UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended November 24, 2017

OR

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

Commission File Number: 001-38102

SMART GLOBAL HOLDINGS, INC.
(Exact Name of Registrant as Specified in its Charter)

Cayman Islands **(State or other jurisdiction of incorporation or organization)**	**98-1013909** **(I.R.S. Employer Identification No.)**
c/o Maples Corporate Services Limited **P.O. Box 309** **Ugland House** **Grand Cayman, Cayman Islands** **(Address of principal executive offices)**	**KY1-1104** **(Zip Code)**

Registrant's telephone number, including area code: (510) 623-1231

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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.

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒ (Do not check if a smaller reporting company)	Smaller reporting company	☐
Emerging growth 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 ☒

As of November 24, 2017, the registrant had 21,750,893 ordinary shares outstanding.

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Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q includes a number of forward-looking statements that involve many risks and uncertainties. Forward-looking statements are identified by the use of the words “would,” “could,” “will,” “may,” “expect,” “believe,” “should,” “anticipate,” “if,” “future,” “intend,” “plan,” “estimate,” “potential,” “target,” “seek,” or “continue” and similar words and phrases, including the negatives of these terms, or other variations of these terms, that denote future events. These statements reflect our current views with respect to future events and our potential financial performance and are subject to risks and uncertainties that could cause our actual results and financial position to differ materially and adversely from what is projected or implied in any forward-looking statements included in this report. These factors include, but are not limited to, the risks described under the caption “Risk Factors” in the documents we file from time to time with the Securities and Exchange Commission, including in our Annual Report on Form 10-K for our fiscal year ended August 25, 2017, and in this report, and in Item 2 of Part I — “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and elsewhere in this report. Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this report may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements. We make these forward-looking statements based upon information available on the date of this report, and we expressly disclaim any obligation to update or alter any forward-looking statements, whether as a result of new information or otherwise, except as required by law.

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

SMART Global Holdings, Inc.
and Subsidiaries
Condensed Consolidated Balance Sheets
(In thousands, except per share data)
(Unaudited)

	November 24, 2017	August 25, 2017
Assets		
Current assets:		
Cash and cash equivalents	$ 23,503	$ 22,436
Accounts receivable, net of allowances of $341 and $314 as of November 24, 2017 and August 25, 2017, respectively	236,199	183,303
Inventories	128,158	127,135
Prepaid expenses and other current assets	12,226	14,115
Total current assets	400,086	346,989
Property and equipment, net	55,134	55,182
Other noncurrent assets	25,772	26,728
Intangible assets, net	3,692	5,107
Goodwill	44,626	46,022
Total assets	$ 529,310	$ 480,028
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 235,226	$ 189,717
Accrued liabilities	21,674	27,316
Current portion of long-term debt	22,500	22,841
Total current liabilities	279,400	239,874
Long-term debt	148,249	154,450
Deferred tax liabilities	1,041	1,439
Other long-term liabilities	1,869	1,869
Total liabilities	$ 430,559	$ 397,632
Commitments and contingencies (see Note 9)		
Shareholders' equity:		
Ordinary shares, $0.03 par value. Authorized 200,000 shares; issued and outstanding 21,751 and 21,666 as of November 24, 2017 and August 25, 2017, respectively	656	653
Additional paid-in capital	234,686	232,162
Accumulated other comprehensive loss	(150,387)	(143,210)
Retained earnings	13,796	(7,209)
Total shareholders' equity	98,751	82,396
Total liabilities and shareholders' equity	$ 529,310	$ 480,028

See accompanying notes to unaudited condensed consolidated financial statements.

SMART Global Holdings, Inc. and Subsidiaries
Condensed Consolidated Statements of Operations
(In thousands, except per share data)
(Unaudited)

	Three Months Ended	
	November 24, 2017	November 25, 2016
Net sales (1)	$ 265,409	$ 159,344
Cost of sales	207,573	129,634
Gross profit	57,836	29,710
Operating expenses:		
Research and development	8,550	9,697
Selling, general, and administrative	17,818	15,410
Management advisory fees	—	1,000
Restructuring charge	—	(14)
Total operating expenses	26,368	26,093
Income from operations	31,468	3,617
Interest expense, net	(4,599)	(6,266)
Other income (expense), net	(2,715)	103
Total other expense	(7,314)	(6,163)
Income (loss) before income taxes	24,154	(2,546)
Provision for income taxes	3,149	661
Net income (loss)	$ 21,005	$ (3,207)
Earnings per share:		
Basic	$ 0.97	$ (0.23)
Diluted	$ 0.92	$ (0.23)
Shares used in computing earnings per share:		
Basic	21,673	13,870
Diluted	22,715	13,870

(1) Includes sales to affiliates of $25,728 and $9,008, in three months ended November 24, 2017 and November 25, 2016, respectively (see Note 2).

See accompanying notes to unaudited condensed consolidated financial statements.

SMART Global Holdings, Inc. and Subsidiaries
Condensed Consolidated Statements of Comprehensive Income (Loss)
(In thousands)
(Unaudited)

	Three Months Ended	
	November 24, 2017	November 25, 2016
Net income (loss)	$ 21,005	$ (3,207)
Other comprehensive income (loss):		
Foreign currency translation	(7,177)	2,413
Other comprehensive income (loss)	(7,177)	2,413
Comprehensive income (loss)	$ 13,828	$ (794)

See accompanying notes to unaudited condensed consolidated financial statements.

SMART Global Holdings, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Three Months Ended	
	November 24, 2017	**November 25, 2016**
Cash flows from operating activities:		
Net income (loss)	$ 21,005	$ (3,207)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	6,270	8,562
Share-based compensation	1,605	1,050
Provision for doubtful accounts receivable and sales returns	28	(192)
Deferred income tax benefit	(220)	(305)
Amortization of debt discounts and issuance costs	729	1,022
Changes in operating assets and liabilities:		
Accounts receivable	(55,801)	21,610
Inventories	(3,746)	9,000
Prepaid expenses and other assets	1,758	624
Accounts payable	47,492	(56,400)
Accrued expenses and other liabilities	(4,863)	1,215
Net cash provided by (used in) operating activities	14,257	(17,021)
Cash flows from investing activities:		
Capital expenditures and deposits on equipment	(6,039)	(3,075)
Net cash used in investing activities	(6,039)	(3,075)
Cash flows from financing activities:		
Fees paid for revolving line of credit financing	(299)	—
Long-term debt payment	(6,184)	(5,331)
Payment of costs related to initial public offering (IPO)	(1,289)	—
Proceeds from borrowings under revolving line of credit	105,500	110,250
Repayments of borrowings under revolving line of credit	(105,500)	(110,250)
Proceeds from issuance of ordinary shares from share option exercises	539	—
Net cash used in financing activities	(7,233)	(5,331)
Effect of exchange rate changes on cash and cash equivalents	82	479
Net increase (decrease) in cash and cash equivalents	1,067	(24,948)
Cash and cash equivalents at beginning of period	22,436	58,634
Cash and cash equivalents at end of period	$ 23,503	$ 33,686
Supplemental disclosures of cash flow information:		
Cash paid during the year:		
Cash paid for interest	$ 3,523	$ 5,341
Cash paid for income taxes, net of refunds	3,639	704
Noncash activities information:		
Capital expenditures included in accounts payable at period end	1,910	575
IPO costs included in accounts payable and accrued liabilities at period end	302	—
Unpaid debt fees related to term loan and revolver	469	—
Proceeds receivable from the exercise of stock options	(383)	—

See accompanying notes to unaudited condensed consolidated financial statements.

Note 1. Basis of Presentation and Principles of Consolidation

(a) Overview

On August 26, 2011, SMART Global Holdings, Inc., formerly known as Saleen Holdings, Inc., a Cayman Islands exempted company (SMART Global Holdings, and together with its subsidiaries, the Company), consummated a transaction with SMART Worldwide Holdings, Inc., formerly known as SMART Modular Technologies (WWH), Inc. (SMART Worldwide), pursuant to an Agreement and Plan of Merger whereby, through a series of transactions, SMART Global Holdings acquired substantially all of the equity interests of SMART Worldwide with SMART Worldwide surviving as an indirect wholly owned subsidiary of SMART Global Holdings (the Acquisition). SMART Global Holdings is an entity that was formed by investment funds affiliated with Silver Lake Partners and Silver Lake Sumeru (collectively Silver Lake). As a result of the Acquisition, since there was a change of control resulting in Silver Lake as the controlling shareholder group, the Company applied the acquisition method of accounting and established a new basis of accounting.

The Company, through its subsidiaries, provides specialty memory solutions sold primarily to original equipment manufacturers (OEMs). The Company offers these solutions to customers worldwide and also offers custom supply chain services including procurement, logistics, inventory management, temporary warehousing, kitting and packaging services.

SMART Global Holdings is domiciled in the Cayman Islands and has its U.S. offices in Newark, California. The Company has operations in the United States, Brazil, Malaysia, Taiwan, Hong Kong, Scotland, Singapore and South Korea.

(b) Basis of Presentation

The accompanying condensed consolidated financial statements comprise SMART Global Holdings and its wholly owned subsidiaries. Intercompany transactions have been eliminated in the condensed consolidated financial statements.

The Company uses a 52- to 53-week fiscal year ending on the last Friday in August. The three months ended November 24, 2017 and November 25, 2016 were both 13 week fiscal periods.

The accompanying unaudited condensed consolidated financial statements and related notes have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) and in conformity with the rules and regulations of the Securities and Exchange Commission (SEC) applicable to interim financial information. As such, certain information and footnote disclosures normally included in complete annual financial statements prepared in accordance with U.S. GAAP have been omitted in accordance with the rules and regulations of the SEC. In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments, consisting of normal recurring accruals, necessary to present fairly the financial position of the Company and its results of operations and cash flows for the interim periods presented. The financial data and other information disclosed in these notes to the condensed consolidated financial statements related to the interim periods are unaudited.

All financial information for two of the Company’s subsidiaries, SMART Modular Technologies Indústria de Componentes Eletrônicos Ltda. (SMART Brazil) and SMART Modular Technologies do Brasil Indústria e Comércio de Componentes Ltda. (SMART do Brazil), is included in the Company’s condensed consolidated financial statements on a one-month lag because their fiscal years begin August 1 and end July 31.

(c) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods presented. Actual results could differ from the estimates made by management. Significant items subject to such estimates and assumptions include the useful lives of long-lived assets, the valuation of deferred tax assets and inventory, share-based compensation, the estimated net realizable value of Brazilian tax credits, income tax uncertainties and other contingencies.

(d) Revenue Recognition

Product revenue is recognized when there is persuasive evidence of an arrangement, product delivery has occurred, the sales price is fixed or determinable, and collectability is reasonably assured. Product revenue typically is recognized at the time of shipment or when the customer takes title to the goods. All amounts billed to a customer related to shipping and handling are classified as revenue, while all costs incurred by the Company for shipping and handling are classified as cost of sales. Sales taxes collected from customers and remitted to governmental authorities are accounted for on a net basis and, therefore, are excluded from net sales in the condensed consolidated statements of operations.

In addition, the Company has classes of transactions with customers that are accounted for on an agency basis (i.e., the Company recognizes as revenue the amount billed less the material procurement costs of products serviced as an agent with the cost of providing these services embedded with the cost of sales). The Company provides procurement, logistics, inventory management, temporary warehousing, kitting and packaging services for these customers. Revenue from these arrangements is recognized as service revenue and is determined by a fee for services based on material procurement costs. The Company recognizes service revenue upon the completion of the services, typically upon shipment of the product. There are no postshipment obligations subsequent to shipment of the product under the agency arrangements.

The following is a summary of the Company's gross billings to customers and net sales for services and products (in thousands):

	Three Months Ended	
	November 24, 2017	November 25, 2016
Service revenue, net	$ 9,842	$ 8,942
Cost of purchased materials - service (1)	228,568	199,121
Gross billings for services	238,410	208,063
Product net sales	255,567	150,402
Gross billings to customers	$ 493,977	$ 358,465
Product net sales	$ 255,567	$ 150,402
Service revenue, net	9,842	8,942
Net sales	$ 265,409	$ 159,344

(1) Represents cost of sales associated with service revenue reported on a net basis.

(e) Cash and Cash Equivalents

All highly liquid investments with maturities of 90 days or less from original dates of purchase are carried at cost, which approximates fair value, and are considered to be cash. Cash and cash equivalents include cash on hand, cash deposited in checking and saving accounts, money market accounts, and securities with maturities of less than 90 days at the time of purchase.

(f) Allowance for Doubtful Accounts

The Company evaluates the collectibility of accounts receivable based on a combination of factors. In cases where the Company is aware of circumstances that may impair a specific customer's ability to meet its financial obligations, the Company records a specific allowance against amounts due and, thereby, reduces the net recognized receivable to the amount management reasonably believes will be collected. For all other customers, the Company recognizes allowances for doubtful accounts based on a combination of factors including the length of time the receivables are outstanding, industry and geographic concentrations, the current business environment and historical experience.

