

AMKOR TECHNOLOGY, INC.
Form 10-Q
November 03, 2017

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549
Form 10-Q

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

For the Quarterly Period Ended September 30, 2017

or

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

For the transition period from _____ to _____

Commission File Number 000-29472
AMKOR TECHNOLOGY, INC.
(Exact name of registrant as specified in its charter)

Delaware 23-1722724
(State of incorporation) (I.R.S. Employer Identification Number)

2045 East Innovation Circle
Tempe, AZ 85284
(Address of principal executive offices and zip code)
(480) 821-5000
(Registrant's telephone number, including area code)

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

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

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

Large accelerated	Accelerated	Non-accelerated	Smaller reporting	Emerging growth
filer <input checked="" type="checkbox"/>	filer <input type="checkbox"/>	filer <input type="checkbox"/>	company <input type="checkbox"/>	company <input type="checkbox"/>

(Do not check if a smaller reporting company)

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The number of outstanding shares of the registrant's Common Stock as of October 27, 2017 was 239,279,604.

QUARTERLY REPORT ON FORM 10-Q
For the Quarter Ended September 30, 2017

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This report contains forward-looking statements within the meaning of the federal securities laws, including but not limited to statements regarding: (1) the amount, timing and focus of our expected capital investments in 2017 including expenditures in support of advanced packaging and test equipment, (2) our ability to fund our operating activities and financial requirements for the next twelve months, (3) the effect of changes in capacity utilization on our gross margin, (4) the focus of our research and development activities, (5) the expiration of tax holidays in jurisdictions in which we operate and expectations regarding our effective tax rate and the availability of tax incentives, (6) the creation or release of valuation allowances related to taxes in the future, (7) our repurchase or repayment of outstanding debt or the conversion of debt in the future, (8) payment of dividends, (9) compliance with our covenants, (10) expected contributions to foreign pension plans, (11) liability for unrecognized tax benefits and the potential impact of our unrecognized tax benefits on our effective tax rate, (12) the effect of foreign currency exchange rate exposure on our financial results, (13) the volatility of the trading price of our common stock, (14) changes to our internal controls related to integration of acquired operations and implementation of an enterprise resource planning system, (15) our efforts to enlarge our customer base in certain geographic areas and markets, (16) demand for advanced packages in mobile devices and our technology leadership and potential growth in this market, (17) our expected rate of return for pension plan assets, and (18) other statements that are not historical facts. In some cases, you can identify forward-looking statements by terminology such as “may,” “will,” “should,” “expects,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” “potential,” “continue,” “intend” or the negative of these terms or other comparable terminology. Because such statements include risks and uncertainties, actual results may differ materially from those anticipated in such forward-looking statements as a result of various factors, including those set forth in the following report as well as in Part II, Item 1A of this Quarterly Report on Form 10-Q.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

AMKOR TECHNOLOGY, INC.
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2017	2016	2017	2016
	(In thousands, except per share data)			
Net sales	\$1,135,027	\$1,086,014	\$3,038,074	\$2,872,022
Cost of sales	918,389	872,214	2,506,295	2,403,732
Gross profit	216,638	213,800	531,779	468,290
Selling, general and administrative	75,567	72,363	220,045	216,894
Research and development	42,834	26,822	128,658	84,145
Gain on sale of real estate	—	—	(108,109)	—
Total operating expenses	118,401	99,185	240,594	301,039
Operating income	98,237	114,615	291,185	167,251
Interest expense	20,321	21,488	63,733	58,496
Interest expense, related party	180	1,243	1,715	3,727
Other (income) expense, net	3,354	6,657	11,028	9,607
Total other expense, net	23,855	29,388	76,476	71,830
Income before taxes	74,382	85,227	214,709	95,421
Income tax expense	18,752	24,086	51,764	29,319
Net income	55,630	61,141	162,945	66,102
Net income attributable to non-controlling interests	(1,195)	(1,052)	(3,009)	(2,175)
Net income attributable to Amkor	\$54,435	\$60,089	\$159,936	\$63,927
Net income attributable to Amkor per common share:				
Basic	\$0.23	\$0.25	\$0.67	\$0.27
Diluted	\$0.23	\$0.25	\$0.67	\$0.27
Shares used in computing per common share amounts:				
Basic	239,068	237,353	238,873	237,157
Diluted	239,640	238,192	239,610	237,586

The accompanying notes are an integral part of these statements.

