | | |
| Exercised | (223,382) | $ 5.52 | | $ 2,694 |
| Canceled | (253,732) | $ 22.75 | | |
| Outstanding balance at December 31, 2012 | 1,311,634 | $ 14.47 | 4 | $ 7,651 |
| Granted | 203,825 | $ 19.05 | | |
| Exercised | (397,369) | $ 13.56 | | $ 3,257 |
| Canceled | (129,310) | $ 27.58 | | |
| Outstanding balance at December 31, 2013 | 988,780 | $ 14.07 | 5 | $ 6,856 |
| Exercisable at December 31, 2013 | 646,504 | $ 12.61 | | $ 5,422 |

Intrinsic value for share-based instruments is defined as the difference between the current market value and the exercise price. FASB ASC Topic 718 requires the benefits of tax deductions in excess of the compensation cost recognized for those stock options (excess tax benefit) to be classified as financing cash flows.

The aggregate intrinsic value in the preceding table represents the total pretax intrinsic value, based on the Libbey Inc. closing stock price of $21.00 as of December 31, 2013, which would have been received by the option holders had all option holders exercised their options as of that date. The number of outstanding options exercisable and weighted average exercise price is as follows:

| December 31, | 2013 | 2012 | 2011 |
|---|---|---|---|
| Outstanding options exercisable | 646,504 | 964,043 | 1,202,949 |
| Weighted average exercise price | $ 12.61 | $ 15.06 | $ 16.14 |

As of December 31, 2013, $1.3 million of total unrecognized compensation expense related to nonvested stock options is expected to be recognized within the next 2.8 years on a weighted-average basis. The total fair value of shares vested during 2013, 2012 and 2011 is $1.7 million, $1.2 million and $1.9 million, respectively. Shares issued for exercised options are issued from newly issued stock.

The following table summarizes our nonvested stock option activity for 2013, 2012 and 2011:

| Nonvested Stock Options | Shares | Weighted-Average Value (per Share) |
|---|---|---|
| Nonvested at January 1, 2011 | 550,120 | $ 4.81 |
| Granted | 168,939 | $ 12.58 |
| Vested | (283,185) | $ 6.87 |
| Forfeited | (13,117) | $ 7.02 |
| Nonvested at December 31, 2011 | 422,757 | $ 7.53 |
| Granted | 163,042 | $ 9.33 |
| Vested | (202,115) | $ 5.76 |
| Forfeited | (36,093) | $ 10.40 |
| Nonvested at December 31, 2012 | 347,591 | $ 9.11 |
| Granted | 203,825 | $ 8.42 |
| Vested | (201,865) | $ 8.47 |
| Forfeited | (7,275) | $ 9.78 |
| Nonvested at December 31, 2013 | 342,276 | $ 9.07 |

***Stock Appreciation Rights Information***

The exercise price of each stock appreciation right equals the closing market price of our common stock on the date of grant. Stock appreciation rights generally vest over four years and their maximum term is ten years. Stock appreciation rights are settled in cash for the difference between the market price on the date of exercise and the exercise price. Awards that are settled in cash are subject to liability accounting. Accordingly, the fair value of such awards is remeasured at the end of each reporting period until settled or expired. The Company entered into a CEO Retention Award Agreement pursuant to which the Company issued 240,829 stock appreciation rights to our CEO on December 16, 2013. These awards cliff vest on December 31, 2018.

The Black-Scholes option-pricing model was developed for use in estimating the value of traded options that have no vesting restrictions and are fully transferable. The Black-Scholes option-pricing model was used to estimate the grant-date fair value. The following table summarizes stock appreciation rights disclosures for 2013:

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

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

Information with respect to our stock appreciation right activity for 2013 is as follows:

| Stock Appreciation Rights | Shares | Weighted Average Exercise Price | Weighted-Average Remaining Contractual Life (In Years) | Aggregate Intrinsic Value (in thousands) |
|---|---|---|---|---|
| Outstanding balance at January 1, 2013 | 6,750 | $ 14.37 | | |
| Granted | 244,229 | $ 21.26 | | |
| Outstanding balance at December 31, 2013 | 250,979 | $ 21.07 | 10 | $ — |
| Exercisable at December 31, 2013 | 2,938 | $ 14.03 | | $ 20 |

The number of outstanding stock appreciation rights exercisable and weighted average exercise price is as follows:

| December 31, | 2013 |
|---|---|
| Outstanding Stock Appreciation Rights exercisable | 2,938 |
| Weighted average exercise price | $ 14.03 |

As of December 31, 2013, $2.3 million of total unrecognized compensation expense related to nonvested stock appreciation rights is expected to be recognized within the next 5.0 years on a weighted-average basis. The total fair value of shares vested during 2013 was immaterial.

The following table summarizes our non-vested stock appreciation rights for 2013:

| Nonvested Stock Appreciation Rights | Shares | Weighted-Average Value (per Share) |
|---|---|---|
| Nonvested at January 1, 2013 | 5,500 | $ 10.86 |
| Granted | 244,229 | $ 10.35 |
| Vested | (1,688) | $ 10.73 |
| Nonvested at December 31, 2013 | 248,041 | $ 10.36 |

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

Under the Omnibus Plan, we grant non-employee members of our Board of Directors shares of unrestricted stock. The shares granted to Directors are immediately vested and all compensation expense is recognized in our Consolidated Statements of Operations in the year the grants are made. In addition, we grant restricted stock units to select executives, and we grant shares of restricted stock to key employees. The restricted stock units granted to select executives vest over four years. The restricted stock units granted to key employees generally vest on the first anniversary of the grant date.

A summary of the activity for restricted stock units under the Omnibus Plan for 2013, 2012 and 2011 is presented below:

| Year ended December 31, (dollars in thousands, except share amounts) | 2013 | 2012 | 2011 |
|---|---|---|---|
| Beginning nonvested balance | 263,181 | 245,359 | 404,415 |
| Granted | 131,555 | 215,180 | 165,253 |
| Vested | (186,276) | (152,340) | (301,308) |
| Forfeited | — | (45,018) | (23,001) |
| Ending nonvested balance | 208,460 | 263,181 | 245,359 |
| Weighted-average grant-date fair value per restricted stock unit | $ 19.33 | $ 13.99 | $ 16.44 |
| Compensation expense | $ 3,315 | $ 1,878 | $ 2,956 |

As of December 31, 2013, there was $1.5 million of total unrecognized compensation cost related to nonvested restricted stock units granted. That cost is expected to be recognized over a weighted average period of 1.9 years. Shares issued for restricted stock unit awards are issued from newly issued shares.

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

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

For the Salary Plan, employees can contribute from 1 percent to 50 percent of their annual salary, up to the annual IRS limits. Through December 31, 2012, we matched 100 percent on the first 1 percent and matched 50 percent on the next 5 percent of pretax contributions to a maximum of 3.5 percent of compensation. Effective January 1, 2013, we matched 100 percent on the first 6 percent of eligible compensation. For the Hourly Plan, employees can contribute from 1 percent to 25 percent of their annual pay up to the annual IRS limits. We match 50 percent of the first 6 percent of eligible earnings that are contributed by employees on a pretax basis. Therefore, the maximum matching contribution that we may allocate to each participant's account did not exceed $15,300 for the Salary Plan or $7,650 for the Hourly Plan for the 2013 calendar year due to the $255,000 annual limit on eligible earnings imposed by the Internal Revenue Code. All matching contributions are invested according to the employees' deferral elections and vest immediately.

At the end of 2008, the non-qualified Executive Savings Plan (ESP) was frozen. The ESP was for those employees whose salary exceeded the IRS limit. Libbey matched employee contributions under the ESP in the same manner as we provided matching contributions under our 401(k) Salary Plan.

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

Our matching contributions to all Plans totaled $3.1 million, $2.3 million and $2.4 million in 2013, 2012 and 2011, respectively.