(g) Sales of Receivables

Designated subsidiaries of the Company may, from time to time, sell certain of their receivables to third parties. Sales of receivables are recognized at the point in which the receivables sold are transferred beyond the reach of the Company and its creditors, the purchaser has the right to pledge or exchange the receivables and the subsidiaries have surrendered control over the transferred receivables. See Note 3 for further details.

(h) *Inventories*

Inventories are valued at the lower of actual cost or market value. Inventory value is determined on a specific identification basis for material and an allocation of labor and manufacturing overhead. At each balance sheet date, the Company evaluates the ending inventories for excess quantities and obsolescence. This evaluation includes an analysis of sales levels by product family and considers historical demand and forecasted demand in relation to the inventory on hand, competitiveness of product offerings, market conditions and product life cycles. The Company adjusts carrying value to the lower of its cost or market value. Inventory write-downs are not reversed and create a new cost basis.

(i) *Prepaid State Value-Added Taxes (ICMS)*

Since 2004, the Sao Paulo State tax authorities have granted SMART Brazil a tax benefit to defer and eventually eliminate the payment of ICMS levied on certain imports from independent suppliers. This benefit, known as an ICMS Special Regime, is subject to renewal every two years. When the then current ICMS Special Tax Regime expired on March 31, 2010, SMART Brazil timely applied for a renewal of the benefit, however, the renewal was not granted until August 4, 2010.

On June 22, 2010, the Sao Paulo authorities published a regulation allowing companies that applied for a timely renewal of an ICMS Special Regime to continue utilizing the benefit until a final conclusion on the renewal request was rendered. As a result of this publication, SMART Brazil was temporarily allowed to utilize the benefit while it waited for its renewal. From April 1, 2010, when the ICMS benefit lapsed, through June 22, 2010 when the regulation referred to above was published, SMART Brazil was required to pay the ICMS taxes on imports, which payments result in ICMS credits that may be used to offset ICMS obligations generated from sales by SMART Brazil of its products; however, the vast majority of SMART Brazil's sales in Sao Paulo were either subject to a lower ICMS rate or were made to customers that were entitled to other ICMS benefits that enabled them to eliminate the ICMS levied on their purchases of products from SMART Brazil. As a result, from April 1, 2010 through June 22, 2010, SMART Brazil did not have sufficient ICMS collections against which to apply the credits and the credit balance increased significantly.

Effective February 1, 2011, in connection with its participation in a Brazilian government incentive program known as Support Program for the Technological Development of the Semiconductor and Display Industries Laws, or PADIS, SMART Brazil spun off the module manufacturing operations into SMART do Brazil, a separate subsidiary of the Company. In connection with this spin off, SMART do Brazil applied for a tax benefit from the State of Sao Paulo in order to obtain a deferral of state ICMS. This tax benefit is referred to as State PPB, or CAT 14. The CAT 14 approval was not obtained until July 21, 2011, and from February 1, 2011 until the CAT 14 approval was granted, SMART do Brazil did not have sufficient ICMS collections against which to apply the credits accrued upon payment of the ICMS on SMART do Brazil's imports and inputs locally acquired, and therefore, it generated additional excess ICMS credits.

As of November 24, 2017, the total ICMS tax credits reported on the Company's accompanying condensed consolidated balance sheet are R$41.6 million (or $12.7 million), of which (i) R$39.7 million (or $12.1 million) are fully vested ICMS credits, classified as other noncurrent assets, and (ii) R$1.9 million (or $0.6 million) are ICMS credits subject to vesting in 48 equal monthly amounts, classified as other noncurrent assets (R$0.5 million or $0.1 million) and prepaid expenses and other current assets (R$1.5 million or $0.4 million). As of August 25, 2017, the total ICMS tax credits reported on the Company's accompanying condensed consolidated balance sheet are R$40.9 million (or $13.1 million), of which (i) R$38.4 million (or $12.3 million) are fully vested ICMS credits, classified as other noncurrent assets, and (ii) R$2.5 million (or $0.8 million) are ICMS credits subject to vesting in 48 equal monthly amounts, classified as other noncurrent assets (R$0.6 million or $0.2 million) and prepaid expenses and other current assets (R$1.9 million or $0.6 million). It is expected that the excess ICMS credits will continue to be recovered in fiscal 2017 through fiscal 2022. The Company updates its forecast of the recoverability of the ICMS credits quarterly, considering the following key variables in Brazil: timing of government approvals of automated credit utilization, the total amount of sales, the product mix and the inter and intra state mix of sales. If these estimates or the mix of products or regions vary, it could take longer or shorter than expected to recover the accumulated ICMS credits, resulting in a reclassification of ICMS credits from current to noncurrent, or vice versa.

In April and June 2016, the Company filed cases with the Brazilian tax authorities to seek approval to sell excess ICMS credits. In December 2017, the Company obtained approval to sell R$31.6 million (or $9.7 million) of its ICMS credits. Once approved, sales of ICMS credits usually take three to six months to complete and typically incur a discount to the face amount of the credits sold, as well as fees for the arrangers of these sales which together aggregate 10% to 15% of the face amount of the credits being sold. The Company has recorded valuation adjustments for the estimated discount and fees that the Company will need to offer in order to sell the ICMS credits to other companies.

(j) Property and Equipment

Property and equipment are recorded at cost. Depreciation and amortization are computed based on the shorter of the estimated useful lives or the related lease terms, using the straight-line method. Estimated useful lives are presented below:

	Period
Asset:	
Manufacturing equipment	2 to 5 years
Office furniture, software, computers and equipment	2 to 5 years
Leasehold improvements*	2 to 60 years

* Includes the land lease for the Penang facility with a term expiring in 2070.

(k) Goodwill

The Company performs a goodwill impairment test annually during the fourth quarter of its fiscal year and more frequently if events or circumstances indicate that impairment may have occurred. Such events or circumstances may, among others, include significant adverse changes in the general business climate. As of November 24, 2017 and August 25, 2017, the carrying value of goodwill on the Company's condensed consolidated balance sheet was $44.6 million and $46.0 million, respectively.

When conducting the annual impairment test for goodwill, the Company compares the estimated fair value of a reporting unit containing goodwill to its book value. The estimated fair value is computed using two approaches: the income approach, which is the present value of expected cash flows, discounted at a risk-adjusted weighted average cost of capital; and the market approach, which is based on using market multiples of companies in similar lines of business. If the fair value of the reporting unit is determined to be more than its book value, no goodwill impairment is recognized. The excess of the fair value of the reporting unit over the fair value of assets less liabilities is the implied value of goodwill and is used to determine the amount of impairment.

All of the $44.6 million carrying value of goodwill on the Company's condensed consolidated balance sheet as of November 24, 2017 is associated with the Company's single reporting unit. No impairment of goodwill was recognized through November 24, 2017.

The changes in the carrying amount of goodwill during the three months ended November 24, 2017 and fiscal 2017 are as follows (in thousands):

	Total
Balance as of August 26, 2016	$ 44,976
Translation adjustments	1,046
Balance as of August 25, 2017	46,022
Translation adjustments	(1,396)
Balance as of November 24, 2017	$ 44,626

(l) Intangible Assets, Net

The following table summarizes the gross amounts and accumulated amortization of intangible assets from the Acquisition by type as of November 24, 2017 and August 25, 2017 (dollars in thousands):

		November 24, 2017			August 25, 2017		
	Weighted avg. life (yrs)	Gross Carrying amount	Accumulated amortization	Net	Gross Carrying amount	Accumulated amortization	Net
Customer relationships	5	$ 25,767	$ (22,810)	$ 2,957	$ 26,971	$ (22,844)	$ 4,127
Technology	4	4,900	(4,165)	735	4,900	(3,920)	980
Total		$ 30,667	$ (26,975)	$ 3,692	$ 31,871	$ (26,764)	$ 5,107

Amortization expense related to intangible assets totaled approximately $1.3 million, and $3.0 million during the three months ended November 24, 2017 and November 25, 2016, respectively. Acquired intangibles are amortized on a straight-line basis over the remaining estimated economic life of the underlying intangible assets.

	Three Months Ended	
	November 24, 2017	**November 25, 2016**
Amortization of intangible assets classification (in thousands):		
Research and development	$ 245	$ 1,224
Selling, general and administrative	1,023	1,799
Total	$ 1,268	$ 3,023

(m) Long-Lived Assets

Long-lived assets, excluding goodwill, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset group may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset group to the future undiscounted cash flows expected to be generated by the asset group. If such assets are considered to be impaired, the impairment is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed are reported at the lower of the carrying amount or fair value, less cost to sell. No impairment of long-lived assets was recognized during the three months ended November 24, 2017 and November 25, 2016

(n) Research and Development Expense

Research and development expenditures are expensed in the period incurred.

(o) Income Taxes

The Company uses the asset and liability method of accounting for income taxes. Deferred tax assets and liabilities are recognized for the future consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis and net operating loss and credit carryforwards. When necessary, a valuation allowance is recorded to reduce tax assets to amounts expected to be realized. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income (or loss) in the period that includes the enactment date. The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Company records interest and penalties related to unrecognized tax benefits in tax expense.

(p) Foreign Currency Translation

For foreign subsidiaries using the local currency as their functional currency, assets and liabilities are translated at exchange rates in effect at the balance sheet date and income and expenses are translated at average exchange rates during the period. The effect of this translation is reported in other comprehensive income (loss). In fiscal 2016 and 2017, foreign currency translation was primarily impacted by the fluctuation in the Brazil Reis exchange rate, due primarily to the economic instability in Brazil. Exchange gains and losses arising from transactions denominated in a currency other than the functional currency of the respective foreign subsidiaries are included in results of operations.

For foreign subsidiaries using the U.S. dollar as their functional currency, the financial statements of these foreign subsidiaries are remeasured into U.S. dollars using the historical exchange rate for property and equipment and certain other nonmonetary assets and liabilities and related depreciation and amortization on these assets and liabilities. The Company uses the exchange rate at the balance sheet date for the remaining assets and liabilities, including deferred taxes. A weighted average exchange rate is used for each period for revenues and expenses.

All foreign subsidiaries and branch offices, except those in Brazil and South Korea, use the U.S. dollar as their functional currency. The gains or losses resulting from the remeasurement process are recorded in other income (expense) in the accompanying condensed consolidated statements of operations.

During the three months ended November 24, 2017 and November 25, 2016, the Company recorded ($2.7) million, and $0.1 million, respectively, of foreign exchange gains (losses) primarily related to its Brazilian operating subsidiaries.

(q) Share-Based Compensation

The Company accounts for share-based compensation under ASC 718, *Compensation—Stock Compensation*, which requires companies to recognize in their statement of operations all share-based payments, including grants of share options and other types of equity awards, based on the grant-date fair value of such share-based awards.

	Three Months Ended	
	November 24, 2017	November 25, 2016
Stock-based compensation expense by category (in thousands):		
Cost of sales	$ 218	$ 126
Research and development	274	215
Selling, general and administrative	1,113	709
Total	$ 1,605	$ 1,050

(r) Loss Contingencies

The Company is subject to the possibility of various loss contingencies arising in the ordinary course of business. The Company considers the likelihood of a loss and the ability to reasonably estimate the amount of loss in determining the necessity for and amount of any loss contingencies. Estimated loss contingencies are accrued when it is probable that a liability has been incurred or an asset impaired and the amount of loss can be reasonably estimated. The Company regularly evaluates the most current information available to determine whether any such accruals should be recorded or adjusted.

(s) Comprehensive Income (Loss)

Comprehensive income (loss) consists of net income (loss) and other gains and losses affecting shareholders' equity that, under U.S. GAAP are excluded from net income (loss). The Company's other comprehensive income (loss) generally consists of foreign currency translation adjustments.

(t) Concentration of Credit and Supplier Risk

The Company's concentration of credit risk consists principally of cash and cash equivalents and accounts receivable. The Company's revenues and related accounts receivable reflect a concentration of activity with five customers (see Note 11). The Company does not require collateral or other security to support accounts receivable. The Company performs periodic credit evaluations of its customers to minimize collection risk on accounts receivable and maintains allowances for potentially uncollectible accounts.

The Company relies on five suppliers for the majority of its raw materials. At November 24, 2017 and August 25, 2017, the Company owed these five suppliers $188.1 million and $153.7 million, respectively, which was recorded as accounts payable and accrued liabilities. The inventory purchases from these suppliers during the three months ended November 24, 2017 and November 25, 2016 were $0.4 billion, and $0.3 billion, respectively.