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AMKOR TECHNOLOGY, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	For the Three Months Ended September 30, 2017		For the Nine Months Ended September 30, 2017	
	2016	2016	2016	2016
	(In thousands)			
Net income	\$55,630	\$61,141	\$162,945	\$66,102
Other comprehensive income (loss), net of tax:				
Adjustments to unrealized components of defined benefit pension plans	15	24	263	71
Foreign currency translation	(969)	5,883	11,784	52,161
Total other comprehensive income (loss)	(954)	5,907	12,047	52,232
Comprehensive income	54,676	67,048	174,992	118,334
Comprehensive income attributable to non-controlling interests	(1,195)	(1,052)	(3,009)	(2,175)
Comprehensive income attributable to Amkor	\$53,481	\$65,996	\$171,983	\$116,159

The accompanying notes are an integral part of these statements.

Table of ContentsAMKOR TECHNOLOGY, INC.
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	September 30, 2017	December 31, 2016
	(In thousands, except per share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$519,449	\$ 549,518
Restricted cash	2,000	2,000
Accounts receivable, net of allowances	691,700	563,107
Inventories	314,207	267,990
Other current assets	39,116	27,081
Total current assets	1,566,472	1,409,696
Property, plant and equipment, net	2,706,715	2,564,648
Goodwill	25,076	24,122
Restricted cash	4,224	3,977
Other assets	109,782	89,643
Total assets	\$4,412,269	\$ 4,092,086
LIABILITIES AND EQUITY		
Current liabilities:		
Short-term borrowings and current portion of long-term debt	\$117,970	\$ 35,192
Trade accounts payable	562,330	487,430
Capital expenditures payable	289,780	144,370
Accrued expenses	385,659	338,669
Total current liabilities	1,355,739	1,005,661
Long-term debt	1,243,697	1,364,638
Long-term debt, related party	—	75,000
Pension and severance obligations	179,112	166,701
Other non-current liabilities	50,871	76,682
Total liabilities	2,829,419	2,688,682
Commitments and contingencies (Note 15)		
Stockholders' equity:		
Preferred stock, \$0.001 par value, 10,000 shares authorized, designated Series A, none issued	—	—
Common stock, \$0.001 par value, 500,000 shares authorized; 285,019 and 284,479 shares issued; and 239,079 and 238,665 shares outstanding, in 2017 and 2016, respectively	285	284
Additional paid-in capital	1,901,381	1,895,089
Accumulated deficit	(143,621)	(303,557)
Accumulated other comprehensive income (loss)	18,309	6,262
Treasury stock, at cost, 45,940 and 45,814 shares, in 2017 and 2016, respectively	(215,917)	(214,490)
Total Amkor stockholders' equity	1,560,437	1,383,588
Non-controlling interests in subsidiaries	22,413	19,816
Total equity	1,582,850	1,403,404
Total liabilities and equity	\$4,412,269	\$ 4,092,086