## 13. Derivatives

We utilize derivative financial instruments to hedge certain interest rate risks associated with our long-term debt, commodity price risks associated with forecasted future natural gas requirements and foreign exchange rate risks associated with transactions denominated in a currency other than the U.S. dollar. Most of these derivatives, except for the foreign currency contracts, 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. All of these contracts were accounted for under FASB ASC 815 "Derivatives and Hedging."

### *Fair Values*

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

| | Asset Derivatives: | | | |
|---|---|---|---|---|
| **(dollars in thousands)** | **December 31, 2013** | | **December 31, 2012** | |
| **Derivatives designated as hedging instruments under FASB ASC 815:** | **Balance Sheet Location** | **Fair Value** | **Balance Sheet Location** | **Fair Value** |
| Interest rate contract | Derivative asset | $ — | Derivative asset | $ 298 |
| Natural gas contracts | Prepaid and other current assets | 394 | Prepaid and other current assets | — |
| Natural gas contracts | Derivative asset | 19 | Derivative asset | — |
| Total designated | | 413 | | 298 |
| **Derivatives not designated as hedging instruments under FASB ASC 815:** | | | | |
| Currency contracts | Prepaid and other current assets | — | Prepaid and other current assets | 41 |
| Total undesignated | | — | | 41 |
| Total | | $ 413 | | $ 339 |

| | Liability Derivatives: | | | |
|---|---|---|---|---|
| **(dollars in thousands)** | **December 31, 2013** | | **December 31, 2012** | |
| **Derivatives designated as hedging instruments under FASB ASC 815:** | **Balance Sheet Location** | **Fair Value** | **Balance Sheet Location** | **Fair Value** |
| Natural gas contracts | Derivative liability - current | $ — | Derivative liability - current | $ 420 |
| Interest rate contract | Other long-term liabilities | 1,866 | Other long-term liabilities | — |
| Total designated | | 1,866 | | 420 |
| **Derivatives not designated as hedging instruments under FASB ASC 815:** | | | | |
| Interest rate contract | Other long-term liabilities | 207 | Other long-term liabilities | — |
| Total undesignated | | 207 | | — |
| Total | | $ 2,073 | | $ 420 |

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

On June 18, 2012, we entered into an interest rate swap agreement (New Rate Agreement) with a notional amount of $45.0 million that is to mature in 2020. The swap was executed in order to convert a portion of the Senior Secured Notes fixed rate debt into floating rate debt and maintain a capital structure containing fixed and floating rate debt.

Upon the refinance of the former Senior Secured Notes, the remaining unamortized balance of the carrying value adjustment on debt related to the Old Rate Agreement was recognized as a gain in the loss on redemption of debt on the Consolidated Statements of Operations. Refer to the Borrowing footnote for further discussion.

$40.5 million of our New Rate Agreement is designated and qualifies as a fair value hedge. The change in the fair value of the derivative instrument related to the future cash flows (gain or loss on the derivative), as well as the offsetting change in the fair value of the hedged long-term debt attributable to the hedged risk, are recognized in current earnings. We include the gain or loss on the hedged long-term debt, along with the offsetting loss or gain on the related interest rate swap, in other income (expense), on the Consolidated Statements of Operations.

As of July 1, 2013, we de-designated 10 percent, or $4.5 million, of our New Rate Agreement. As a result, the mark-to-market of the $4.5 million portion of the New Rate Agreement is recorded in other income (expense) on the Consolidated Statement of Operations. For the year 2013, the mark-to-market adjustment was expense of $(0.2) million.

The following table provides a summary of the gain (loss) recognized in the Consolidated Statements of Operations from the designated portion of our New Rate Agreement:

| Year ended December 31, (dollars in thousands) | 2013 | 2012 | 2011 |
|---|---|---|---|
| Interest rate swap - designated | $ 1,732 | $ 147 | $ 1,070 |
| Related long-term debt | (2,164) | 3,635 | (777) |
| Net impact | $ (432) | $ 3,782 | $ 293 |

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

| Year ended December 31, (dollars in thousands) | 2013 | 2012 | 2011 |
|---|---|---|---|
| Loss on redemption of debt | $ — | $ 3,502 | $ — |
| Other income (expense) | (432) | 280 | 293 |
| Net impact | $ (432) | $ 3,782 | $ 293 |

***Commodity Future Contracts Designated as Cash Flow Hedges***

We use commodity futures contracts related to forecasted future North American natural gas requirements. The objective of these futures contracts is to limit the fluctuations in prices paid due to price movements in the underlying commodity. We consider our forecasted natural gas requirements in determining the quantity of natural gas to hedge. We combine the forecasts with historical observations to establish the percentage of forecast eligible to be hedged, typically ranging from 40 percent to 70 percent of our anticipated requirements, up to eighteen months in the future. The fair values of these instruments are determined from market quotes. As of December 31, 2013, we had commodity contracts for 1,520,000 million British Thermal Units (BTUs) of natural gas. At December 31, 2012, we had commodity contracts for 2,400,000 million BTUs of natural gas.

All of our natural gas derivatives qualify and are designated as cash flow hedges at December 31, 2013. 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 current earnings. As the natural gas contracts mature, the accumulated gains (losses) for the respective contracts are reclassified from accumulated other comprehensive loss to current expense in cost of sales in our Consolidated Statement of Operations. In the year ended December 31, 2013, we recognized a loss of $0.3 million for ineffectiveness in other income (expense) in the Consolidated Statements of Operations for certain contracts at our Mexico facility. This ineffectiveness was related to a change in pricing caused by the Mexican government instituting a fixed surcharge. The ineffectiveness is not expected to continue so we have continued to consider the contracts effective as appropriate under FASB ASC 815 "Derivatives and Hedging." We paid additional cash of $0.1 million, $4.7 million and $4.7 million in the years ended December 31, 2013, 2012 and 2011, respectively, due to the difference between the fixed unit rate of our natural gas contracts and the variable unit rate of our natural gas cost from suppliers. Based on our current valuation, we estimate that accumulated gains currently carried in accumulated other comprehensive loss that will be reclassified into earnings over the next twelve months will result in $0.4 million of income in our Consolidated Statements of Operations.

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

| Year ended December 31, (dollars in thousands) | 2013 | 2012 | 2011 |
|---|---|---|---|
| Derivatives in Cash Flow Hedging relationships: | | | |
| Natural gas contracts | $ 777 | $ (1,439) | $ (5,263) |
| Total | $ 777 | $ (1,439) | $ (5,263) |

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

| Year ended December 31, (dollars in thousands) | Location: | 2013 | 2012 | 2011 |
|---|---|---|---|---|
| Natural gas contracts | Cost of sales | $ (57) | $ (4,707) | $ (4,639) |
| Total impact on net income (loss) | | $ (57) | $ (4,707) | $ (4,639) |

***Currency Contracts***

Our foreign currency exposure arises from transactions denominated in a currency other than the U.S. dollar primarily associated with our Canadian dollar denominated accounts receivable. We enter into a series of foreign currency contracts to sell Canadian dollars. Although we had no contracts at December 31, 2013, we had contracts for C$14.8 million at December 31, 2012. 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) for derivatives that were not designated as hedging instruments are recorded in current earnings as follows:

| Year ended December 31, (dollars in thousands) | Location: | 2013 | 2012 | 2011 |
|---|---|---|---|---|
| Currency contracts | Other income (expense) | $ (41) | $ (24) | $ 257 |
| Total | | $ (41) | $ (24) | $ 257 |

We do not believe we are exposed to more than a nominal amount of credit risk in our interest rate swap, natural gas hedges and currency contracts as the counterparties are established financial institutions. The counterparty for the New Rate Agreement is rated A+ and the counterparties for the other derivative agreements are rated BBB+ or better as of December 31, 2013, by Standard and Poor’s.