(u) New Accounting Pronouncements

In January 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU" No. 2017-04, *Intangibles —Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, which simplified the accounting for goodwill impairment by eliminating step 2 from the goodwill impairment test. ASU 2017-04 will be effective for the Company beginning on December 15, 2019 and early adoption is permitted. The Company adopted this ASU in fiscal 2017 and it did not have a material impact on its consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which clarifies the presentation of changes in restricted cash and restricted cash equivalents in the statement of cash flows. ASU 2016-18 will be effective for the Company in the first quarter of fiscal 2019 and early adoption is permitted. The Company believes the adoption of ASU 2016-18 will have a material impact on its consolidated financial statements. The Company has $6.7 million of restricted cash at November 24, 2017, which is classified as noncurrent assets in the accompanying condensed consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Cash Flow Statements, Classification of Certain Cash Receipts and Cash Payments*. The new guidance is intended to address the diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows under Topic 230, Statement of Cash Flows, and other Topics. The guidance addresses eight specific cash flow classification issues with the objective of reducing diversity in practice. The amendments are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes the interim period. An entity that elects early adoption must adopt all of the amendments in the same period. The amendments should be applied using a retrospective transition period to each period presented. The Company does not believe the adoption of ASU 2016-15 will have a material impact on its consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, *Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*, which simplified certain aspects of the accounting for share-based payment transactions, including income taxes, forfeitures and classification of awards and classification in the statement of cash flows. In the first quarter of fiscal 2018, the Company adopted the applicable provisions of this standard as follows:

- The guidance requires excess tax benefits and tax deficiencies to be recorded as income tax benefit or expense in the statement of operations when the awards vest are settled, and eliminates the requirement to reclassify cash flows related to excess tax benefits from financing activities to operating activities on the statement of cash flows. The Company adopted the guidance prospectively effective August 26, 2017, and there was no impact to its consolidated financial statements.
- The guidance eliminates the requirement that excess tax benefits must be realized (through a reduction in income taxes payable) before companies can recognize them. The Company applied the modified retrospective transition method upon adoption. The previously unrecognized excess tax effects were recorded as a deferred tax asset in the amount of $0.9M, which was fully offset by a valuation allowance of the same amount as of August 26, 2017, resulting no impact to opening retained earnings.
- In accordance with the guidance, the Company has elected to make an entity-wide accounting policy change to account for forfeiture when they occur. There is no cumulative-effect on opening retained earnings.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which modified lease accounting for both lessees and lessors to increase transparency and comparability by recognizing lease assets and lease liabilities by lessees for those leases classified as operating leases under previous accounting standards and disclosing key information about leasing arrangements. ASU 2016-02 will be effective for the Company beginning on September 1, 2019 and early adoption is permitted. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. Although the Company is currently evaluating the impact of adopting ASU 2016-02 on its consolidated financial statements and related disclosures, as disclosed in Note 9(a), the Company has over $10.1 million in lease commitments at November 24, 2017 and believes that the adoption will have a material impact to the consolidated financial statements.

In November 2015, the FASB issued ASU No. 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes*, which simplifies the presentation of deferred income taxes by requiring that deferred tax assets and liabilities be classified as noncurrent on the balance sheet. ASU 2015-17 will be effective for the Company beginning on September 1, 2017 with early application permitted as of the beginning of any interim or annual reporting period. The Company early adopted this ASU in fiscal 2017 and it did not have a material impact on its consolidated financial statements.

In May 2014, the FASB issued a new standard, ASU No. 2014-09, *Revenue from Contracts with Customers,* as amended, which will supersede nearly all existing revenue recognition guidance. Under ASU 2014-09, an entity is required to recognize revenue upon transfer of promised goods or services to customers in an amount that reflects the expected consideration received in exchange for those goods or services. ASU No. 2014-09 defines a five-step process in order to achieve this core principle, which may require the use of judgment and estimates, and also requires expanded qualitative and quantitative disclosures relating to the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers, including significant judgments and estimates used. The FASB has recently issued several amendments to the new standard, including clarification on identifying performance obligations. The amendments include ASU No. 2016-08, *Revenue from Contracts with Customers (Topic 606)—Principal versus Agent Considerations*, which was issued in March 2016, and clarifies the implementation guidance for principal versus agent considerations in ASU 2014-09. The new standard permits adoption either by using (i) a full retrospective approach for all periods presented in the period of adoption or (ii) a modified retrospective approach with the cumulative effect of initially applying the new standard recognized at the date of initial application and providing certain additional disclosures. The new standard is effective for annual reporting periods beginning after December 15, 2017, with early adoption permitted for annual reporting periods beginning after December 15, 2016. The Company does not plan to early adopt, and accordingly, will adopt the new standard effective September 1, 2018. The Company currently plans to adopt using the modified retrospective approach; however, a final decision regarding the adoption method has not been finalized at this time. The Company's final determination will depend on a number of factors such as the significance of the impact of the new standard on the Company's financial results, system readiness, including that of software procured from third-party providers if needed, and the Company's ability to accumulate and analyze the information necessary to assess the impact on the financial statements, as necessary. The Company is in the initial stages of its evaluation of the impact of the new standard on its accounting policies, processes, and system requirements. The Company has assigned internal resources and, if necessary, will engage third party service providers to assist in the evaluation. Furthermore, the Company has made and will continue to make investments in its systems to enable timely and accurate reporting under the new standard. While the Company continues to assess all potential impacts under the new standard, there is the potential for significant impacts to the timing of recognition of revenue.

(v) Subsequent Events

At November 24, 2017, the Company had $0.2 million unpaid professional fees in connection with a secondary offering of shares sold by certain Silver Lake affiliates and management pursuant to an obligation under a registration rights agreement originally entered into in 2011. Subsequent to the date of the November 24, 2017 balance sheet, the Company incurred $0.4 million of additional expenses related to this secondary offering. The Company did not sell any shares or receive any proceeds in this secondary offering.

(2) Related Party Transactions

In the normal course of business, the Company had transactions with its affiliates as follows (in thousands):

	Three Months Ended	
	November 24, 2017	November 25, 2016
Affiliates:		
Net sales	$ 25,728	$ 9,008
Expenses:		
Management advisory fees	$ —	$ 1,000

As of November 24, 2017 and August 25, 2017, amounts due from these affiliates were $8.5 million and $8.7 million, respectively.

Management advisory fees represent fees paid to entities affiliated with Silver Lake pursuant to a management agreement (the Management Agreement) that was terminated upon closing of the Company's initial public offering (IPO) on May 30, 2017. There were no amounts due under this agreement as of November 24, 2017 and August 25, 2017.

(3) Accounts Receivable Purchasing Facility

In May 2012, SMART Modular Technologies, Inc. (SMART Modular) and SMART Modular Technologies (Europe) Limited (collectively, for this footnote only, Sellers), both wholly owned subsidiaries of the Company, entered into a Receivables Purchasing Agreement (as amended, the RPA) with Wells Fargo Bank, N.A. (Wells Fargo). Under the RPA, the Sellers can offer to sell to Wells Fargo certain Eligible Receivables (as defined in the RPA) due from certain designated customers, and Wells Fargo has the right to purchase Eligible Receivables offered for sale by Sellers. The maximum amount of Eligible Receivables that Wells Fargo can purchase is capped based upon the aggregate outstanding balances of purchased receivables which maximum is set at $50 million with sublimits assigned to each of Sellers' customers that are approved for the program. Wells Fargo has no obligation to purchase any Eligible Receivables under the RPA. All purchases of Eligible Receivables are at a discount equal to a 2-month LIBOR plus 2.75% annual discount margin, calculated on a daily basis for the number of days between the payment of the purchase price by Wells Fargo to the Sellers and the actual collection of the Eligible Receivables by Wells Fargo from the account debtor. Purchases are also subject to a 95% advance rate with the 5% being reimbursed to the Sellers upon collection by Wells Fargo from the account debtor. Under the terms of the RPA, Sellers retain limited recourse for product warranties and commercial disputes and Wells Fargo bears the full risk of insolvency and collectability. Sellers are appointed as the agent of Wells Fargo to perform collection services. The RPA has standard representations and warranties, including for the validity and collectability of the Eligible Receivables, and various negative and affirmative covenants that are typical for arrangements of this nature. The obligations of the Sellers are jointly and severally guaranteed by SMART Worldwide and its subsidiary SMART Modular Technologies (Global), Inc. (Global). Financing under this receivables purchase program qualifies for off-balance sheet financing as the transfer of receivables to Wells Fargo represents a true-sale. The RPA was terminated effective June 30, 2017.

During the three months ended November 24, 2017 and November 25, 2016, the Sellers sold $0 and $56.3 million of accounts receivables under the RPA respectively. The outstanding balance of receivables sold and not yet collected was $0 as of both November 24, 2017 and August 25, 2017. Total interest expense paid during the three months ended November 24, 2017 and November 25, 2016 was $0 and $0.2 million, respectively.

(4) Balance Sheet Details

Inventories

Inventories consisted of the following (in thousands):

	November 24, 2017	August 25, 2017
Raw materials	$ 49,997	$ 42,255
Work in process	23,621	22,965
Finished goods	54,540	61,915
Total inventories*	$ 128,158	$ 127,135

* As of November 24, 2017 and August 25, 2017, 28% and 34%, respectively, of total inventories represented inventory held under the Company's supply chain services.

Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consisted of the following (in thousands):

	November 24, 2017	August 25, 2017
Unbilled service receivables	$ 2,261	$ 4,280
Prepayment for VAT and other transaction taxes	1,127	1,890
Prepaid income taxes	1,523	1,023
Revolver debt fees	970	970
Other prepaid expenses and other current assets	6,345	5,952
Total prepaid expenses and other current assets	$ 12,226	$ 14,115

Property and Equipment, Net

Property and equipment consisted of the following (in thousands):

	November 24, 2017	August 25, 2017
Office furniture, software, computers and equipment	$ 15,970	$ 17,134
Manufacturing equipment	99,523	96,318
Leasehold improvements*	24,034	24,302
	139,527	137,754
Less accumulated depreciation and amortization	84,393	82,572
Net property and equipment	$ 55,134	$ 55,182

* Includes Penang facility, which is situated on leased land.

Depreciation and amortization expense for property and equipment was approximately $5.0 million, and $5.5 million during the three months ended November 24, 2017 and November 25, 2016, respectively.

Other Noncurrent Assets

Other noncurrent assets consisted of the following (in thousands):

	November 24, 2017	August 25, 2017
Prepaid ICMS taxes in Brazil*	$ 12,105	$ 12,253
Restricted cash	6,714	7,027
Revolver debt fees	2,097	2,334
Deferred tax assets	1,921	2,098
Tax receivable	1,265	1,223
Prepayment for VAT and other transaction taxes	229	278
Other	1,441	1,515
Total other noncurrent assets	$ 25,772	$ 26,728

* See Note 1(i)

Accrued Liabilities

Accrued liabilities consisted of the following (in thousands):

	November 24, 2017	August 25, 2017
Accrued employee compensation	$ 13,014	$ 17,426
Income taxes payable	2,562	2,459
Accrued credits payable to customers	475	2,296
VAT and other transaction taxes payable	976	1,314
Accrued warranty reserve	247	275
Other accrued liabilities	4,400	3,546
Total accrued liabilities	$ 21,674	$ 27,316

(5) Income Taxes

Provision for income taxes for the three-month periods presented consisted of the following (in thousands):

	Three Months Ended	
	November 24, 2017	November 25, 2016
Provision for Income Taxes	$ 3,149	$ 661

Income tax expense includes a provision for federal, state and foreign taxes based on the annual estimated effective tax rate applicable to the Company and its subsidiaries, adjusted for certain discrete items which are fully recognized in the period they occur.

Provision for income taxes for the three months ended November 24, 2017 increased by $2.5 million as compared to the same period in the prior year primarily due to higher income in non-U.S. jurisdictions subject to tax.

As of November 24, 2017, the Company has a full valuation allowance for its net deferred tax assets associated with its U.S. operations. The amount of the deferred tax asset considered realizable could be adjusted if significant positive evidence increases.

Determining the consolidated provision for income tax expense, income tax liabilities, and deferred tax assets and liabilities involves judgment. The Company calculates and provides for income taxes in each of the tax jurisdictions in which it operates, which involves estimating current tax exposures, as well as making judgments regarding the recoverability of deferred tax assets in each jurisdiction. The estimates used could differ from actual results, which may have a significant impact on operating results in future periods.

(6) Long-Term Debt

Amended Credit Agreement

On August 9, 2017, SMART Worldwide, Global, and SMART Modular entered into a Second Amended and Restated Credit Agreement (together with all related loan documents, and as amended from time to time, the Amended Credit Agreement) with certain lenders which amended and restated that certain Amended and Restated Credit Agreement dated as of November 5, 2016 (the ARCA), which had amended and restated that certain Credit Agreement dated as of August 26, 2011 (the Original Credit Agreement). The Company's subsidiaries named as borrowers in the Amended Credit Agreement and certain other subsidiaries that entered into a guarantee with respect to the Amended Credit Agreement, are collectively referred to as the Loan Parties and together with SMART Malaysia, the Credit Group. The Amended Credit Agreement provides for a $165 million of term loans with a maturity date of August 9, 2022 and $50 million of revolving loans with a maturity date of February 9, 2021 (the Initial Revolver Maturity Date) which revolving loan maturity date automatically extends to February 9, 2022 if the total leverage ratio of the Credit Group is less than 3.0:1.0 on the Initial Revolver Maturity Date. SMART Global Holding is not a party to the Amended Credit Agreement.

The Amended Credit Agreement is jointly and severally guaranteed on a senior basis by certain subsidiaries of Global (excluding, among other subsidiaries, SMART Malaysia). In addition, the Amended Credit Agreement is secured by a pledge of the capital stock of, or equity interests in, most of the subsidiaries of SMART Worldwide (including, without limitation, SMART Malaysia) and by substantially all of the assets of the subsidiaries of SMART Worldwide, excluding the assets of SMART Malaysia and certain other subsidiaries.