The accompanying notes are an integral part of these statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the Nine Months Ended September 30, 2017 2016 (In thousands)	
Cash flows from operating activities:		
Net income	\$162,945	\$66,102
Depreciation and amortization	435,667	416,517
Gain on sale of real estate	(108,109)	—
Other operating activities and non-cash items	(9,763)	(4,382)
Changes in assets and liabilities	(66,829)	13,379
Net cash provided by operating activities	413,911	491,616
Cash flows from investing activities:		
Payments for property, plant and equipment	(413,974)	(481,670)
Proceeds from sale of property, plant and equipment	133,320	13,687
Acquisition of business, net of cash acquired	(43,771)	—
Other investing activities	(1,600)	(143)
Net cash used in investing activities	(326,025)	(468,126)
Cash flows from financing activities:		
Proceeds from revolving credit facilities	75,000	115,000
Payments of revolving credit facilities	—	(155,000)
Proceeds from short-term debt	50,333	27,594
Payments of short-term debt	(52,068)	(36,211)
Proceeds from issuance of long-term debt	223,976	45,000
Payments of long-term debt	(398,755)	(12,955)
Payments of long-term debt, related party	(17,837)	—
Payment of deferred consideration for purchase of facility	(3,890)	—
Payments of capital lease obligations	(4,123)	(1,691)
Other financing activities	425	1,585
Net cash used in financing activities	(126,939)	(16,678)
Effect of exchange rate fluctuations on cash, cash equivalents and restricted cash	9,231	21,885
Net increase (decrease) in cash, cash equivalents and restricted cash	(29,822)	28,697
Cash, cash equivalents and restricted cash, beginning of period	555,495	527,348
Cash, cash equivalents and restricted cash, end of period	\$525,673	\$556,045
Non-cash investing and financing activities:		
Property, plant and equipment included in capital expenditures payable	\$290,738	\$179,768
Equipment acquired through capital lease	\$929	\$4,908

The accompanying notes are an integral part of these statements.

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AMKOR TECHNOLOGY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Interim Financial Statements

Basis of Presentation. The Consolidated Financial Statements and related disclosures as of September 30, 2017, and for the three and nine months ended September 30, 2017 and 2016, are unaudited, pursuant to the rules and regulations of the United States Securities and Exchange Commission ("SEC"). The December 31, 2016, Consolidated Balance Sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America ("U.S."). Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") have been condensed or omitted pursuant to such rules and regulations. In our opinion, these financial statements include all adjustments (consisting only of normal recurring adjustments) necessary for the fair statement of the results for the interim periods. These financial statements should be read in conjunction with the financial statements included in our Annual Report for the year ended December 31, 2016, filed on Form 10-K with the SEC on February 24, 2017. The results of operations for the three and nine months ended September 30, 2017, are not necessarily indicative of the results to be expected for the full year. Unless the context otherwise requires, all references to "Amkor," "we," "us," "our" or the "company" are to Amkor Technology, Inc. and our subsidiaries.

On May 22, 2017, we completed the purchase of Nanium, S.A. ("Nanium"). Nanium's financial results have been included in our Consolidated Financial Statements from the date of acquisition (Note 3).

Use of Estimates. The Consolidated Financial Statements have been prepared in conformity with U.S. GAAP, using management's best estimates and judgments where appropriate. These estimates and judgments affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. The estimates and judgments will also affect the reported amounts for certain revenues and expenses during the reporting period. Actual results could differ materially from these estimates and judgments.

Goodwill. The balance of goodwill in our Consolidated Balance Sheets reflects adjustments for foreign currency translation.

2. New Accounting Standards

Recently Adopted Standards

In July 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-11, Inventory - Simplifying the Measurement of Inventory (Topic 330). ASU 2015-11 requires inventory to be subsequently measured using the lower of cost and net realizable value, thereby eliminating the market value approach. Net realizable value is defined as the "estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation." ASU 2015-11 is effective for reporting periods beginning after December 15, 2016 and is applied prospectively. We adopted ASU 2015-11 at January 1, 2017. The adoption of ASU 2015-11 did not have a significant impact on our financial statements or disclosure.

In January 2017, the FASB issued ASU 2017-04, Intangible - Goodwill and Other (Topic 350) - Simplifying the Test for Goodwill Impairment. ASU 2017-04 simplifies the goodwill impairment test by eliminating the second step of the current two-step impairment test. ASU 2017-04 is effective for interim and annual goodwill impairment tests in fiscal

years beginning after December 15, 2019 and is applied prospectively. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. We adopted ASU 2017-04 at January 1, 2017. The adoption of ASU 2017-04 did not have a significant impact on our financial statements or disclosure.