### 14. Comprehensive Income (Loss)

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

| (dollars in thousands) | Foreign Currency Translation | Derivative Instruments | Pension and Other Postretirement Benefits | Total Accumulated Comprehensive Loss |
|---|---|---|---|---|
| Balance on December 31, 2011 | $ (4,005) | $ (2,370) | $ (121,997) | $ (128,372) |
| Other comprehensive income (loss) | 2,364 | (1,439) | — | 925 |
| Actuarial gain (loss) | — | — | (37,004) | (37,004) |
| Prior service cost | — | — | 2,672 | 2,672 |
| Currency impact | — | — | (749) | (749) |
| Amounts reclassified from accumulated other comprehensive income (loss): | | | | |
| Amortization of actuarial loss [1] | — | — | 11,808 | 11,808 |
| Amortization of prior service cost [1] | — | — | 3,006 | 3,006 |
| Amortization of transition obligation [1] | — | — | 102 | 102 |
| Cost of sales | — | 4,707 | — | 4,707 |
| Current-period other comprehensive income (loss) | 2,364 | 3,268 | (20,165) | (14,533) |
| Tax effect | — | (409) | 2,274 | 1,865 |
| Balance on December 31, 2012 | (1,641) | 489 | (139,888) | (141,040) |
| Other comprehensive income (loss) | 6,195 | 777 | — | 6,972 |
| Actuarial gain (loss) | — | — | 47,704 | 47,704 |
| Currency impact | — | — | (298) | (298) |
| Amounts reclassified from accumulated other comprehensive income (loss): | | | | |
| Amortization of actuarial loss [1] | — | — | 12,185 | 12,185 |
| Amortization of prior service cost [1] | — | — | 1,476 | 1,476 |
| Amortization of transition obligation [1] | — | — | 84 | 84 |
| Cost of sales | — | 57 | — | 57 |
| Current-period other comprehensive income (loss) | 6,195 | 834 | 61,151 | 68,180 |
| Tax effect | — | (102) | (198) | (300) |
| Balance on December 31, 2013 | $ 4,554 | $ 1,221 | $ (78,935) | $ (73,160) |

(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 Consolidated Statements of Operations.

### 15. Fair Value

FASB ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. FASB ASC 820 establishes a fair value hierarchy that prioritizes the inputs used in measuring fair value into three broad levels as follows:

- Level 1 — Quoted prices in active markets for identical assets or liabilities.
- Level 2 — Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly.
- Level 3 — Unobservable inputs based on our own assumptions.

| Asset / (Liability (dollars in thousands) | Fair Value at December 31, 2013 Level 1 | Level 2 | Level 3 | Total | Fair Value at December 31, 2012 Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|---|---|---|---|
| Commodity futures natural gas contracts. . . . . . . . . . . . . . . . . | $ — | $ 413 | $ — | $ 413 | $ — | $ (420) | $ — | $ (420) |
| Currency contracts. . . . . . . . . . . | — | — | — | — | — | 41 | — | 41 |
| Interest rate agreements. . . . . . . | — | (2,073) | — | (2,073) | — | 298 | — | 298 |
| Net derivative asset (liability) . . | $ — | $ (1,660) | $ — | $ (1,660) | $ — | $ (81) | $ — | $ (81) |

The fair values of our commodity futures natural gas contracts and currency contracts are determined using observable market inputs. The fair value of our interest rate agreement is based on the market standard methodology of netting the discounted expected future fixed cash receipts and the discounted future variable cash payments. The variable cash payments are based on an expectation of future interest rates derived from observed market interest rate forward curves. Since these inputs are observable in active markets over the terms that the instruments are held, the derivatives are classified as Level 2 in the hierarchy. We also evaluate Company and counterparty risk in determining fair values. The commodity futures natural gas contracts, interest rate protection agreements and currency contracts are hedges of either recorded assets or liabilities or anticipated transactions. Changes in values of the underlying hedged assets and liabilities or anticipated transactions are not reflected in the above table.

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

| Asset / (Liability (dollars in thousands) | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Prepaid and other current assets. . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | $ 394 | $ 41 |
| Derivative asset . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | 19 | 298 |
| Derivative liability . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | — | (420) |
| Other long-term liabilities . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | (2,073) | — |
| Net derivative asset (liability) . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | $ (1,660) | $ (81) |

## 16. Operating Leases

Rental expense for all non-cancelable operating leases, primarily for warehouses, was $18.1 million, $18.6 million and $18.6 million for the years ended December 31, 2013, 2012 and 2011, respectively.

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

| 2014 | 2015 | 2016 | 2017 | 2018 | 2019 and thereafter |
|---|---|---|---|---|---|
| $15,070 | $10,101 | $8,487 | $8,227 | $7,917 | $33,865 |

## 17. Other Income (Expense)

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

| Year ended December 31, (dollars in thousands) | 2013 | 2012 | 2011 |
|---|---|---|---|
| Gain on sale of land at Libbey Holland . . . . . . . . . . . . . . . . . . . . | $ — | $ — | $ 3,445 |
| Gain on sale of Traex assets [1] . . . . . . . . . . . . . . . . . . . . . . . . . . | — | — | 3,418 |
| Gain (loss) on currency translation . . . . . . . . . . . . . . . . . . . . . . . | (293) | (780) | (263) |
| Hedge ineffectiveness. . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | (916) | 265 | 284 |
| Insurance recovery on furnace malfunction, net (see note 18) . . | 3,922 | — | — |
| Other non-operating income (expense) . . . . . . . . . . . . . . . . . . . . | 1,012 | 703 | 1,147 |
| Other income (expense) . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | $ 3,725 | $ 188 | $ 8,031 |

(1) On April 28, 2011, we sold substantially all of the assets of Traex to the Vollrath Company for $12.5 million, resulting in a gain of $3.4 million.

## 18. Contingencies

***Legal Proceedings***

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

On October 30, 2009, the United States Environmental Protection Agency ("US 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 clean-up of the Lower Ley Creek sub-site.

Although US EPA has completed its Remedial Investigation (RI), US EPA has not yet issued a Feasibility Study (FS), Risk Assessment (RA) or Proposed Remedial Action Plan (PRAP) with respect to the Lower Ley Creek sub-site. Accordingly, the nature of any plan of remediation, and the costs of any such plan of remediation, are not yet known. Additionally, it is not yet known whether amounts previously recovered by US EPA are adequate to cover the costs associated with any such plan of remediation, nor is it known how any excess costs may be allocated among the PRPs.

Depending on the results of the FS, RA and PRAP, it is reasonably possible that Syracuse China may be required to record a liability related to remediation costs at the Ley Creek sub-site. As of December 31, 2013, the possible loss or range of loss is not reasonably estimable. To the extent that Syracuse China may have liability with respect to this sub-site and to the extent that 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. Although we cannot predict the ultimate impact of this proceeding, we believe that the outcome will not have a material impact on our financial condition, results of operations or liquidity.

***Insurance claim***

We currently have an open insurance claim related to a 2013 furnace malfunction at our manufacturing facility in Toledo, Ohio. At December 31, 2013, partial insurance proceeds of $5.0 million were recognized in accounts receivable and the Consolidated Statements of Operations ($4.4 million in other income (expense) for expenses incurred and $0.6 million against cost of sales for business interruption). The insurance claim is still ongoing and the amount of any future recovery is uncertain at this time.

***Abandoned Property Audit***

We have completed an unclaimed property audit. The property subject to review in this audit process generally included unclaimed wages, vendor payments and customer refunds. State escheat laws generally require entities to report and remit abandoned and unclaimed property. Failure to timely report and remit the property can result in assessments that include interest and penalties, in addition to the payment of the escheat liability itself. At the completion of the audit in the second quarter of 2013, we paid $4.5 million, which resulted in additional expense of $1.8 million in selling, general and administrative expenses on the Consolidated Statement of Operations. Expense of $2.7 million ($1.8 million and $0.9 million in cost of sales and selling, general and administrative expenses, respectively) was recorded in the third quarter of 2011 and accrued at December 31, 2012 in accrued liabilities on the Consolidated Balance Sheet.