Covenants. The Amended Credit Agreement contains various representations and warranties and affirmative and negative covenants that are usual and customary for loans of this nature including, among other things, limitations on the Credit Group's ability to engage in certain transactions, incur debt, pay dividends, and make investments. The Amended Credit Agreement also requires that the Credit Group maintain a Secured Leverage Ratio not in excess of 3.5:1.0 as of the end of each fiscal quarter (commencing with the fiscal quarter ending November 24, 2017) and puts restrictions on the Credit Group's ability to retain cash proceeds from the sale of certain assets with net proceeds in excess of $2 million, subject to customary six-month reinvestment rights.

Interest and Interest Rates. Loans under the Amended Credit Agreement accrue interest at a rate per annum equal to an applicable margin plus, at the borrowers' option, either a LIBOR rate, or a base rate. The applicable margin for term loans with respect to LIBOR borrowings is 6.25% and with respect to base rate borrowings is 5.25%. The interest rate on the term loans was 7.57% as of November 24, 2017.

The applicable margin for revolving loans adjusts every quarter based on the Secured Leverage Ratio for the most recent fiscal quarter with the applicable margin for revolving loans with respect to LIBOR borrowings ranges from 3.75% to 4.00% and the applicable margin for revolving loans with respect to base rate borrowings ranges from 2.75% to 3.00%. Prior to November 5, 2016, the effective date of the ARCA, the applicable margin was pegged to the Secured Net Leverage Ratio.

Interest on base rate loans is payable on the last day of each calendar quarter. Interest on LIBOR-based loans is payable every one, two, three, six or twelve months after the date of each borrowing, depending on the particular interest rate period selected with respect to such borrowing.

Principal Payments. The Amended Credit Agreement requires quarterly repayments of principal under the term loans equal to 2.5% of $165 million, or $4.1 million per fiscal quarter. During the three months ended November 24, 2017 and November 25, 2016, the borrowers made scheduled principal payments of $4.1 million, and $3.3 million, respectively.

Prepayments. The borrowers have the right at any time to make optional prepayments of the principal amounts outstanding under the Amended Credit Agreement provided that prepayments of principal which are voluntary or are made in connection with certain transactions will be subject to prepayment premiums of 3%, 2%, and 1% during the first, second and third years, respectively, after the effective date of the Amended Credit Agreement.

The Amended Credit Agreement also requires certain mandatory prepayments of principal whereby the borrowers must prepay outstanding loans, subject to certain exceptions, which includes, among other things:

- 75% of excess cash flow on a semi-annual basis if the total leverage ratio is greater than 1.5:1.0; 50% of excess cash flow on a semi-annual basis if the total leverage ratio is greater than 1.0:1.0 but less than or equal to 1.5:1.0; and 25% of excess cash flow on an annual basis if the total leverage ratio is less than or equal to 1.0:1.0, which amounts will be reduced by any permitted voluntary prepayments of principal made in the applicable fiscal year;

- 100% of the net proceeds of certain asset sales or other dispositions of property of Global or any restricted subsidiary, subject to the limited rights to reinvest the proceeds within six months; and
- 100% of the net cash proceeds of incurrence of certain debt by Global or any of its restricted subsidiaries, other than proceeds from certain debt to be incurred under the Amended Credit Agreement.

No mandatory prepayments were required for three months ended November 24, 2017 or for fiscal 2017.

On November 29, 2016, the Credit Group received all required approvals from the lenders and entered into Amendment No. 4 to the Credit Agreement (Amendment 4) dated as of November 5, 2016 (the Amendment 4 Effective Date) which, among other things, adopted the ARCA. Pursuant to Amendment 4, the borrowers agreed to pay the Administrative Agent a fee in the amount of $1 million pursuant to a separate agreement and to pay a fee in the form of an additional term loan, in the amount of $5 million for the ratable account of the term lenders party to Amendment 4. Additionally, SMART Global Holdings was obligated to make an aggregate equity investment of at least $9.9 million in cash in Global, and SMART Global Holdings was obligated to issue 3,467,571 warrants (the Lender Warrants) to purchase ordinary shares of SMART Global Holdings, to the term lenders party to Amendment 4, which Lender Warrants were exercisable at $0.03 per share, with 1,541,143 warrants (the First Tranche Warrants) exercisable immediately and 1,926,428 warrants (the Second Tranche Warrants), exercisable only if there were balances outstanding under the original term loans at the one year anniversary of the Amendment 4 Effective Date. The relative fair value of the Lender Warrants and the fees payable to the lenders in connection with the ARCA were recorded as debt discount and resulted in additional interest expense over the then amended term of the loan using the effective interest method following debt modification accounting.

Under the terms of the ARCA, the quarterly scheduled principal payments of term loans was increased to $3.9 million per quarter to be paid on the last day of each fiscal quarter starting November 25, 2016 and early mandatory repayments of principle were applied in the reverse order of maturity.

On June 2, 2017, SMART Global Holdings contributed $61.0 million from the proceeds of the IPO, to Global which proceeds Global in turn used to pay down the original term loans as required under the ARCA, resulted in a $6.7 million loss on early repayment of long-term debt. As of August 9, 2017, prior to the one year anniversary of the Amendment 4 Effective Date, the Credit Group entered into the Amended Credit Agreement with new term loans in the aggregate principal amount of $165 million with different lenders and the Second Tranche Warrants were terminated. The proceeds from the Amended Credit Agreement were used to fully repay and refinance the term loans under the ARCA in the principal amount of $151.0 million, which resulted in a write off of $15.2 million of original issue discount and debt issuance costs as an extinguishment loss.

Term loans under the Amended Credit Agreement were issued at a discount of 2.0% of the then outstanding principal amount of $165 million, for a discount of $3.3 million. The Company incurred $8.7 million in debt issuance costs upon entering into the Amended Credit Agreement, of which $5.3 million was attributable to the term loans and recorded as a direct reduction to the face amount of the term loans, and $3.4 million was allocated to the revolving line of credit and recorded as a separate asset on the balance sheet. Debt issuance costs and debt discount related to term loans are being amortized to interest expense based on the effective interest rate method over the life of the term loans. Those fees allocated to the revolving line of credit are being amortized to interest expense ratably over the life of the revolving line of credit.

As of November 24, 2017, the outstanding principal balance of term loans under the Amended Credit Agreement was $160.9 million and there were no outstanding revolving loans. As of August 25, 2017, the outstanding principal balance of term loans under the Amended Credit Agreement was $165.0 million and there were no outstanding revolving loans. The fair value of the term loans as of November 24, 2017 and August 25, 2017 was estimated to be approximately $160.1 million and $164.2 million, respectively. Since the Company used broker quotes from inactive markets and there were no unobservable inputs, this was treated as a Level 2 financial instrument.

BNDES Credit Agreements

In December 2013, SMART Brazil, entered into a credit facility with the Brazilian Development Bank, or BNDES, referred to as the BNDES 2013 Credit Agreement. Under the BNDES 2013 Credit Agreement, a total of R$50.6 million (or $15.4 million) was made available to SMART Brazil for investments in infrastructure, research and development conducted in Brazil and acquisitions of equipment not otherwise available in the Brazilian domestic market. SMART Brazil's obligations under the BNDES 2013 Credit Agreement are guaranteed by Banco Itaú BBA S.A., or Itaú Bank, which guarantee is in turn secured by a guarantee from SMART Brazil and SMART do Brazil and a commitment by SMART Brazil to maintain minimum cash balances with Itaú Bank equal to 11.85% of the maximum aggregate balance of principal, interest and fees outstanding under the BNDES 2013 Credit Agreement. The committed amount was R$6.0 million (or $1.8 million), which is shown on the Company's condensed consolidated balance sheets as restricted cash in other noncurrent assets.

As of November 24, 2017, SMART Brazil's outstanding debt under the BNDES 2013 Credit Agreement was R$22.4 million (or $6.8 million), of which R$11.0 million (or $3.3 million) accrues interest at the fixed rate of 3.5% and R$11.4 million (or $3.5 million) of the debt accrues interest at the floating rate of 0.5% above the TJLP rate published by the Central Bank of Brazil, or BZTJLP (5.0%), combined corresponding to an overall effective interest rate of 5.5% per annum. As of August 25, 2017, SMART Brazil's outstanding debt under the BNDES 2013 Credit Agreement was R$25.6 million (or $8.2 million), of which R$12.6 million (or $4.0 million) accrues interest at the fixed rate of 3.5% and R$13.0 million (or $4.2 million) of the debt accrues interest at the floating rate of 0.5% above the TJLP rate published by the Central Bank of Brazil, or BZTJLP (5.0%), combined corresponding to an overall effective interest rate of 5.5% per annum.

The facility under the BNDES 2013 Credit Agreement is a term loan fully amortizing in 48 equal monthly installments beginning on August 15, 2015 with the final principal payment being due on July 15, 2019.

In December 2014, SMART Brazil, entered into a second credit facility with BNDES, referred to as the BNDES 2014 Credit Agreement. The BNDES 2013 Credit Agreement and the BNDES 2014 Credit Agreement are collectively referred to as the BNDES Agreements. Under the BNDES 2014 Credit Agreement, a total of R$52.8 million (or $16.1 million) was made available to SMART Brazil for research and development conducted in Brazil related to integrated circuit (IC) packaging and for acquisitions of equipment not otherwise available in the Brazilian domestic market.

SMART Brazil's obligations under the BNDES 2014 Credit Agreement are also guaranteed by Itaú Bank, which guarantee is in turn secured by a guarantee from SMART Brazil and SMART do Brazil and a commitment by SMART Brazil to maintain minimum cash balances with Itaú Bank equal to 30.31% of the maximum aggregate balance of principal, interest and fees outstanding under the BNDES 2014 Credit Agreement, or approximately R$16.0 million (or $4.9 million) of required cash balances, which is shown on the Company's condensed consolidated balance sheets as restricted cash in other noncurrent assets.

The outstanding debt under the BNDES 2014 Credit Agreement accrues interest at a fixed rate of 4% per annum. The BNDES 2014 Credit Agreement is a term loan fully amortizing in 48 equal monthly installments beginning on August 15, 2016 with the final principal payment being due on July 15, 2020.

As of November 24, 2017 and August 25, 2017, SMART Brazil's outstanding debt under the BNDES 2014 Credit Agreement was R$36.3 million (or $11.1 million) and R$39.6 million (or $12.6 million), respectively.

While the BNDES Agreements do not include any financial covenants, they contain affirmative and negative covenants customary for loans of this nature, including, among other things, an obligation to comply with all laws and regulations; a right for BNDES to terminate the loan in the event of a change of effective control; and a prohibition against the disposition or encumbrance, without BNDES consent, of intellectual property developed with the funds from the loans. The BNDES 2013 Credit Agreement includes an obligation to draw down the entire loan within specified periods of time or pay unused commitment fees of 0.1%. The BNDES 2014 Credit Agreement required a loan fee of 0.3% of the total face amount of the loan facility.

The fair value of amounts outstanding under the BNDES Agreements as of November 24, 2017 and August 25, 2017 were estimated to be approximately $13.7 million and $16.9 million, respectively. Since the Company used broker quotes from inactive markets and there were no unobservable inputs, this was treated as a Level 2 financial instrument.

The Amended Credit Agreement and the BNDES Agreements are classified as follows in the accompanying consolidating balance sheets (in thousands):

	November 24, 2017	August 25, 2017
Term loan	$ 160,875	$ 165,000
BNDES 2013 principal balance	6,848	8,185
BNDES 2014 principal balance	11,076	12,647
Unamortized debt discount	(3,079)	(3,267)
Unamortized debt issuance costs	(4,971)	(5,274)
Net amount	170,749	177,291
Current portion of long-term debt	(22,500)	(22,841)
Long-term debt	$ 148,249	$ 154,450

The future minimum principal payments under the ARCA and the BNDES Agreements as of November 24, 2017 are (in thousands):

	ARCA	BNDES	TOTAL
Fiscal year ending August:			
2018	$ 12,375	$ 5,956	$ 18,331
2019	16,500	7,941	24,441
2020	16,500	4,027	20,527
2021	16,500	—	16,500
2022	99,000	—	99,000
Total	$ 160,875	$ 17,924	$ 178,799

(7) Financial Instruments

Fair Value of Financial Instruments

The fair value of the Company's cash, cash equivalents, accounts receivable and accounts payable approximates the carrying amount due to the relatively short maturity of these items. Cash and cash equivalents consist of funds held in general checking and savings accounts, money market accounts, and securities with maturities of less than 90 days at the time of purchase. The Company does not have investments in variable rate demand notes or auction rate securities.

The FASB guidance establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets to identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

- Level 1. Valuations based on quoted prices in active markets for identical assets or liabilities that an entity has the ability to access. The Company's Level 1 assets include money market funds that are classified as cash equivalents and restricted cash which is classified under long-term assets.
- Level 2. Valuations based on quoted prices for similar assets or liabilities, quoted prices for identical assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable data for substantially the full term of the assets and liabilities. The Company's Level 2 liabilities include the term loans under the Amended Credit Agreement and the BNDES Credit Agreements that are classified as long-term debt.
- Level 3. Valuations based on inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. The Company did not have any financial instruments measured under Level 3 as of November 24, 2017 and August 25, 2017.