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AMKOR TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

Recently Issued Standards

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 is based on the principle that revenue is recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers, including significant judgments and changes in judgments. ASU 2014-09 permits the use of either full retrospective or modified retrospective methods of adoption. In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, which defers the effective date by one year to December 15, 2017, for interim and annual reporting periods beginning after that date. In March, April, May and December 2016, the FASB issued ASU 2016-08, ASU 2016-10, ASU 2016-12 and ASU 2016-20, respectively, which provide supplemental guidance and clarification to ASU 2014-09. In September 2017, the FASB issued ASU 2017-13, which provides supplemental guidance and clarification to ASU 2014-09. The new standard will result in a change to the timing of revenue recognition, whereby revenue will be recognized "over time" as services are performed rather than at a "point in time", generally upon shipment. We are continuing to evaluate the impact that this new standard will have on our financial statements and disclosure, and expect to use the full retrospective transition method.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). ASU 2016-02 requires a dual approach for lessee accounting under which a lessee would account for leases as finance leases or operating leases. Both finance leases and operating leases will result in the lessee recognizing a right-of-use asset and a corresponding lease liability. For finance leases the lessee would recognize interest expense and amortization of the right-of-use asset, and for operating leases the lessee would recognize a straight-line lease expense. ASU 2016-02 is effective for reporting periods beginning after December 15, 2018 using a modified retrospective approach. Early adoption is permitted. In September 2017, the FASB issued ASU 2017-13, which provides supplemental guidance and clarification to ASU 2016-02. We are currently evaluating the impact that this guidance may have on our financial statements and disclosure.

In March 2017, the FASB issued ASU 2017-07, Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. ASU 2017-07 requires that the service cost component of net periodic pension costs be presented in the same line item as other compensation costs and all other components of net periodic pension costs to be presented in the statement of income as nonoperating expenses. ASU 2017-07 is effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods. Early adoption is permitted and should be applied retrospectively. We are currently evaluating the impact that this guidance may have on our financial statements and disclosure.

3. Acquisition

On May 22, 2017, we completed the purchase of 100% of the shares of Nanium, a provider of wafer-level fan-out semiconductor packaging solutions. We allocated the purchase price to the assets acquired and liabilities assumed based on their estimated fair values on the date of acquisition. We did not record goodwill as a result of the acquisition.

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AMKOR TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

4. Other Income and Expense

Other income and expense consists of the following:

	For the Three Months Ended September 30, 2017		For the Nine Months Ended September 30, 2016	
	2017	2016	2017	2016
	(In thousands)			
Interest income	\$ (843)	\$ (334)	\$ (2,309)	\$ (1,033)
Foreign currency (gain) loss, net	(454)	7,124	8,678	11,506
Loss on debt retirement	4,424	—	4,835	—
Other	227	(133)	(176)	(866)
Other (income) expense, net	\$ 3,354	\$ 6,657	\$ 11,028	\$ 9,607

5. Income Taxes

Our income tax expense of \$51.8 million for the nine months ended September 30, 2017 primarily reflects income taxes at certain of our foreign operations and foreign withholding taxes. Our income tax expense also reflects income taxed in foreign jurisdictions where we benefit from tax holidays.

We monitor on an ongoing basis our ability to utilize our deferred tax assets and whether there is a need for a related valuation allowance. In evaluating our ability to recover our deferred tax assets in the jurisdictions from which they arise, we consider all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax-planning strategies and results of recent operations. For most of our foreign deferred tax assets, we consider it more likely than not that we will have sufficient taxable income to allow us to realize these deferred tax assets.

We maintain a valuation allowance on all our U.S. net deferred tax assets, including our net operating loss carryforwards. Such valuation allowances are released as the related tax benefits are realized or when sufficient evidence exists to conclude that it is more likely than not that the deferred tax assets will be realized.