### 19. Segments and Geographic Information

Effective January 1, 2013, we revised our reporting segments to align with our regionally focused organizational structure, which we believe enables us to better serve customers across the globe. Under this structure, we now report financial results for the Americas; Europe, the Middle East and Africa (EMEA), U.S. Sourcing and Other. In addition, sales and segment EBIT reflect end market reporting pursuant to which sales and related costs are included in segment EBIT based on the geographical destination of the sale. The revised segment results do not affect any previously reported consolidated financial results. Our three reportable segments are defined below. Our operating segment that does not meet the criteria to be a reportable segment is disclosed as Other.

Americas—includes worldwide sales of manufactured and sourced glass tableware having an end market destination in North and South America.

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

U.S. Sourcing—includes U.S. sales of sourced ceramic dinnerware, metal tableware, hollowware, and serveware.

Other —includes worldwide sales of manufactured and sourced glass tableware having an end market destination in Asia Pacific. Plastic items were included in this segment until we sold substantially all of the assets of our Traex subsidiary on April 28, 2011.

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

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

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

| Year ended December 31, (dollars in thousands) | 2013 | 2012 | 2011 |
|---|---|---|---|
| **Net Sales:** | | | |
| Americas | $ 560,840 | $ 580,734 | $ 571,394 |
| EMEA | 146,455 | 134,778 | 144,575 |
| U.S. Sourcing | 78,302 | 72,234 | 65,601 |
| Other | 33,214 | 37,541 | 35,486 |
| Consolidated | $ 818,811 | $ 825,287 | $ 817,056 |
| **Segment EBIT:** | | | |
| Americas | $ 100,258 | $ 95,833 | $ 74,725 |
| EMEA | 874 | (714) | 3,924 |
| U.S. Sourcing | 9,752 | 11,381 | 10,394 |
| Other | 3,374 | 8,846 | 3,654 |
| Total Segment EBIT | $ 114,258 | $ 115,346 | $ 92,697 |
| **Reconciliation of Segment EBIT to Net Income:** | | | |
| Segment EBIT | $ 114,258 | $ 115,346 | $ 92,697 |
| Retained corporate costs | (22,293) | (24,413) | (21,796) |
| Loss on redemption of debt (note 6) | (2,518) | (31,075) | (2,803) |
| Severance | — | (5,150) | (1,105) |
| Pension curtailment and settlement charge | (2,252) | (4,306) | — |
| Gain on sale of Traex assets (note 17) | — | — | 3,418 |
| Furnace malfunction (note 18) | (4,428) | — | — |
| Gain on sale of land [1] (note 17) | — | — | 3,445 |
| Equipment write-down (note 5) | — | — | (817) |
| Equipment credit (note 5) | — | — | 1,021 |
| Restructuring charges (note 7) | (6,544) | — | 84 |
| CEO transition expenses | — | — | (2,722) |
| Abandoned property (note 18) | (1,781) | — | (2,719) |
| Executive retirement | (736) | — | — |
| Interest expense | (32,006) | (37,727) | (43,419) |
| Income taxes | (13,241) | (5,709) | (1,643) |
| Net income | $ 28,459 | $ 6,966 | $ 23,641 |
| **Depreciation & Amortization:** | | | |
| Americas | $ 24,953 | $ 24,661 | $ 24,272 |
| EMEA | 10,449 | 9,746 | 10,372 |
| U.S. Sourcing | 33 | 40 | 43 |
| Other | 7,275 | 5,777 | 5,976 |
| Corporate | 1,259 | 1,247 | 1,525 |
| Consolidated | $ 43,969 | $ 41,471 | $ 42,188 |
| **Capital Expenditures:** | | | |
| Americas | $ 31,404 | $ 24,021 | $ 30,175 |
| EMEA | 7,787 | 5,459 | 9,253 |
| U.S. Sourcing | 30 | — | 25 |
| Other | 7,437 | 2,196 | 736 |
| Corporate | 2,749 | 1,044 | 1,231 |
| Consolidated | $ 49,407 | $ 32,720 | $ 41,420 |

[1] *Net gain on the sale of land at our Libbey Holland facility.*

| December 31, (dollars in thousands) | 2013 | 2012 |
|---|---|---|
| **Segment Assets[(1)]:** | | |
| Americas | $ 158,131 | $ 150,923 |
| EMEA | 50,115 | 49,981 |
| U.S. Sourcing | 27,202 | 21,800 |
| Other | 17,222 | 15,695 |
| Consolidated | $ 252,670 | $ 238,399 |

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

Net sales to customers and long-lived assets located in the U.S., Mexico, and Other regions for 2013, 2012 and 2011 are presented below. Intercompany sales to affiliates represent products that are transferred to those geographic areas on a basis intended to reflect as nearly as possible the market value of the products. The long-lived assets include net fixed assets and goodwill.

| (dollars in thousands) | United States | Mexico | All Other | Eliminations | Consolidated |
|---|---|---|---|---|---|
| **2013** | | | | | |
| Net sales: | | | | | |
| Customers | $ 444,176 | $ 125,752 | $ 248,883 | | $ 818,811 |
| Intercompany | 51,521 | 12,747 | 22,423 | $ (86,691) | — |
| Total net sales | $ 495,697 | $ 138,499 | $ 271,306 | $ (86,691) | $ 818,811 |
| Long-lived assets | $ 106,545 | $ 213,651 | $ 112,845 | $ — | $ 433,041 |
| **2012** | | | | | |
| Net sales: | | | | | |
| Customers | $ 463,659 | $ 119,234 | $ 242,394 | | $ 825,287 |
| Intercompany | 56,420 | 12,387 | 20,930 | $ (89,737) | — |
| Total net sales | $ 520,079 | $ 131,621 | $ 263,324 | $ (89,737) | $ 825,287 |
| Long-lived assets | $ 110,919 | $ 202,437 | $ 111,370 | $ — | $ 424,726 |
| **2011** | | | | | |
| Net sales: | | | | | |
| Customers | $ 441,882 | $ 122,308 | $ 252,866 | | $ 817,056 |
| Intercompany | 55,281 | 13,964 | 24,470 | $ (93,715) | — |
| Total net sales | $ 497,163 | $ 136,272 | $ 277,336 | $ (93,715) | $ 817,056 |
| Long-lived assets | $ 114,207 | $ 199,577 | $ 117,506 | $ — | $ 431,290 |

## 20. Condensed Consolidated Guarantor Financial Statements

Libbey Glass is a direct, 100 percent owned subsidiary of Libbey Inc. and is the issuer of the Senior Secured Notes. The obligations of Libbey Glass under the Senior Secured Notes are fully and unconditionally and jointly and severally guaranteed by Libbey Inc. and by certain indirect, 100 percent owned domestic subsidiaries of Libbey Inc., as described below. All are related parties that are included in the Consolidated Financial Statements for the year ended December 31, 2013, 2012 and 2011.

At December 31, 2013, December 31, 2012 and December 31, 2011, Libbey Inc.'s indirect, 100 percent owned domestic subsidiaries were Syracuse China Company, World Tableware Inc., LGA4 Corp., LGA3 Corp., The Drummond Glass Company, LGC Corp., Dane Holding Co. (dissolved in June of 2012 and known as Traex Company prior to April 28, 2011), Libbey.com LLC, LGFS Inc., and LGAC LLC (collectively, Subsidiary Guarantors). The following tables contain Condensed Consolidating Financial Statements of (a) the parent, Libbey Inc., (b) the issuer, Libbey Glass, (c) the Subsidiary Guarantors, (d) the indirect subsidiaries of Libbey Inc. that are not Subsidiary Guarantors (collectively, Non-Guarantor Subsidiaries), (e) the consolidating elimination entries, and (f) the consolidated totals.