Assets and liabilities measured at fair value on a recurring basis include the following (in millions):

	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Observable/ Unobservable Inputs Corroborated by Market Data (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Balances as of November 24, 2017:				
Assets				
Cash and cash equivalents	$ 23.5	$ —	$ —	$ 23.5
Restricted cash(1)	6.7	—	—	6.7
Total assets measured at fair value	$ 30.2	$ —	$ —	$ 30.2
Liabilities				
Term loan	$ —	$ 160.1	$ —	$ 160.1
BNDES Credit Agreements	—	13.7	—	13.7
Total liabilities measured at fair value(2)	$ —	$ 173.8	$ —	$ 173.8
Balances as of August 25, 2017:				
Assets				
Cash and cash equivalents	$ 22.4	$ —	$ —	$ 22.4
Restricted cash(1)	7.0	—	—	7.0
Total assets measured at fair value	$ 29.4	$ —	$ —	$ 29.4
Liabilities				
Term loan	$ —	$ 164.2	$ —	$ 164.2
BNDES Credit Agreements	—	16.9	—	16.9
Total liabilities measured at fair value(2)	$ —	$ 181.1	$ —	$ 181.1

(1) Included in other noncurrent assets on the Company's condensed consolidated balance sheets - see Note 4.

(2) Included under long-term debt on the Company's condensed consolidated balance sheets.

(8) Share-Based Compensation and Employee Benefit Plans

(a) Share-Based Compensation

Equity Awards

On August 26, 2011, the board of directors adopted the Saleen Holdings, Inc. 2011 Stock Incentive Plan which has been amended and restated and is now known as the SMART Global Holdings, Inc. Amended and Restated 2017 Share Incentive Plan (the SGH Plan). The SGH Plan provides for grants of equity awards to employees, directors and consultants of the Company. Options granted under the SGH Plan provide the option to purchase SMART Global Holdings' ordinary shares at the fair value of such shares on the grant date. The options generally vest over a four-year period beginning on the grant date with either a one-year or two-year cliff and then monthly thereafter, and generally have a ten-year term. Options granted after August 26, 2011 and before September 23, 2014 have an eight year term. As of November 24, 2017, there were 4,114,600 ordinary shares reserved for issuance under the SGH Plan, of which 2,008,221 ordinary shares were available for grant. As of August 25, 2017, there were 3,657,761 ordinary shares reserved for issuance under the SGH Plan, of which 1,491,266 ordinary shares were available for grant.

Summary of Assumptions and Activity

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model that uses the assumptions noted in the following table. Prior to the Company's initial public offering on May 30, 2017, the fair value of the ordinary shares underlying the Company's equity awards had historically been determined by the Company's board of directors. Because there had been no public market for the Company's ordinary shares and in the absence of recent arm's-length cash sales transactions of the Company's ordinary shares with independent third parties, the Company's board of directors had determined the fair value of the Company's ordinary shares by considering at the time of grant a number of objective and subjective factors, including the following: the value of tangible and intangible assets of the Company, the present value of anticipated future cash flows of the Company, the market value of stock or equity interests in similar corporations and other entities engaged in businesses substantially similar to those engaged in by the Company, the Company's current financial condition and anticipated expenses, control discounts for the lack of marketability, the Company's need for additional capital, current and potential strategic relationships and competitive developments and periodic valuations from an independent third-party valuation firm.

The expected volatility is based on the historical volatilities of the common stock of comparable publicly traded companies. The expected term of options granted represents the weighted average period of time that options granted are expected to be outstanding giving consideration to vesting schedules and the historical exercise patterns. The risk-free interest rate for the expected term of the option is based on the average U.S. Treasury yield curve at the end of the quarter in which the option was granted.

The following assumptions were used to value the Company's stock options:

	Three Months Ended	
	November 24, 2017	November 25, 2016
Stock options:		
Expected term (years)	6.25	6.25
Expected volatility	42.28%	54.41%
Risk-free interest rate	2.15%	2.01%
Expected dividends	—	—

SGH Plan—Options

A summary of option activity for the SGH Plan is presented below (dollars and shares in thousands, except per share data):

	Shares	Weighted average per share exercise price	Weighted average remaining contractual term (years)	Aggregate intrinsic value
Options outstanding at August 25, 2017	1,788	$ 12.66	7.61	$ 11,174
Options granted	22	35.75		
Options exercised	(80)	11.42		
Options cancelled	(5)	15.43		
Options outstanding at November 24, 2017	1,725	$ 13.01	7.46	$ 39,995
Options exercisable at November 24, 2017	950	$ 11.51	6.21	$ 23,462
Options vested and expected to vest at November 24, 2017	1,725	$ 13.01	7.46	$ 39,995

The Black-Scholes weighted average fair value of options granted under the SGH Plan during the three months ended November 24, 2017 and November 25, 2016 was $15.83 and $1.61 per share, respectively. The total intrinsic value of employee stock options exercised in the three months ended November 24, 2017 and November 25, 2016 was $1.9 million and $0. As of November 24, 2017, there was approximately $5.7 million of unrecognized compensation costs related to stock options under the SGH Plan, which will be recognized over a weighted average period of 2.51 years.

SGH Plan—Restricted Stock Awards (RSAs) and Restricted Stock Units (RSUs)

A summary of the changes in RSAs and RSUs outstanding is presented below (dollars and shares in thousands, except per share data):

	Shares	Weighted average grant date fair value per share	Aggregate intrinsic value
Awards outstanding at August 25, 2017	378	$ 7.91	$ 6,956
Awards granted	8	21.99	
Awards vested and paid out	(4)	15.47	
Awards outstanding at November 24, 2017	382	$ 8.12	$ 13,818

The share-based compensation expense related to RSAs and RSUs during the three months ended November 24, 2017 and November 25, 2016 was approximately $0.3 million and $18 thousand, respectively. The total fair value of shares vested during the three months ended November 24, 2017 and November 25, 2016 was approximately $92 thousand and $13 thousand, respectively.

Equity Rights and Restrictions

The holders of ordinary shares of SMART Global Holdings are entitled to such dividends and other distributions as may be declared by the board of directors of SMART Global Holdings from time-to-time, out of the funds of SMART Global Holdings lawfully available therefor.

All SMART Global Holdings shares owned by employees, by certain former lenders of the Company, and all shares underlying the SMART Global Holdings options and RSUs are subject to either the Employee Investors Shareholders Agreement dated August 26, 2011 (the Employee Investors Shareholders Agreement) or the Amended and Restated Investors Shareholders Agreement dated as of November 5, 2016 (as amended by Amendment No. 3, Amendment No. 2 and subsequent amendments, the Amended and Restated Investors Shareholders Agreement; the Employee Investors Shareholders Agreement and the Amended and Restated Investors Shareholders Agreement are collectively referred to as the Shareholders Agreements). Under the terms of the Shareholders Agreements, such shares are subject to certain restrictions on sale and could become subject to lock-up restrictions in the event of any future registered public offerings by the Company. In addition, the shares owned by the directors, certain executives and certain other shareholders of the Company are subject to lock-up agreements through February 28, 2018 in connection with a registered secondary offering completed on December 4, 2017. The lock-up agreements are subject to certain customary exemptions, including for sales made pursuant to trading plans entered into pursuant to Rule 10b5-1 of the Exchange Act prior to the commencement of the secondary offering.

(b) Savings and Retirement Program

The Company offers a 401(k) Plan to U.S. employees, which provides for tax-deferred salary deductions for eligible U.S. employees. Employees may contribute up to 60% of their annual eligible compensation to this plan, limited by an annual maximum amount determined by the U.S. Internal Revenue Service. The Company may also make discretionary matching contributions, which vest immediately, as periodically determined by management. The matching contributions made by the Company during the three months ended November 24, 2017 and November 25, 2016 were approximately $0.2 million and $0.2 million, respectively.

(9) Commitments and Contingencies

(a) Commitments

Minimum rent payments under operating leases are recognized on a straight-line basis over the term of the lease including any periods of free rent. Rent expense for operating leases during the three months ended November 24, 2017 and November 25, 2016 was $0.7 million and $0.7 million, respectively.

Future minimum lease payments under all leases as of November 24, 2017 are as follows (in thousands):

	Amount
Fiscal year ending August:	
Remainder of fiscal 2018	$ 1,876
2019	2,356
2020	2,264
2021	2,090
2022	1,549
Total	$ 10,135

(b) Product Warranty and Indemnities

Product warranty reserves are established in the same period that revenue from the sale of the related products is recognized, or in the period that a specific issue arises as to the functionality of a Company's product. The amounts of the reserves are based on established terms and the Company's best estimate of the amounts necessary to settle future and existing claims on products sold as of the balance sheet date.

The following table reconciles the changes in the Company's accrued warranty (in thousands):

	Three Months Ended	
	November 24, 2017	November 25, 2016
Beginning accrued warranty reserve	$ 275	$ 266
Warranty claims	(153)	(206)
Provision for product warranties	125	188
Ending accrued warranty reserve	$ 247	$ 248

Product warranty reserves are recorded in accrued liabilities in the accompanying condensed consolidated balance sheets.

In addition to potential liability for warranties related to defective products, the Company currently has in effect a number of agreements in which it has agreed to defend, indemnify and hold harmless its customers and suppliers from damages and costs, which may arise from product defects as well as from any alleged infringement by its products of third-party patents, trademarks or other proprietary rights. The Company believes its internal development processes and other policies and practices limit its exposure related to such indemnities. Maximum potential future payments cannot be estimated because many of these agreements do not have a maximum stated liability. However, to date, the Company has not had to reimburse any of its customers or suppliers for any losses related to these indemnities. The Company has not recorded any liability in its financial statements for such indemnities.

(c) Legal Matters

From time to time, the Company is involved in legal matters that arise in the normal course of business. Litigation in general and intellectual property, employment and shareholder litigation in particular, can be expensive and disruptive to normal business operations. Moreover, the results of complex legal proceedings are difficult to predict. The Company believes that it has defenses to the cases pending, including those set forth below. Except as noted below, the Company is not currently able to estimate, with reasonable certainty, the possible loss, or range of loss, if any, from such legal matters, and accordingly, no provision for any potential loss, which may result from the resolution of these matters, has been recorded in the accompanying condensed consolidated financial statements.

Netlist

On September 10, 2012, SMART Modular filed a complaint in the Eastern District of California against Netlist alleging infringement of certain claims of SMART Modular's U.S. Patent No. 8,250,295 (the '295 patent) and seeking, among other things, a preliminary injunction. Netlist filed certain counterclaims alleging, among other things, attempted monopolization, collusion, unfair competition, fraud on the U.S. Patent and Trademark Office (the USPTO) and sham litigation, and asserting that the '295 patent is invalid. The counterclaims do not specify the amount of damages. Netlist also filed a request for reexamination of the '295 patent in the USPTO. On May 30, 2013, the court denied SMART Modular's motion for a preliminary injunction and granted a stay in the proceedings pending the outcome of the reexamination. In April 2014, the USPTO issued a non-final Action Closing Prosecution (ACP) confirming the patentability of the original claims of SMART Modular's '295 patent and rejecting certain claims added during the reexamination process. In May 2014, after the ACP, SMART Modular filed comments requesting that all of the original claims and certain of the added claims be confirmed as patentable. In June 2014, Netlist filed comments challenging SMART Modular's comments to the ACP. In August 2015, the USPTO rejected Netlist's challenges and affirmed its previous decision confirming the patentability of the original claims of SMART Modular's '295 patent. In September 2015, Netlist filed an appeal of the USPTO examiner's decision to the Patent Trial and Appeals Board (the PTAB). In February 2016, the USPTO ruled in favor of SMART Modular and in September 2016, the court granted SMART Modular's motion to lift the stay in the Eastern District of California case. In November 2016, the PTAB reversed the examiner's decision to confirm certain claims of SMART Modular's '295 patent and reversed the examiner's decision to determine that certain newly added claims are patentable. In January 2017, SMART Modular filed a request to reopen the prosecution to add evidence to rebut the PTAB's grounds for the decision reversing the examiner's decision. In February 2017, Netlist filed comments on SMART Modular's request to reopen prosecution. In April 2017, the PTAB issued an Order remanding the reexamination and reopening prosecution. In February 2017, Netlist filed a motion to reinstate the stay in the court proceedings pending the outcome of the USPTO proceedings. SMART Modular filed an opposition to this motion and the Netlist motion to reinstate the stay was denied. In May 2017, the USPTO examiner issued a decision to remand, rejecting certain claims of the '295 patent. In June 2017, SMART Modular filed in the USPTO its response to the examiner's May 2017 decision and Netlist filed comments in response to the examiner's May 2017 decision. In August 2017, the examiner issued a communication indicating that SMART Modular's and Netlist's comments had been entered and that the proceeding was forwarded to the PTAB for issuance of a new decision. In December 2017, PTAB issued a decision declaring the original claims of SMART Modular's '295 patent, as well as the newly added claims, to be invalid. The Company is evaluating the next course of action.