Unrecognized tax benefits represent reserves for potential tax deficiencies or reductions in tax benefits that could result from federal, state or foreign tax audits. Our gross unrecognized tax benefits increased from \$23.1 million at December 31, 2016, to \$25.2 million as of September 30, 2017. Most of our unrecognized tax benefits would reduce our effective tax rate, if recognized. Our unrecognized tax benefits are subject to change for effective settlement of examinations, changes in the recognition threshold of tax positions, the expiration of statutes of limitations and other factors. Tax return examinations involve uncertainties, and there can be no assurance that the outcome of examinations will be favorable.

6. Earnings Per Share

Basic earnings per share (“EPS”) is computed by dividing net income attributable to Amkor common stockholders by the weighted-average number of common shares outstanding during the period. The weighted-average number of common shares outstanding is reduced for treasury stock.

Diluted EPS is computed based on the weighted-average number of common shares outstanding plus the effect of dilutive potential common shares outstanding during the period. Dilutive potential common shares include outstanding stock options and unvested restricted shares.

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AMKOR TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

The following table summarizes the computation of basic and diluted EPS:

	For the Three Months Ended September 30, 2017		For the Nine Months Ended September 30, 2016	
	2017	2016	2017	2016
	(In thousands, except per share data)			
Net income available to Amkor common stockholders	\$54,435	\$60,089	\$159,936	\$63,927
Weighted-average number of common shares outstanding — basic	239,068	237,353	238,873	237,157
Effect of dilutive securities:				
Stock options and restricted share awards	572	839	737	429
Weighted-average number of common shares outstanding — diluted	239,640	238,192	239,610	237,586
Net income attributable to Amkor per common share:				
Basic	\$0.23	\$0.25	\$0.67	\$0.27
Diluted	0.23	0.25	0.67	0.27

The following table summarizes the potential shares of common stock that were excluded from diluted EPS, because the effect of including these potential shares was anti-dilutive:

	For the Three Months Ended September 30, 2017		For the Nine Months Ended September 30, 2016	
	2017	2016	2017	2016
	(In thousands)			
Stock options and restricted share awards	3,483	1,284	3,463	2,020

7. Equity and Accumulated Other Comprehensive Income (Loss)

Changes in equity consist of the following:

	Attributable to Amkor	Attributable to Non-controlling Interests	Total
	(In thousands)		
Equity at December 31, 2016	\$1,383,588	\$ 19,816	\$1,403,404
Net income	159,936	3,009	162,945
Other comprehensive income (loss)	12,047	—	12,047
Issuance of stock through employee share-based compensation plans	2,421	—	2,421
Treasury stock acquired through surrender of shares for tax withholding	(1,427)) —	(1,427)
Share-based compensation	3,872	—	3,872
Subsidiary dividends paid to non-controlling interests	—	(412)) (412)
Equity at September 30, 2017	\$1,560,437	\$ 22,413	\$1,582,850

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AMKOR TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

	Attributable to Amkor	Attributable to Non-controlling Interests	Total
	(In thousands)		
Equity at December 31, 2015	\$1,200,286	\$ 17,250	\$1,217,536
Net income	63,927	2,175	66,102
Other comprehensive income (loss)	52,232	—	52,232
Issuance of stock through employee share-based compensation plans	2,600	—	2,600
Treasury stock acquired through surrender of shares for tax withholding	(446)	—	(446)
Share-based compensation	2,449	—	2,449
Subsidiary dividends paid to non-controlling interests	—	(413)	(413)
Equity at September 30, 2016	\$1,321,048	\$ 19,012	\$1,340,060

Changes in accumulated other comprehensive income (loss), net of tax, consist of the following:

	Defined Benefit Pension	Foreign Currency Translation	Total
	(In thousands)		
Accumulated other comprehensive income (loss) at December 31, 2016	\$1,138	\$ 5,124	\$6,262
Other comprehensive income (loss) before reclassifications	—	11,784	11,784
Amounts reclassified from accumulated other comprehensive income (loss)	263	—	263
Other comprehensive income (loss)	263	11,784	12,047
Accumulated other comprehensive income (loss) at September 30, 2017	\$1,401		