Libbey Inc.
Condensed Consolidating Statement of Comprehensive Income (Loss)

| | Year ended December 31, 2013 | | | | | |
|---|---|---|---|---|---|---|
| (dollars in thousands) | Libbey Inc. (Parent) | Libbey Glass (Issuer) | Subsidiary Guarantors | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
| Net sales | $ — | $ 394,849 | $ 82,458 | $ 408,454 | $ (66,950) | $ 818,811 |
| Freight billed to customers | — | 578 | 848 | 1,918 | — | 3,344 |
| Total revenues | — | 395,427 | 83,306 | 410,372 | (66,950) | 822,155 |
| Cost of sales | — | 296,672 | 62,356 | 342,738 | (66,950) | 634,816 |
| Gross profit | — | 98,755 | 20,950 | 67,634 | — | 187,339 |
| Selling, general and administrative expenses | — | 58,428 | 10,737 | 40,816 | — | 109,981 |
| Special charges | — | 4,841 | — | 18 | — | 4,859 |
| Income (loss) from operations | — | 35,486 | 10,213 | 26,800 | — | 72,499 |
| Other income (expense) | — | 1,385 | (20) | (158) | — | 1,207 |
| Earnings (loss) before interest and income taxes | — | 36,871 | 10,193 | 26,642 | — | 73,706 |
| Interest expense | — | 23,852 | — | 8,154 | — | 32,006 |
| Income (loss) before income taxes | — | 13,019 | 10,193 | 18,488 | — | 41,700 |
| Provision (benefit) for income taxes | — | (1,401) | 3,578 | 11,064 | — | 13,241 |
| Net income (loss) | — | 14,420 | 6,615 | 7,424 | — | 28,459 |
| Equity in net income (loss) of subsidiaries | 28,459 | 14,039 | — | — | (42,498) | — |
| Net income (loss) | $ 28,459 | $ 28,459 | $ 6,615 | $ 7,424 | $ (42,498) | $ 28,459 |
| Comprehensive income (loss) | $ 96,339 | $ 96,339 | $ 10,062 | $ 9,613 | $ (116,014) | $ 96,339 |

Libbey Inc.
Condensed Consolidating Statements of Comprehensive Income (Loss)

| | Year ended December 31, 2012 | | | | | |
|---|---|---|---|---|---|---|
| **(dollars in thousands)** | **Libbey Inc. (Parent)** | **Libbey Glass (Issuer)** | **Subsidiary Guarantors** | **Non-Guarantor Subsidiaries** | **Eliminations** | **Consolidated** |
| Net sales | $ — | $ 421,630 | $ 76,231 | $ 397,811 | $ (70,385) | $ 825,287 |
| Freight billed to customers | — | 579 | 701 | 1,885 | — | 3,165 |
| Total revenues | — | 422,209 | 76,932 | 399,696 | (70,385) | 828,452 |
| Cost of sales | — | 320,175 | 55,787 | 327,690 | (70,385) | 633,267 |
| Gross profit | — | 102,034 | 21,145 | 72,006 | — | 195,185 |
| Selling, general and administrative expenses | — | 71,162 | 8,829 | 33,905 | — | 113,896 |
| Special charges | — | — | — | — | — | — |
| Income (loss) from operations | — | 30,872 | 12,316 | 38,101 | — | 81,289 |
| Other income (expense) | — | (30,796) | 9 | (100) | — | (30,887) |
| Earnings (loss) before interest and income taxes | — | 76 | 12,325 | 38,001 | — | 50,402 |
| Interest expense | — | 29,430 | — | 8,297 | — | 37,727 |
| Income (loss) before income taxes | — | (29,354) | 12,325 | 29,704 | — | 12,675 |
| Provision (benefit) for income taxes | — | (4,013) | 5,185 | 4,537 | — | 5,709 |
| Net income (loss) | — | (25,341) | 7,140 | 25,167 | — | 6,966 |
| Equity in net income (loss) of subsidiaries | 6,966 | 32,307 | — | — | (39,273) | — |
| Net income (loss) | $ 6,966 | $ 6,966 | $ 7,140 | $ 25,167 | $ (39,273) | $ 6,966 |
| Comprehensive income (loss) | $ (5,702) | $ (5,702) | $ 7,366 | $ 14,155 | $ (15,819) | $ (5,702) |

| | Year ended December 31, 2011 | | | | | |
|---|---|---|---|---|---|---|
| **(dollars in thousands)** | **Libbey Inc. (Parent)** | **Libbey Glass (Issuer)** | **Subsidiary Guarantors** | **Non-Guarantor Subsidiaries** | **Eliminations** | **Consolidated** |
| Net sales | $ — | $ 408,561 | $ 74,260 | $ 404,567 | $ (70,332) | $ 817,056 |
| Freight billed to customers | — | 630 | 929 | 837 | — | 2,396 |
| Total revenues | — | 409,191 | 75,189 | 405,404 | (70,332) | 819,452 |
| Cost of sales | — | 336,027 | 55,455 | 329,563 | (70,332) | 650,713 |
| Gross profit | — | 73,164 | 19,734 | 75,841 | — | 168,739 |
| Selling, general and administrative expenses | — | 60,211 | 7,816 | 37,518 | — | 105,545 |
| Special charges | — | (332) | 51 | — | — | (281) |
| Income (loss) from operations | — | 13,285 | 11,867 | 38,323 | — | 63,475 |
| Other income (expense) | — | (2,560) | 3,457 | 4,331 | — | 5,228 |
| Earnings (loss) before interest and income taxes | — | 10,725 | 15,324 | 42,654 | — | 68,703 |
| Interest expense | — | 32,711 | — | 10,708 | — | 43,419 |
| Income (loss) before income taxes | — | (21,986) | 15,324 | 31,946 | — | 25,284 |
| Provision (benefit) for income taxes | — | (3,811) | 4,016 | 1,438 | — | 1,643 |
| Net income (loss) | — | (18,175) | 11,308 | 30,508 | — | 23,641 |
| Equity in net income (loss) of subsidiaries | 23,641 | 41,816 | — | — | (65,457) | — |
| Net income (loss) | $ 23,641 | $ 23,641 | $ 11,308 | $ 30,508 | $ (65,457) | $ 23,641 |
| Comprehensive income (loss) | $ 6,215 | $ 6,215 | $ 8,756 | $ 30,971 | $ (45,942) | $ 6,215 |

Libbey Inc.
Condensed Consolidating Balance Sheet

| (dollars in thousands) | December 31, 2013 Libbey Inc. (Parent) | Libbey Glass (Issuer) | Subsidiary Guarantors | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|---|
| Cash and equivalents | $ — | $ 22,070 | $ 62 | $ 20,076 | $ — | $ 42,208 |
| Accounts receivable — net | — | 41,193 | 4,562 | 48,794 | — | 94,549 |
| Inventories — net | — | 51,571 | 22,907 | 88,643 | — | 163,121 |
| Other current assets | — | 23,183 | 3,999 | 18,751 | (21,095) | 24,838 |
| Total current assets | — | 138,017 | 31,530 | 176,264 | (21,095) | 324,716 |
| Other non-current assets | — | 38,661 | 1,379 | 13,475 | (607) | 52,908 |
| Investments in and advances to subsidiaries | 130,809 | 304,266 | 199,573 | (41,361) | (593,287) | — |
| Goodwill and purchased intangible assets — net | — | 27,423 | 12,347 | 146,934 | — | 186,704 |
| Total other assets | 130,809 | 370,350 | 213,299 | 119,048 | (593,894) | 239,612 |
| Property, plant and equipment — net | — | 67,836 | 278 | 197,548 | — | 265,662 |
| Total assets | $ 130,809 | $ 576,203 | $ 245,107 | $ 492,860 | $ (614,989) | $ 829,990 |
| Accounts payable | $ — | $ 16,086 | $ 3,404 | $ 60,130 | $ — | $ 79,620 |
| Accrued and other current liabilities | — | 50,292 | 26,243 | 27,674 | (21,095) | 83,114 |
| Notes payable and long-term debt due within one year | — | 235 | — | 5,156 | — | 5,391 |
| Total current liabilities | — | 66,613 | 29,647 | 92,960 | (21,095) | 168,125 |
| Long-term debt | — | 404,122 | — | 2,390 | — | 406,512 |
| Other long-term liabilities | — | 67,225 | 8,205 | 49,721 | (607) | 124,544 |
| Total liabilities | — | 537,960 | 37,852 | 145,071 | (21,702) | 699,181 |
| Total shareholders' equity | 130,809 | 38,243 | 207,255 | 347,789 | (593,287) | 130,809 |
| Total liabilities and shareholders' equity | $ 130,809 | $ 576,203 | $ 245,107 | $ 492,860 | $ (614,989) | $ 829,990 |