In July 2013, Netlist filed a lawsuit in the Central District of California against SMART Modular alleging claims very similar to Netlist's counterclaims set forth in the Eastern District case. Netlist later amended its complaint to add additional parties, including SMART Worldwide Holdings. Netlist has sought compensatory damages for the harm it claims to have suffered, as well as an award of treble damages and attorneys' fees. The claims against SMART Modular and SMART Worldwide were transferred to the Eastern District of California.

The Company believes that there are valid defenses to all of the claims and counterclaims made by Netlist and that the claims are without merit. SMART Modular and SMART Worldwide intends to vigorously fight the claims and counterclaims. The Company believes that the likelihood of any material charge resulting from these claims is remote.

(d) Contingencies

Import Duty Tax assessment in Brazil

On February 23, 2012, SMART Brazil was served with a notice of a tax assessment for approximately R$117 million (or $36.6 million) (the First Assessment). The assessment was from the federal tax authorities of Brazil and related to four taxes in connection with importation processes. The tax authorities claimed that SMART Brazil categorized its imports of unmounted integrated circuits in the format of wafers under an incorrect product classification code, which carries an import duty of 0%. The authorities alleged that a different classification code should have been used that would require an 8% import duty and the authorities were seeking to recover these duties, as well as other related taxes, for the five calendar years of 2007 through and including 2011. Subsequent to the initial assessment, SMART Brazil received a second notice of an additional administrative penalty of approximately R$6.0 million (or $1.9 million) directly related to the same issue and which has been imposed exclusively for the alleged usage of an inappropriate import tax code (the Second Assessment).

The Company believes that SMART Brazil used the correct product code on its imports and that none of the above assessments are due. In March 2012, SMART Brazil filed defenses to the First Assessment and the Second Assessment. On May 2, 2013, the first level administrative tax court issued a ruling in favor of the tax assessor and against SMART Brazil on the First Assessment. On May 31, 2013, SMART Brazil filed an appeal to the second level tax court known as CARF. The appeal was heard on November 26, 2013 and the Company received a unanimous favorable ruling rejecting the position of the tax authorities. This ruling was published by the tax authorities and made official in February 2014. Subsequently, the tax authorities filed a request for clarification and on September 17, 2014, the Company received a unanimous ruling rejecting the request from the tax authorities for clarification. On November 7, 2014, the tax authorities notified CARF that they would not be appealing the CARF decision, and the First Assessment has been extinguished. SMART Brazil has not received a decision from the first level administrative court with respect to the Second Assessment.

On December 12, 2013, SMART Brazil received another notice of assessment in the amount of R$3.6 million (or $1.1 million) with respect to the same import-related tax issues and penalties discussed above for 2012 and 2013 (the Third Assessment). The Third Assessment does not seek import duties and related taxes on Dynamic Random Access Memory (“DRAM”) products and only seeks import duties and related taxes on Flash unmounted components with respect to the months of January 2012 to June 2012. This is because SMART Brazil’s imports of DRAM unmounted components were subject to 0%, and, after June 2012, SMART Brazil’s imports of Flash unmounted components became subject to 0%, import duties and related taxes, both as a result of PADIS. Even with this 0%, if SMART Brazil is found to have used the incorrect product classification code, SMART Brazil will be subject to an administrative penalty equal to 1% of the value of the imports. SMART Brazil has filed defenses to the Third Assessment. The Company believes that SMART Brazil used the correct product code on its imports and that the Third Assessment is incorrect. SMART Brazil intends to vigorously fight this matter. Although SMART Brazil did not receive the Third Assessment until December 12, 2013, the Third Assessment was issued before the CARF decision in favor of SMART Brazil on the First Assessment as discussed above was published.

The amounts claimed by the tax authorities on the Second Assessment and on the Third Assessment are subject to increases for interest and other charges, which resulted in a combined assessment balance of approximately R$14.2 million (or $4.3 million) and R$13.3 million (or $4.1 million) as of November 24, 2017 and August 25, 2017, respectively.

As a result of the CARF decision in favor of SMART Brazil on the First Assessment, the Company believes that the probability of any material charges as a result of the Second Assessment and the Third Assessment is remote and the Company does not expect the resolution of these disputed assessments to have a material impact on its consolidated financial position, results of operations or cash flows. While the Company believes that the Second Assessment and the Third Assessment are incorrect, there can be no assurance that SMART Brazil will prevail in the disputes.

(10) Segment and Geographic Information

The Company operates in one reportable segment: the design, manufacture and sale of specialty memory solutions and services to the electronics industry. The Company’s chief operating decision-maker, the President and CEO, evaluates financial performance on a company-wide basis.

A summary of the Company’s net sales by geographic area, based on the ship-to location of the customer, and property and equipment by geographic area is as follows (in thousands):

	Three Months Ended	
	November 24, 2017	November 25, 2016
Geographic Net Sales:		
U.S.	$ 44,152	$ 33,442
Brazil	157,996	75,583
Asia	51,094	39,182
Europe	6,034	6,870
Other Americas	6,133	4,267
Total	$ 265,409	$ 159,344

	November 24, 2017	August 25, 2017
Property and Equipment, Net:		
U.S.	$ 3,668	$ 3,110
Brazil	44,069	44,180
Malaysia	4,715	5,049
Other	2,682	2,843
Total	$ 55,134	$ 55,182

(11) Major Customers

A majority of the Company's net sales are attributable to customers operating in the information technology industry. Net sales to significant end user customers, including sales to their manufacturing subcontractors, defined as net sales in excess of 10% of total net sales, are as follows (dollars in thousands):

	Three Months Ended					
	November 24, 2017			November 25, 2016		
		Amount	Percentage of net sales		Amount	Percentage of net sales
		(unaudited)				
Customer A	$	70,498	27%	$	29,108	18%
Customer B		44,790	17%		19,493	12%
Customer C		31,359	12%		24,516	15%
	$	146,647	56%	$	73,117	45%

As of November 24, 2017, customer A accounted for 12% of accounts receivable. As of November 24, 2017, four direct customers that represented less than 10% of net sales, Customers D, E, F and G, accounted for approximately 31%, 15%, 15% and 12% of accounts receivable, respectively. As of August 25, 2017, four direct customers that represented less than 10% of net sales, Customers D, E, F, and G, accounted for approximately 24%, 18%, 14% and 11% of accounts receivable, respectively.

(12) Earnings Per Share

Basic earnings per share is calculated by dividing net income (loss) by the weighted average of ordinary shares outstanding during the period. Diluted earnings per share is calculated by dividing the net income (loss) by the weighted average of ordinary shares and dilutive potential ordinary shares outstanding during the period. Dilutive potential ordinary shares consist of dilutive shares issuable upon the exercise of outstanding stock options and vesting of RSUs computed using the treasury stock method. The dilutive weighted shares are excluded from the computation of diluted net loss per share when a net loss is recorded for the period as their effect would be anti-dilutive.

The following table sets forth for all periods presented the computation of basic and diluted earnings per share, including the reconciliation of the numerator and denominator used in the calculation of basic and diluted earnings per share (dollars and shares in thousands, except per share data):

	Three Months Ended			
	November 24, 2017		November 25, 2016	
Numerator:				
Net income (loss)	$	21,005	$	(3,207)
Denominator:				
Weighted average shares outstanding:				
Basic		21,673		13,870
Diluted		22,715		13,870
Earnings per share:				
Basic	$	0.97	$	(0.23)
Diluted	$	0.92	$	(0.23)
Anti-dilutive weighted shares excluded from the computation of diluted earnings per share		84		1,417

(13) Other Income (Expense), Net

The following table provides the detail of other income (expense), net as follows (in thousands):

	Three Months Ended	
	November 24, 2017	November 25, 2016
Foreign currency gains (losses)	$ (2,742)	$ 58
Other	27	45
Total other income (expense), net	$ (2,715)	$ 103

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the condensed consolidated financial statements and the notes to those statements included elsewhere in this Quarterly Report on Form 10-Q, and with the condensed consolidated financial statements and management's discussion and analysis of our financial condition and results of operations in our Annual Report on Form 10-K for our fiscal year ended August 25, 2017 (our "Annual Report"). This discussion contains forward looking statements that involve risks and uncertainties. Our actual results could differ materially from those contained in these forward-looking statements due to a number of factors, including those discussed under the caption "Risk Factors" in our Annual Report and elsewhere in this report. See also "Cautionary Note Regarding Forward-Looking Statements" at the beginning of this report.

Overview

SMART Global Holdings, Inc. ("SMART") is a global leader in specialty memory solutions, serving the electronics industry for over 25 years. SMART delivers components, modules and solutions to a broad original equipment manufacturer ("OEM") customer base, in computing, networking, communications, storage, mobile and industrial markets. Customers rely on SMART as a strategic supplier offering extensive customer specific design capabilities and quality products with value added testing services, technical support, a global footprint and the ability to provide locally manufactured memory products in multiple geographies. SMART's global, diversified customer base of over 250 customers includes some of the most well-recognized names in the technology industry. Its strategic presence in the United States, Europe, Asia and Latin America enables SMART to provide customized, integrated supply chain services assisting OEM customers in the management and execution of their procurement processes and asset management on a worldwide basis. In Brazil, SMART has established itself as a market leader as the largest in-country manufacturer of mobile memory products for smartphones, and the largest in-country manufacturer of memory components and modules for desktops, notebooks and servers. We believe SMART's close collaboration with customers while providing custom designs, extended life cycle solutions and proprietary supply chain services, creates significant customer engagements and loyalty.

Results of Operations

The following is a summary of our results of operations for the three months ended November 24, 2017 and November 25, 2016 (in thousands):

	Three Months Ended			
	November 24, 2017	% of sales*	November 25, 2016	% of sales*
	(in thousands, other than per share data)			
Consolidated Statement of Operations Data:				
Net sales	$ 265,409	100%	$ 159,344	100%
Cost of sales (1)	207,573	78%	129,634	81%
Gross profit	57,836	22%	29,710	19%
Operating expenses:				
Research and development (1) (2)	8,550	3%	9,697	6%
Selling, general and administrative (1) (2)	17,818	7%	15,410	10%
Management advisory fees	—	0%	1,000	1%
Restructuring	—	0%	(14)	0%
Total operating expenses	26,368	10%	26,093	16%
Income from operations	31,468	12%	3,617	2%
Other income (expense):				
Interest expense, net	(4,599)	(2%)	(6,266)	(4%)
Other income (expense), net	(2,715)	-1%	103	0%
Total other expense	(7,314)	(3%)	(6,163)	(4%)
Income (loss) before income taxes	24,154	9%	(2,546)	-2%
Provision for income taxes	3,149	1%	661	0%
Net income (loss)	$ 21,005	8%	$ (3,207)	(2%)
Earnings per share:				
Basic	$ 0.97		$ (0.23)	
Diluted	$ 0.92		$ (0.23)	
Shares used in computing earnings per share:				
Basic	21,673		13,870	
Diluted	22,715		13,870	

* Summations may not compute precisely due to rounding.

(1) Includes share-based compensation expense as follows:

Cost of sales	$ 218	$ 126
Research and development	274	215
Selling, general and administrative	1,113	709

(2) Includes amortization of intangible assets expense as follows:

Research and development	$ 245	$ 1,224
Selling, general and administrative	1,023	1,799

Three Months Ended November 24, 2017 as Compared to the Three Months Ended November 25, 2016

Net Sales

Net sales increased by $106.1 million, or 66.6%, during the three months ended November 24, 2017 compared to the same period in the prior year. The increase was primarily due to an 88% higher sales volume of mobile memory products in Brazil, which was driven in part by new product introductions of higher density embedded multi-chip package (“eMCP”) products, the increase in local content requirements from 40% to 50% for mobile memory products for smartphones effective January 1, 2017, and a 67% increase in the average selling prices of mobile memory products due to density changes. Strategic investments to increase production capacity in prior periods helped enable us to meet the increased demand in the Brazil mobile memory market. Our Brazil PC DRAM and our specialty DRAM sales also increased and were positively impacted by overall strength in the worldwide DRAM market, leading to 136% and 30% higher volumes and 126% and 74% increases in the average selling prices, respectively, for the current period as compared to the same period in the prior year, as well as strength in the server, networking and communications markets.

Cost of Sales

Cost of sales increased by $77.9 million, or 60.1%, during the three months ended November 24, 2017 compared to the same period in the prior year, primarily due to an increase of 68% in the cost of materials for the higher level of sales as well as higher production costs related to the increased revenue. Included in the cost of sales increase was an unfavorable foreign exchange impact of $0.2 million due to locally sourced cost of sales in Brazil.

Gross Profit

Gross margin increased to 21.8% during the three months ended November 24, 2017 compared to 18.6% for the same period in the prior year, primarily due to higher revenue in Brazil mobile memory and specialty DRAM while the cost of sales associated with higher density memory products increased at a lower rate.