Libbey Inc.
Condensed Consolidating Balance Sheet

| (dollars in thousands) | December 31, 2012 Libbey Inc. (Parent) | Libbey Glass (Issuer) | Subsidiary Guarantors | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|---|
| Cash and equivalents | $ — | $ 43,558 | $ 70 | $ 23,580 | $ — | $ 67,208 |
| Accounts receivable — net | — | 33,987 | 3,560 | 43,303 | — | 80,850 |
| Inventories — net | — | 52,627 | 18,477 | 86,445 | — | 157,549 |
| Other current assets | — | 17,931 | 810 | 10,446 | (16,190) | 12,997 |
| Total current assets | — | 148,103 | 22,917 | 163,774 | (16,190) | 318,604 |
| Other non-current assets | — | 22,373 | 54 | 20,387 | (4,190) | 38,624 |
| Investments in and advances to subsidiaries | 24,476 | 384,414 | 194,316 | (35,962) | (567,244) | — |
| Goodwill and purchased intangible assets — net | — | 26,833 | 12,347 | 147,614 | — | 186,794 |
| Total other assets | 24,476 | 433,620 | 206,717 | 132,039 | (571,434) | 225,418 |
| Property, plant and equipment — net | — | 72,780 | 298 | 185,076 | — | 258,154 |
| Total assets | $ 24,476 | $ 654,503 | $ 229,932 | $ 480,889 | $ (587,624) | $ 802,176 |
| Accounts payable | $ — | $ 15,339 | $ 2,854 | $ 47,519 | $ — | $ 65,712 |
| Accrued and other current liabilities | — | 63,674 | 20,194 | 27,857 | (16,190) | 95,535 |
| Notes payable and long-term debt due within one year | — | 221 | — | 4,362 | — | 4,583 |
| Total current liabilities | — | 79,234 | 23,048 | 79,738 | (16,190) | 165,830 |
| Long-term debt | — | 451,090 | — | 10,794 | — | 461,884 |
| Other long-term liabilities | — | 94,434 | 9,691 | 50,051 | (4,190) | 149,986 |
| Total liabilities | — | 624,758 | 32,739 | 140,583 | (20,380) | 777,700 |
| Total shareholders' equity | 24,476 | 29,745 | 197,193 | 340,306 | (567,244) | 24,476 |
| Total liabilities and shareholders' equity | $ 24,476 | $ 654,503 | $ 229,932 | $ 480,889 | $ (587,624) | $ 802,176 |

Libbey Inc.
Condensed Consolidating Statements of Cash Flows

| (dollars in thousands) | Libbey Inc. (Parent) | Libbey Glass (Issuer) | Subsidiary Guarantors | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|---|
| | Year ended December 31, 2013 | | | | | |
| Net income (loss) | $ 28,459 | $ 28,459 | $ 6,615 | $ 7,424 | $ (42,498) | $ 28,459 |
| Depreciation and amortization | — | 13,888 | 56 | 30,025 | — | 43,969 |
| Other operating activities | (28,459) | (10,915) | (6,644) | 3,821 | 42,498 | 301 |
| Net cash provided by (used in) operating activities | — | 31,432 | 27 | 41,270 | — | 72,729 |
| Additions to property, plant & equipment | — | (11,735) | (35) | (37,637) | — | (49,407) |
| Other investing activities | — | 2 | — | 79 | — | 81 |
| Net cash (used in) investing activities | — | (11,733) | (35) | (37,558) | — | (49,326) |
| Net borrowings (repayments) | — | (45,221) | — | (7,955) | — | (53,176) |
| Other financing activities | — | 4,034 | — | — | — | 4,034 |
| Net cash provided by (used in) financing activities | — | (41,187) | — | (7,955) | — | (49,142) |
| Exchange effect on cash | — | — | — | 739 | — | 739 |
| Increase (decrease) in cash | — | (21,488) | (8) | (3,504) | — | (25,000) |
| Cash at beginning of period | — | 43,558 | 70 | 23,580 | — | 67,208 |
| Cash at end of period | $ — | $ 22,070 | $ 62 | $ 20,076 | $ — | $ 42,208 |

| (dollars in thousands) | Libbey Inc. (Parent) | Libbey Glass (Issuer) | Subsidiary Guarantors | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|---|
| | Year ended December 31, 2012 | | | | | |
| Net income (loss) | $ 6,966 | $ 6,966 | $ 7,140 | $ 25,167 | $ (39,273) | $ 6,966 |
| Depreciation and amortization | — | 12,897 | 70 | 28,504 | — | 41,471 |
| Other operating activities | (6,966) | (59,493) | (7,295) | (5,459) | 39,273 | (39,940) |
| Net cash provided by (used in) operating activities | — | (39,630) | (85) | 48,212 | — | 8,497 |
| Additions to property, plant & equipment | — | (10,104) | — | (22,616) | — | (32,720) |
| Other investing activities | — | 97 | — | 550 | — | 647 |
| Net cash (used in) investing activities | — | (10,007) | — | (22,066) | — | (32,073) |
| Net borrowings (repayments) | — | 89,792 | — | (21,674) | — | 68,118 |
| Other financing activities | — | (35,846) | — | — | — | (35,846) |
| Net cash provided by (used in) financing activities | — | 53,946 | — | (21,674) | — | 32,272 |
| Exchange effect on cash | — | — | — | 221 | — | 221 |
| Increase (decrease) in cash | — | 4,309 | (85) | 4,693 | — | 8,917 |
| Cash at beginning of period | — | 39,249 | 155 | 18,887 | — | 58,291 |
| Cash at end of period | $ — | $ 43,558 | $ 70 | $ 23,580 | $ — | $ 67,208 |

Libbey Inc.
Condensed Consolidating Statement of Cash Flows

| | Year ended December 31, 2011 | | | | | |
|---|---|---|---|---|---|---|
| (dollars in thousands) | Libbey Inc. (Parent) | Libbey Glass (Issuer) | Subsidiary Guarantors | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
| Net income (loss) | $ 23,641 | $ 23,641 | $ 11,308 | $ 30,508 | $ (65,457) | $ 23,641 |
| Depreciation and amortization | — | 13,501 | 292 | 28,395 | — | 42,188 |
| Other operating activities | (23,641) | (2,184) | (24,655) | (25,455) | 65,457 | (10,478) |
| Net cash provided by (used in) operating activities | — | 34,958 | (13,055) | 33,448 | — | 55,351 |
| Additions to property, plant & equipment | — | (18,098) | (61) | (23,261) | — | (41,420) |
| Other investing activities | — | 33 | 12,978 | 4,689 | — | 17,700 |
| Net cash (used in) investing activities | — | (18,065) | 12,917 | (18,572) | — | (23,720) |
| Net borrowings (repayments) | — | (40,196) | — | (13,547) | — | (53,743) |
| Other financing activities | — | 4,275 | — | — | — | 4,275 |
| Net cash provided by (used in) financing activities | — | (35,921) | — | (13,547) | — | (49,468) |
| Exchange effect on cash | — | — | — | (130) | — | (130) |
| Increase (decrease) in cash | — | (19,028) | (138) | 1,199 | — | (17,967) |
| Cash at beginning of period | — | 58,277 | 293 | 17,688 | — | 76,258 |
| Cash at end of period | $ — | $ 39,249 | $ 155 | $ 18,887 | $ — | $ 58,291 |

**Selected Quarterly Financial Data (unaudited)**

The following tables present selected quarterly financial data for the years ended December 31, 2013 and 2012:

| (dollars in thousands, except per-share amounts) | First Quarter | | Second Quarter | | Third Quarter | | Fourth Quarter | |
|---|---|---|---|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| Net sales | $ 183,476 | $ 187,829 | $ 209,904 | $ 209,247 | $ 204,386 | $ 209,150 | $ 221,045 | $ 219,061 |
| Gross profit | $ 42,232 | $ 43,056 | $ 57,462 | $ 56,347 | $ 39,905 | $ 51,209 | $ 47,740 | $ 44,573 |
| *Gross profit margin* | 23.0% | 22.9% | 27.4% | 26.9 % | 19.5% | 24.5% | 21.6% | 20.3% |
| Selling, general & administrative expenses | $ 26,397 | $ 28,126 | $ 29,635 | $ 27,378 | $ 25,519 | $ 26,887 | $ 28,430 | $ 31,505 |
| Special charges | $ 4,314 | $ — | $ (85) | $ — | $ 390 | $ — | $ 240 | $ — |
| Income from operations (IFO) | $ 11,521 | $ 14,930 | $ 27,912 | $ 28,969 | $ 13,996 | $ 24,322 | $ 19,070 | $ 13,068 |
| *IFO margin* | 6.3% | 7.9% | 13.3% | 13.8 % | 6.8% | 11.6% | 8.6% | 6.0% |
| Earnings before interest and income taxes (EBIT) | $ 11,086 | $ 14,339 | $ 25,445 | $ (1,679) | $ 13,290 | $ 24,127 | $ 23,885 | $ 13,615 |
| *EBIT margin* | 6.0% | 7.6% | 12.1% | (0.8)% | 6.5% | 11.5% | 10.8% | 6.2% |
| Earnings before interest, taxes, depreciation and amortization (EBITDA) | $ 21,860 | $ 24,875 | $ 37,068 | $ 8,609 | $ 25,063 | $ 34,200 | $ 33,684 | $ 24,189 |
| *EBITDA margin* | 11.9% | 13.2% | 17.7% | 4.1 % | 12.3% | 16.4% | 15.2% | 11.0% |
| Net income (loss) | $ 1,989 | $ 641 | $ 12,436 | $ (10,143) | $ 4,749 | $ 14,861 | $ 9,285 | $ 1,607 |
| *Net income (loss) margin* | 1.1% | 0.3% | 5.9% | (4.8)% | 2.3% | 7.1% | 4.2% | 0.7% |
| Diluted earnings (loss) per share | $ 0.09 | $ 0.03 | $ 0.57 | $ (0.49) | $ 0.21 | $ 0.70 | $ 0.42 | $ 0.07 |
| Accounts receivable - net [(1)] | $ 86,264 | $ 86,862 | $ 91,482 | $ 87,650 | $ 91,611 | $ 93,962 | $ 89,549 | $ 80,850 |
| *DSO* [(1)] | 38.4 | 38.5 | 40.6 | 39.1 | 40.9 | 41.8 | 39.9 | 35.8 |
| Inventories - net | $ 167,374 | $ 159,127 | $ 175,911 | $ 167,037 | $ 173,394 | $ 170,814 | $ 163,121 | $ 157,549 |
| *DIO* | 74.4 | 70.5 | 78.1 | 74.4 | 77.5 | 75.9 | 72.7 | 69.7 |
| Accounts payable | $ 57,259 | $ 54,285 | $ 59,309 | $ 54,065 | $ 60,767 | $ 46,650 | $ 79,620 | $ 65,712 |
| *DPO* | 25.5 | 24.1 | 26.3 | 24.1 | 27.2 | 20.7 | 35.5 | 29.1 |
| Working capital [(1)] | $ 196,379 | $ 191,704 | $ 208,084 | $ 200,622 | $ 204,238 | $ 218,126 | $ 173,050 | $ 172,687 |
| *DWC* [(1)] | 87.3 | 84.9 | 92.4 | 89.4 | 91.3 | 97.0 | 77.1 | 76.4 |
| *Percent of net sales* [(1)] | 23.9% | 23.3% | 25.3% | 24.5 % | 25.0% | 26.6% | 21.1% | 20.9% |
| Net cash provided by (used in) operating activities | $ (12,680) | $ (19,098) | $ 9,385 | $ (52,421) | $ 34,767 | $ 27,889 | $ 41,257 | $ 52,127 |
| Free Cash Flow | $ (21,558) | $ (25,364) | $ (1,500) | $ (57,568) | $ 24,459 | $ 22,608 | $ 22,002 | $ 36,748 |
| Total borrowings - net | $ 466,153 | $ 397,323 | $ 429,748 | $ 477,595 | $ 422,144 | $ 470,677 | $ 411,903 | $ 466,467 |

(1) *Fourth quarter 2013 excludes a $5.0 million insurance claim receivable at December 31, 2013 resulting from the furnace malfunction.*

The following table represents special items (see notes 5, 6, 7, 9, 12, 17 and 18) included in the above quarterly data for the years ended December 31, 2013 and 2012:

| | First Quarter | | Second Quarter | | Third Quarter | | Fourth Quarter | |
|---|---|---|---|---|---|---|---|---|
| **(dollars in thousands)** | **2013** | **2012** | **2013** | **2012** | **2013** | **2012** | **2013** | **2012** |
| Special items included in: | | | | | | | | |
| Cost of sales | $ 566 | $ — | $ 1,133 | $ — | $ 2,749 | $ 2,342 | $ 6,011 | $ 913 |
| Selling, general & administrative expenses | — | — | 2,496 | — | 448 | 1,444 | 1,401 | 4,757 |
| Special charges | 4,314 | — | (85) | — | 390 | — | 240 | — |
| Loss on redemption of debt | — | — | 2,518 | 31,075 | — | — | — | — |
| Other (income) expense | — | — | — | — | — | — | (3,922) | — |
| Total pre-tax special items - (income) expense | $ 4,880 | $ — | $ 6,062 | $ 31,075 | $ 3,587 | $ 3,786 | $ 3,730 | $ 5,670 |
| Income tax | (837) | — | (58) | — | (976) | (26) | (196) | — |
| Special items - net of tax | $ 4,043 | $ — | $ 6,004 | $ 31,075 | $ 2,611 | $ 3,760 | $ 3,534 | $ 5,670 |

**Stock Market Information**

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

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| | Price Range | | Cash Dividend Declared | Price Range | | Cash Dividend Declared |
| | High | Low | | High | Low | |
| First Quarter | $ 19.77 | $ 17.80 | $— | $ 15.57 | $ 12.35 | $— |
| Second Quarter | $ 24.77 | $ 17.80 | $— | $ 15.54 | $ 12.72 | $— |
| Third Quarter | $ 26.00 | $ 20.70 | $— | $ 17.64 | $ 13.40 | $— |
| Fourth Quarter | $ 24.32 | $ 20.14 | $— | $ 19.94 | $ 14.80 | $— |

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

None.

**Item 9A. Controls and Procedures**

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's Securities Exchange Act of 1934 (the "Exchange Act") reports are recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well-designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Also, we have investments in certain unconsolidated entities. As we do not control or manage these entities, our disclosure controls and procedures with respect to such entities are necessarily substantially more limited than those we maintain with respect to our consolidated subsidiaries.

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

**Report of Management**

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

(1) Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;

(2) Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

(3) Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

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

Management has used the framework set forth in the report entitled "Internal Control - Integrated Framework" published by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission in 1992 to evaluate the effectiveness of the Company's internal control over financial reporting. Management has concluded that the Company's internal control over financial reporting was effective as of the end of the most recent fiscal year. The Company's independent registered public accounting firm, Ernst & Young LLP, that audited the Company's Consolidated Financial Statements, has issued an attestation report on the Company's internal control over financial reporting.

**Changes in Internal Control**

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

**Item 9B. Other Information**

None.

**PART III**

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

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

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

**Item 11. Executive Compensation**

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

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

Information regarding security ownership of certain beneficial owners and management is incorporated herein by reference to the information set forth under the captions “Stock Ownership - Who are the largest owners of Libbey stock?” and “-How much stock do our directors and officers own?” in the Proxy Statement. Information regarding equity compensation plans is incorporated herein by reference to Item 5 of this report under the caption “Equity Compensation Plan Information.”