Research and Development Expenses

Research and development ("R&D") expense decreased by $1.1 million, or 12.0%, during the three months ended November 24, 2017 compared to the same period in the prior year. The decrease was primarily due to $1.0 million lower intangible amortization expense as some intangible assets became fully amortized. The reduction in R&D expense was partially offset by an unfavorable foreign exchange impact of $47 thousand.

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expense increased by $2.4 million, or 15.6%, during the three months ended November 24, 2017 compared to the same period in the prior year. The increase was primarily due to higher personnel-related expenses such as bonus and stock compensation, partially offset by a $0.3 million decrease in intangible amortization expense as some intangible assets became fully amortized. Included in the SG&A expense increase was an unfavorable foreign exchange impact of $0.1 million.

Management Advisory Fees

Management advisory fees were nil during the three months ended November 24, 2017 compared to $1.0 million in the same period in the prior year as the Management Agreement with Silver Lake was terminated upon the closing of the IPO on May 30, 2017.

Other Income (Expense)

Interest expense, net decreased $1.7 million, or 26.6%, during the three months ended November 24, 2017 compared to the same period in the prior year primarily due to $1.5 million lower interest expense resulting from our debt refinancing in the fourth quarter of fiscal 2017. Other income (expense), net decreased by $2.8 million primarily due to foreign currency losses.

Provision for Income Taxes

Income tax expense includes a provision for federal, state and foreign taxes based on the annual estimated effective tax rate applicable to the Company and its subsidiaries, adjusted for certain discrete items which are fully recognized in the period they occur.

Provision for income taxes for the three months ended November 24, 2017 increased by $2.5 million as compared to the same period in the prior year primarily due to higher income in non-U.S. jurisdictions subject to tax.

As of November 24, 2017, the Company has a full valuation allowance for our net deferred tax assets associated with our U.S. operations. The amount of the deferred tax asset considered realizable could be adjusted if significant positive evidence increases.

Determining the consolidated provision for income tax expense, income tax liabilities and deferred tax assets and liabilities involves judgment. The Company calculates and provides for income taxes in each of the tax jurisdictions in which it operates, which involves estimating current tax exposures as well as making judgments regarding the recoverability of deferred tax assets in each jurisdiction. The estimates used could differ from actual results, which may have a significant impact on operating results in future periods.

Liquidity and Capital Resources

	Three Months Ended	
	November 24, 2017	November 25, 2016
	(in thousands)	
Cash provided by (used in) operating activities	$ 14,257	$ (17,021)
Cash used in investing activities	(6,039)	(3,075)
Cash used in financing activities	(7,233)	(5,331)
Effect of exchange rate changes on cash and cash equivalents	82	479
Net increase (decrease) in cash and cash equivalents	$ 1,067	$ (24,948)

At November 24, 2017, we had cash and cash equivalents of $23.5 million, of which approximately $14.9 million was held outside of the United States.

On May 30, 2017, we completed our IPO and raised proceeds, net of underwriting commissions and discounts and other offering costs, of approximately $61.1 million. On June 2, 2017, we used these net proceeds to make a mandatory prepayment of $61.1 million aggregate principal amount of our outstanding term loans under the Original Credit Agreement.

We expect that our existing cash and cash equivalents and cash generated by operating activities will be sufficient to fund our operations for at least the next twelve months. Our principal uses of cash and capital resources are debt service requirements as described below, capital expenditures, R&D expenditures and working capital requirements. We expect that future capital expenditures will focus on expanding capacity of our Brazil operations, expanding our R&D activities, manufacturing equipment upgrades and/or acquisitions and IT infrastructure and software upgrades. Cash and cash equivalents consist of funds held in demand deposit accounts and money market funds. We do not enter into investments for trading or speculative purposes.

During the three months ended November 24, 2017, cash provided by operating activities was $14.3 million. The primary factors affecting our cash flows during this period were a $21.0 net income and $8.4 million of non-cash related expenses, partially offset by a $15.1 million change in our net operating assets and liabilities. The $15.1 million change in net operating assets and liabilities consisted of increases of $55.8 million in accounts receivable and $3.7 million in inventory, and a decrease of $4.9 million in accrued expenses and other liabilities, offset by a decrease of $1.8 million in prepaid expenses and other assets and an increase of $47.5 million in accounts payable. The increases in accounts receivable, inventory and accounts payable were primarily due to higher gross sales.

During the three months ended November 24, 2017, cash used in operating activities was $17.0 million. The primary factors affecting our cash flows during this period were a $24.0 million change in our net operating assets and liabilities and a $3.2 million net loss, partially offset by $10.2 million of non-cash related expenses. The $24.0 million change in net operating assets and liabilities consisted of a decrease of $56.4 million in accounts payable, offset by decreases of $21.6 million in accounts receivable, $9.0 million in inventory and $0.6 million in prepaid expenses and other assets, and an increase of $1.2 million in accrued expenses and other liabilities. The decreases in accounts receivable, inventory and accounts payable were primarily due to lower gross sales.

Net cash used in investing activities during the three months ended November 24, 2017 was $6.0 million consisting primarily of purchases of property and equipment. Net cash used in investing activities during the three months ended November 25, 2016 was $3.1 million consisting primarily of purchases of property and equipment.

Net cash used in financing activities during the three months ended November 24, 2017 was $7.2 million, consisting primarily of $6.2 million long-term debt payments for both the Amended Credit Agreement and the BNDES Credit Agreements and $1.3 million payment of expenses related to our IPO. Net cash used in financing activities during the three months ended November 25, 2016 was $5.3 million consisting of long-term debt payments.

There have been no material changes to contractual obligations previously disclosed in our Annual Report.

Off-Balance Sheet Arrangements

We do not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. In addition, we do not have any undisclosed borrowings or debt, and we have not entered into any synthetic leases. We are, therefore, not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial conditions, net sales or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Recent Accounting Pronouncements

See Note 1 of our Notes to Unaudited Condensed Consolidated Financial Statements for information regarding the effect of recent accounting pronouncements on our financial statements.

Critical Accounting Policies

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, we evaluate our estimates, including those listed below. We base our estimates on historical facts and various other assumptions that we believe to be reasonable at the time the estimates are made. Actual results could differ from those estimates.

Our critical accounting policies are as follows:

- Revenue recognition;
- Inventory valuation;
- Income taxes;
- Impairment of long-lived assets and long-lived assets to be disposed; and
- Share-based compensation.

Our critical accounting policies are important to the portrayal of our financial condition and results of operations, and require us to make judgments and estimates about matters that are inherently uncertain. There have been no material changes to our critical accounting policies and estimates disclosed in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates" and Note 1, Summary of Significant Accounting Policies, in each case in our Annual Report.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our exposure to market rate risk includes risk of foreign currency exchange rate fluctuations, changes in interest rates and translation risk.

Foreign Exchange Risks

We are subject to inherent risks attributed to operating in a global economy. Our international sales and our operations in foreign countries subject us to risks associated with fluctuating currency values and exchange rates. Because a portion of our sales are denominated in United States dollars, increases in the value of the United States dollar could increase the price of our products so that they become relatively more expensive to customers in a particular country, possibly leading to a reduction in sales and profitability in that country. A significant portion of the sales of our products are denominated in reais. In addition, we have certain costs that are denominated in foreign currencies, and decreases in the value of the U.S. dollar could result in increases in such costs that could have a material adverse effect on our results of operations. We do not currently purchase financial instruments to hedge foreign exchange risk, but may do so in the future.

As a result of our international operations, we generate a portion of our net sales and incur a portion of our expenses in currencies other than the U.S. dollar, particularly the reais. Approximately 60% and 47% of our net sales during the three months ended November 24, 2017 and November 25, 2016, respectively, originated in reais. We present our combined financial statements in U.S. dollars, and we must translate the assets, liabilities, net sales and expenses of a substantial portion of our foreign operations into U.S. dollars at applicable exchange rates. Consequently, increases or decreases in the value of the U.S. dollar may affect the value of these items with respect to our non-U.S. dollar businesses in our combined financial statements, even if their value has not changed in their local currency. Our customer pricing and material cost of sales are based on U.S. dollars, as is the global market for memory products. Accordingly, the impact of currency fluctuations to our consolidated statement of operations is primarily to our other costs of sales (i.e., non-material components) and our operating expenses as those items are typically denominated in local currency. Our consolidated statement of operations is also impacted by foreign currency gains and losses recorded in Other Income (Expense) arising from transactions denominated in a currency other than the functional currency of the respective subsidiary. These translations could significantly affect the comparability of our results between financial periods or result in significant changes to the carrying value of our assets, liabilities and equity. As a result, changes in foreign currency exchange rates impact our reported results.

During the three months ended November 24, 2017 and November 25, 2016, we recorded ($2.7) million and $0.1 million, respectively, of foreign exchange gains (losses).

Interest Rate Risk

We are subject to interest rate risk in connection with our long-term and short-term debt, including the $160.9 million aggregate balance under the term loans under the Amended Credit Agreement, R$22.4 million (or $6.8 million) balance under the BNDES 2013 Credit Agreement and R$36.3 million (or $11.1 million) balance under the BNDES 2014 Credit Agreement, in each case as of November 24, 2017. Although we did not have any revolving balances outstanding as of November 24, 2017, the revolving facility under the Amended Credit Agreement provides for borrowings of up to $50 million that would also bear interest at variable rates. Assuming that we will satisfy the financial covenants required to borrow and that the Amended Credit Agreement is fully drawn and other variables are held constant, each 1.0% increase in interest rates on our variable rate borrowings would result in an increase in annual interest expense and a decrease in our cash flow and income before taxes of $2.2 million per year.

Item 4. Controls and Procedures

Limitation on Effectiveness of Controls

Any control system, no matter how well designed and operated, can provide only reasonable assurance as to the tested objectives. The design of any control system is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote. The inherent limitations in any control system include the realities that judgments related to decision-making can be faulty, and that reduced effectiveness in controls can occur because of simple errors or mistakes. Due to the inherent limitations in a cost-effective control system, misstatements due to error may occur and may not be detected.

Evaluation of Disclosure Controls and Procedures

Management is required to evaluate our disclosure controls and procedures, as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the “Exchange Act”). Disclosure controls and procedures are controls and other procedures designed to provide reasonable assurance that information required to be disclosed in our reports filed under the Exchange Act, such as this Quarterly Report on Form 10-Q, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms. Disclosure controls and procedures include controls and procedures designed to provide reasonable assurance that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer as appropriate to allow timely decisions regarding required disclosure. Based on our management’s evaluation (with the participation of our principal executive officer and principal financial officer), our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) were effective at a reasonable assurance level as of the end of the period covered by this report.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended November 24, 2017, which were identified in connection with management’s evaluation required by paragraph (d) of Rules 13a-15 and 15d-15 under the Exchange Act, that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Information with respect to this item may be found in Note 9, Commitments and Contingencies, in our Notes to Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1, of this Quarterly Report on Form 10-Q, which information is incorporated herein by reference.

Item 1A. Risk Factors

The risks described in Part I, Item 1A, "Risk Factors," in our Annual Report on Form 10-K for our fiscal year ended August 25, 2017 (our "Annual Report") could materially and adversely affect our business, financial condition and results of operations, and the market price of our ordinary shares could decline. These risk factors do not identify all risks that we face – our operations could also be affected by factors that are not presently known to us or that we currently consider to be immaterial to our operations. Due to risks and uncertainties, known and unknown, our past financial results may not be a reliable indicator of future performance and historical trends should not be used to anticipate results or trends in future periods. Below we update and supplement certain risks set forth under the heading "—Risks Relating to Our Business" and describe additional risks that supplement the risks described under "—Risks Relating to Investments in Cayman Islands Companies", each in Part I, Item 1A, "Risk Factors" in our Annual Report.

Risks Relating to Our Business

Our success in Brazil depends in part on Brazilian laws establishing local content requirements for electronics products. The elimination of or a reduction in the local content requirements, or our inability to secure the benefits of these regulations, could significantly reduce the demand for, and the profit margins on, our products in Brazil.

Successive Brazilian governmental administrations have adopted economic policies intended to foster innovation and investment in local production, stimulate job growth, provide stimulus to exports and defend local manufacturers in various industries. In recent decades, the Brazilian government identified the design and manufacture of integrated circuits, or ICs, as a priority and established tax incentives and local content requirements intended to promote the development of the local IT industry. These incentives include the Lei da Informática—Processo Produtivo Básico, or PPB/IT Program, the Support Program for the Technological Development of the Semiconductor and Display Industries, or PADIS, and Lei do Bem. The PPB/IT program is intended to promote local manufacturing by allowing qualified companies to sell specified IT products, including desktops, notebooks, servers, SmartTVs and mobile products, with a reduced Brazilian federal excise tax rate, or the IPI, as compared to the rate that is required to be collected by non-qualified suppliers. The PPB/IT Program provides an incentive for certain customers to purchase products from us because they are not required to pay the regular level of IPI on their purchases. Under the PPB/IT Program, the percentage of local content required in specified IT products has increased significantly from 2006 to present, and the law that provides the PPB/IT Program benefits is currently legislated to remain in force through the end of 2029. For example, under the PPB/ IT Program, from 2006 to present the total requirement of DRAM modules made with locally packaged DRAM ICs for notebook computers has increased from 0% to 80% and is expected to remain at current levels through the end of 2029. Local content requirements for mobile memory products for smartphones increased from 20% in calendar 2015 to 50% in 2017 and is scheduled to increase to 60% in 2018. These requirements are under discussion for possible reduction for both 2017 and 2018, which we believe is as a result of customer volumes growing faster than expected, our competitors' failure to supply locally manufactured mobile memory products and tight memory supplies worldwide. While we anticipate that the requirements may be reduced to 30% for 2017 and 50% for 2018, if implemented, we do not believe these reductions will have a negative impact on our business or our financial results as, absent a material reduction in smartphone demand in Brazil in 2018, increases in memory densities offset reductions in the local content requirements. There can be no assurance, however, that such reductions will not have an adverse effect on our financial results. Under current proposals, the requirement for mobile memory for smartphones is expected to be 60% in 2019.

In order to receive the intended treatment as a PPB/IT Program supplier, our subsidiary, SMART do Brazil, is required to invest in research and development activities in an amount equal to 3% of its gross annual sales revenues reduced by the following: the cost of raw materials qualified as products eligible for the PPB/IT Program, including the ICs that are purchased from our other Brazilian subsidiary, SMART Brazil, and that are used to make memory modules; applicable sales taxes; the value of products exported out of Brazil; and the value of products shipped to the Manaus Free Trade Zone. Brazil's local content requirements for the IT industry have been subject to criticism by other governments and international organizations.

In 2013, the European Union, or the EU, later joined by Japan, requested the establishment of a panel within the World Trade Organization, or WTO, to determine whether certain measures enacted by the Brazilian government concerning tax incentives and local content requirements for the automotive and several other industries including the IT industry and including PADIS, the PPB/IT Program and Lei do Bem, are inconsistent with WTO rules. In December 2016, the WTO circulated its report to the parties. This report was released to the public on August 30, 2017. In its report, the panel concluded, among other things, that the tax exemptions, reductions and suspensions granted for the automotive, IT and other industries amount to subsidies that are inconsistent with the principles of the various WTO agreements, and the panel recommended that Brazil withdraw these subsidies. Government officials in Brazil have expressed their intent, if necessary, to restructure the incentives to be consistent with the WTO principles and to continue to support local industry; however, there can be no assurance that the programs will ultimately be restructured and implemented or, if implemented, whether the restructured programs will provide the same level of support as is currently in place. Brazil has appealed the panel's findings. While we cannot predict the impact of the WTO's report, this recommendation could result in significant adverse changes to the local content rules and incentives available to us and our customers in Brazil. Any suspension, early termination or other adverse change in the local content requirements could significantly reduce the demand for, and the profit margins on, our products in Brazil, and would have a material adverse effect on our business, results of operations and financial condition.

In addition, we benefit from various other tax incentives extended to us in Brazil to promote the development of the local IT industry, and are subject to related risks, as described in Part I, Item 1A in our Annual Report under "Risk Factors—Risks Relating to our International Operations—If the tax incentive or tax holiday arrangements from which we benefit in Brazil or Malaysia change or cease to be in effect or applicable in part or in whole, for any reason, or if our assumptions and interpretations regarding tax laws and incentive or holiday arrangements prove to be incorrect, the amount of corporate income, excise, import and contribution taxes we have to pay could increase significantly."

Sales to a limited number of customers represent a significant portion of our net sales, and the loss of any key customer or key program, or the demands of our key customers, could materially harm our business, results of operations and financial condition.

Our principal end customers include global original equipment manufacturers, or OEMs, that compete in the computing, networking, communications, storage, aerospace, defense, mobile and industrial markets. In fiscal 2017, 2016 and 2015, sales to our ten largest end customers (including sales to contract manufacturers or ODMs at the direction of such end customers) accounted for 84%, 81% and 75% of net sales, respectively. Of our end customers, Samsung accounted for 19%, 13% and 11% of net sales in fiscal 2017, 2016 and 2015, respectively; Cisco accounted for 15%, 19% and 16% of net sales in fiscal 2017, 2016 and 2015, respectively; Lenovo Group Ltd., or Lenovo, accounted for 11% and 13% of net sales in fiscal 2017 and 2016, respectively; Dell accounted for 15% of net sales in fiscal 2015; and Hewlett-Packard Company, or HP, accounted for 14% of net sales in fiscal 2015 (in fiscal 2016, HP undertook a spin-off and divided into two distinct companies, following which neither company accounted for 10% or more of our net sales). Direct sales to Samsung accounted for 19%, 13% and 11% of net sales in fiscal 2017, 2016 and 2015, respectively; direct sales to Flex Ltd., or Flex, accounted for 14% and 17% of net sales in fiscal 2017 and 2016, respectively; direct sales to Hon Hai accounted for 13%, 11% and 11% of net sales in fiscal 2017, 2016 and 2015, respectively; and direct sales to Dell accounted for 15% of net sales in fiscal 2015. While Samsung is a significant customer of ours, purchasing eMCPs from us in their smartphone division and DRAM modules from us in their PC division, Samsung's semiconductor division is also a major supplier and a competitor. See "Risk Factors—Risks Relating to Our Business—Our dependence on a small number of sole or limited source suppliers subjects us to certain risks, including the risk that we may be unable to obtain adequate supplies at a reasonable price and in a timely manner" and "—The memory market is intensely competitive, and we may not be able to maintain or improve our competitive position" under Part I, Item 1A in our Annual Report.

We expect that sales to relatively few customers will continue to account for a significant percentage of our net sales for the foreseeable future. However, we can provide no assurance that any of these customers or any of our other customers will continue to utilize our products or our services at current levels, or at all. Although we have master agreements with one or more key customers, these agreements govern the terms and conditions of the relationship and do not contain requirements for them to purchase minimum volumes.

Our customer concentration may also subject us to perceived or actual bargaining leverage that our key customers may have, given their relative size and importance to us. Since a large percentage of our sales is to a small number of customers that are primarily large OEMs, these customers are able to exert, have exerted and we expect will continue to exert, pressure on us to make concessions on price and on terms and conditions which can adversely affect our business, results of operations and financial condition. If our key customers seek to negotiate their agreements on terms less favorable to us and we accept such unfavorable terms, such unfavorable terms may have a material adverse effect on our business, results of operations and financial condition. Accordingly, unless and until we diversify and expand our customer base, our future success will significantly depend upon the timing and volume of business from our largest customers and the financial and operational success of these customers. If we were to lose one of our key customers or have a key customer cancel a key program or otherwise significantly reduce its volume of business with us, our sales and profitability would be materially reduced and our business and financial condition would be seriously harmed.

Our future success is dependent on our ability to retain key personnel, including our executive officers, and to attract qualified personnel. If we lose the services of these individuals or are unable to attract new talent, our business may be adversely affected.

Our future operating results depend in significant part upon the continued contributions of our key senior management and technical personnel, many of whom would be difficult to replace. We are particularly dependent on the continued service of Iain MacKenzie, our President and Chief Executive Officer, and Jack Pacheco, our Senior Vice President, Chief Operating Officer and Chief Financial Officer. Mr. MacKenzie has recently notified us that he has decided to transition to a revised role during the 2018 calendar year. Following the transition, he will continue to serve as a member of our board of directors, but he will no longer serve as our President and Chief Executive Officer. We can provide no assurance that we will find a suitable successor or that any identified successor will be successfully integrated into our management team. Our future operating results also depend in significant part upon our ability to attract, train and retain qualified management, manufacturing and quality assurance, engineering, design, finance, marketing, sales and support personnel. We are continually recruiting such personnel in various parts of the world. However, competition for such personnel can be strong and we can provide no assurance that we will be successful in attracting or retaining such personnel now or in the future. In addition, particularly in the high-technology industry, the value of stock options, RSUs, grants or other share- based compensation is an important element in the retention of employees. Declines in the value of our ordinary shares could adversely affect our ability to retain employees and we may have to take additional steps to make the equity component of our compensation packages more attractive to attract and retain employees. These steps could result in dilution to shareholders.

In Brazil in particular, there is limited availability of labor with the technical skills required for our operations. As a result, we rely heavily on our ability to train personnel or relocate individuals from outside of the country. Relocation from a foreign country is expensive. To keep pace with our anticipated growth in Brazil, we anticipate the need to increase the number of our technical personnel. Additionally, to meet the obligations associated with certain tax incentives, we are required to invest in research and development activities which could require an increase in engineering and other technical personnel. To the extent that competitors enter or expand in the local market, our labor force could be targeted, which could result in the loss of personnel and/or the increase in wages to retain personnel.

The loss of any key employee, the failure of any key employee to adequately perform in his or her current position, our inability to attract, train and retain skilled employees as needed or the inability of our key employees to expand, train and manage our employee base as needed, could have a material adverse effect on our business, results of operations and financial condition.

Risks Relating to Investments in Cayman Islands Companies

The Cayman Islands Beneficial Ownership Regime may impact dealings with shares in certain of our subsidiaries

As our ordinary shares are listed on The NASDAQ Global Select Market, being a recognized stock exchange listed in Schedule 3 to Companies Law, we do not fall within the scope of the primary obligations under Part XVIIA of the Companies Law, or the Beneficial Ownership Regime. We are therefore not required to maintain a beneficial ownership register. We may, however, be required from time to time to provide, on request, certain particulars to other Cayman Islands entities that are within the scope of the Beneficial Ownership Regime and that are therefore required to maintain beneficial ownership registers under the Beneficial Ownership Regime. It is anticipated that such particulars will generally be limited to the identity and certain related particulars of (i) any person holding (or controlling through a joint arrangement) a majority of our voting rights; any person who is a holder of our shares and who has the right to appoint and remove a majority of our board of directors; and (iii) any person who has the right to exercise, or actually exercises, dominant direct influence or control over us. If we are unable or unwilling to provide such information when required by the Companies Law, we may be prevented from dealing with or disposing of the shares we hold in our Cayman Islands subsidiaries. Should we not maintain the listing of our ordinary shares, we will become subject to the Beneficial Ownership Regime, and will then be required to collect certain information on our controlling persons and beneficial owners for inclusion on our beneficial ownership register. Should you be a person whose particulars are required to be included on our beneficial ownership register, and you are unable or unwilling to provide such particulars to us when required, you may be prevented from dealing in or disposing of our ordinary shares.

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

Amended Credit Agreement

We are subject to certain restrictions with respect to the use of our working capital and our ability to pay dividends under our Amended Credit Agreement, as described in Note 6, Long-Term Debt—Amended Credit Agreement, in our Notes to Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1, of this Quarterly Report on Form 10-Q, which information in incorporated herein by reference.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

On December 19, 2017, as part of its review of compensation matters and the CEO transition previously disclosed to occur later in calendar 2018, the Compensation Committee recommended to our board of directors, and the board approved, a promotion as well as changes in the severance and change of control provisions for the Company's Chief Operating Officer and Chief Financial Officer, Jack Pacheco. Mr. Pacheco was promoted to Executive Vice President. The changes in the severance and change of control provisions of Mr. Pacheco's employment agreement include (i) in the event of a qualifying involuntary termination, Mr. Pacheco's cash severance payment will be 75% of his annual base salary (increased from 25%); (ii) if a qualifying termination occurs within the first 12 months after a new Chief Executive Officer is appointed, Mr. Pacheco's severance will include one-year of accelerated vesting of his equity awards in addition to his other severance benefits; and (iii) in the event of a qualifying termination in connection with a change in control, Mr. Pacheco's cash severance will be 150% of his annual base salary (increased from 100%).

Item 6. Exhibits

Exhibit No.	Exhibit Title
31.1*	Certification of Principal Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Principal Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Principal Executive Officer pursuant 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Principal Financial Officer pursuant 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

* Filed herewith.
** Furnished herewith.

SIGNATURES

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

SMART GLOBAL HOLDINGS, INC.

Date: December 21, 2017	By:	/s/ IAIN MACKENZIE
		Name: Iain MacKenzie
		Title: President and Chief Executive Officer (Principal Executive Officer)
Date: December 21, 2017	By:	/s/ JACK PACHECO
		Name: Jack Pacheco
		Title: Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

Exhibit 31.1

**CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Iain MacKenzie, certify that:

1. I have reviewed this quarterly report on Form 10-Q of SMART Global Holdings, 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(s) 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(s) 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: December 21, 2017

By: /s/ IAIN MACKENZIE
Name: Iain MacKenzie
Title: President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Jack Pacheco, certify that:

1. I have reviewed this quarterly report on Form 10-Q of SMART Global Holdings, 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(s) 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(s) 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: December 21, 2017

By: /s/ JACK PACHECO
Name: Jack Pacheco
Title: Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of SMART Global Holdings, Inc. (the “Company”) on Form 10-Q for the period ending November 24, 2017 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Iain MacKenzie, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: December 21, 2017

By: /s/ IAIN MACKENZIE
Name: Iain MacKenzie
Title: President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of SMART Global Holdings, Inc. (the "Company") on Form 10-Q for the period ending November 24, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jack Pacheco, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: December 21, 2017

By: /s/ JACK PACHECO
Name: Jack Pacheco
Title: Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)