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

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

**Item 14. Principal Accounting Fees and Services**

Information regarding principal accounting fees and services is incorporated herein by reference to the information set forth under the caption “Audit-Related Matters - Who are Libbey's auditors?” and “-What fees did Libbey pay to its auditors for Fiscal 2013 and 2012?” in the Proxy Statement.

## PART IV

### Item 15. Exhibits, Financial Statement Schedules

a) Index of Financial Statements and Financial Statement Schedule Covered by Report of Independent Registered Public Accounting Firm.



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

b) The accompanying Exhibit Index is hereby incorporated by reference. The exhibits listed in the accompanying Exhibit Index are filed or incorporated by reference as part of this report.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Libbey Inc.

by: /s/ Sherry L. Buck

Sherry L. Buck

Vice President, Chief Financial Officer

Date: March 12, 2014

## SIGNATURES

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

| Signature | Title |
|---|---|
| William A. Foley | Chairman of the Board of Directors |
| Peter C. McC. Howell | Director |
| Carol B. Moerdyk | Director |
| Ginger M. Jones | Director |
| Terence P. Stewart | Director |
| Carlos V. Duno | Director |
| Deborah G. Miller | Director |
| John C. Orr | Director |
| Richard I. Reynolds | Director |
| Stephanie A. Streeter | Director, Chief Executive Officer |

By: /s/ Sherry L. Buck
Sherry L. Buck
Attorney-In-Fact

Date: March 12, 2014

/s/ Sherry L. Buck
Sherry L. Buck
Vice President, Chief Financial Officer
(Principal Accounting Officer)

Date: March 12, 2014

## INDEX TO FINANCIAL STATEMENT SCHEDULE

**Libbey Inc.**

**Schedule II -- Valuation and Qualifying Accounts (Consolidated)**
**Years ended December 31, 2013, 2012, and 2011**

| (dollars in thousands) | Allowance for Doubtful Accounts | Valuation Allowance for Deferred Tax Asset |
|---|---|---|
| Balance at December 31, 2010 | $ 5,518 | $ 72,327 |
| Charged to expense or other accounts | 367 | 4,125 |
| Deductions | (578) | — |
| Balance at December 31, 2011 | 5,307 | 76,452 |
| Charged to expense or other accounts | 661 | 3,218 |
| Deductions | (265) | (2,041) |
| Balance at December 31, 2012 | 5,703 | 77,629 |
| Charged to expense or other accounts | 198 | 2,235 |
| Deductions | (55) | (33,816) |
| Balance at December 31, 2013 | $ 5,846 | $ 46,048 |

**EXHIBIT 31.1**

**Certification of Chief Executive Officer**

**Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Stephanie A. Streeter, certify that:

1. I have reviewed this annual report on Form 10-K of Libbey Inc.
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 12, 2014

By: /s/ Stephanie A. Streeter
Stephanie A. Streeter,
Chief Executive Officer

**EXHIBIT 31.2**

**Certification of Chief Financial Officer**

**Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Sherry L. Buck, certify that:

1. I have reviewed this annual report on Form 10-K of Libbey Inc.
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 12, 2014

By: /s/ Sherry L. Buck

Sherry L. Buck,
Vice President, Chief Financial Officer

**EXHIBIT 32.1**

**Certification of Chief Executive Officer**

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

(i) the accompanying Annual Report on Form 10-K of the Company for the year ended December 31, 2013 (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: March 12, 2014 | By: /s/ Stephanie A. Streeter |
| | Stephanie A. Streeter, |
| | Chief Executive Officer |

**EXHIBIT 32.2**

**Certification of Chief Financial Officer**

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

(i) the accompanying Annual Report on Form 10-K of the Company for the year ended December 31, 2013 (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: March 12, 2014

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

# Libbey Inc. General Information

## CORPORATE ADDRESS

Libbey Inc.
300 Madison Avenue
P.O. Box 10060
Toledo, Ohio 43699-0060
419-325-2100

## TRANSFER AGENT AND REGISTRAR

Computershare Inc. (telephone 866-252-0125) acts as both Transfer Agent and Registrar for the Company. Address shareholder inquiries to include certificates for transfer and change of address to:
*Computershare*
*P. O. Box 30170*
*College Station, TX 77842-3170*

Overnight correspondence should be sent to:
*Computershare*
*211 Quality Circle, Suite 210*
*College Station, TX 77845*

*Shareholder website:*
www.computershare.com/investor

## AUDITORS

Ernst & Young, LLP, Toledo, Ohio, are the independent auditors for the Company.

## FORM 10-K

Copies of the Company's Annual Report on Form 10-K are available at no charge through the Company's website: www.libbey.com.
In addition, the Company will provide without charge to any person who is a beneficial owner of its shares a copy of Libbey's 2013 Annual Report on Form 10-K, as filed with the Securities and Exchange Commission.
Requests should be addressed to:
*Libbey Inc.*
*Investor Relations*
*300 Madison Avenue*
*P.O. Box 10060*
*Toledo, Ohio 43699-0060*
*Email: stock@libbey.com*

## ANNUAL MEETING

The annual shareholders meeting of Libbey Inc. will be held at 2:00 p.m. on May 13, 2014, in Toledo, Ohio, at:
*Libbey Corporate Showroom*
*335 N. St. Clair Street*
*Toledo, OH 43604*

## STOCK EXCHANGE

Libbey Inc. stock is listed for trading on the New York Stock Exchange under NYSE MKT: LBY.

## MARKET FOR COMMON STOCK

The price range for the Company's common stock was as follows:

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | **High** | **Low** | **High** | **Low** |
| **First Quarter** | **$19.77** | **$17.80** | $15.57 | $12.35 |
| **Second Quarter** | **$24.77** | **$17.80** | $15.54 | $12.72 |
| **Third Quarter** | **$26.00** | **$20.70** | $17.64 | $13.40 |
| **Fourth Quarter** | **$24.32** | **$20.14** | $19.94 | $14.80 |

As of February 28, 2014, there were 772 registered common shareholders of record.

## STOCK PURCHASE AND SALE PLAN

Computershare, the Transfer Agent for Libbey Inc., has made available a Direct Stock Purchase and Sale Plan. The Plan provides registered shareholders and interested first-time investors the opportunity to purchase and sell shares of the Company's common stock, reinvest dividends and deposit their certificates into the Plan for safekeeping. Existing shareholders and interested investors can request enrollment material by calling Computershare at 866-252-0125; international number at 201-680-6578. Shareholder questions and requests for forms are also available by visiting the following website: www.computershare.com/investor.

## ADDITIONAL INFORMATION

For additional information, contact:
*Kenneth A. Boerger, Vice President and Treasurer*
*Libbey Inc.*
*300 Madison Avenue*
*P.O. Box 10060*
*Toledo, Ohio 43699-0060*
*419-325-2279*
*Or visit our website at www.libbey.com*

## CEO AND CFO CERTIFICATIONS

The Company filed with the Securities and Exchange Commission the certifications of its chief executive officer and chief financial officer required by Section 302 of the Sarbanes-Oxley Act of 2002 as Exhibits 31.1 and 31.2 to the Company's Form 10-K for the year-ended December 31, 2013.

Best Table in the House

Libbey®

## Main Operating Locations

Corporate Offices
300 Madison Avenue
P.O. Box 10060
Toledo, Ohio 43699-0060
419-325-2100
www.libbey.com

## Glassware Manufacturing Locations

Toledo
940 Ash Street
Toledo, Ohio 43611

Shreveport
4302 Jewella Road
Shreveport, Louisiana 71109

Crisa
Jose Maria Vigil 400,
Col. Del Norte,
64500 Monterrey,
N.L. México

Royal Leerdam
Lingedijk 8
4142 LD Leerdam
Netherlands

Crisal - Cristalaria Automática, S.A.
Rua de Portugal - Lote 1 - Apartado 233
Zona Industrial da Marinha Grande
2431-903 Marinha Grande
Portugal

Libbey Glassware (China) Co., Ltd.
#2211 Aimin Road East
Langfang Economic & Technical
Development Zone
Hebei Province, P.R. China, P.C. 065001