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 February 23, 2018

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 February 23, 2018, the registrant had 22,106,135 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 our Quarterly Reports on Form 10-Q that have been and will be filed by us in our fiscal year 2018, which runs from August 26, 2017 to August 31, 2018. 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)

	February 23, 2018	August 25, 2017
Assets		
Current assets:		
Cash and cash equivalents	$ 51,816	$ 22,436
Accounts receivable, net of allowances of $381 and $314 as of February 23, 2018 and August 25, 2017, respectively	223,500	183,303
Inventories	148,577	127,135
Prepaid expenses and other current assets	18,181	14,115
Total current assets	442,074	346,989
Property and equipment, net	53,238	55,182
Other noncurrent assets	21,556	26,728
Intangible assets, net	2,533	5,107
Goodwill	45,709	46,022
Total assets	$ 565,110	$ 480,028
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 225,718	$ 189,717
Accrued liabilities	24,151	27,316
Current portion of long-term debt	22,954	22,841
Total current liabilities	272,823	239,874
Long-term debt	142,752	154,450
Deferred tax liabilities	730	1,439
Other long-term liabilities	1,897	1,869
Total liabilities	$ 418,202	$ 397,632
Commitments and contingencies (see Note 9)		
Shareholders' equity:		
Ordinary shares, $0.03 par value. Authorized 200,000 shares; issued and outstanding 22,106 and 21,666 as of February 23, 2018 and August 25, 2017, respectively	666	653
Additional paid-in capital	239,628	232,162
Accumulated other comprehensive loss	(143,976)	(143,210)
Retained earnings	50,590	(7,209)
Total shareholders' equity	146,908	82,396
Total liabilities and shareholders' equity	$ 565,110	$ 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		Six Months Ended	
	February 23, 2018	February 24, 2017	February 23, 2018	February 24, 2017
Net sales (1)	$ 313,965	$ 171,954	$ 579,374	$ 331,298
Cost of sales	240,948	134,797	448,521	264,431
Gross profit	73,017	37,157	130,853	66,867
Operating expenses:				
Research and development	9,852	9,948	18,402	19,645
Selling, general, and administrative	18,087	16,434	35,905	31,844
Management advisory fees	—	1,000	—	2,000
Restructuring charge	—	471	—	457
Total operating expenses	27,939	27,853	54,307	53,946
Income from operations	45,078	9,304	76,546	12,921
Interest expense, net	(4,230)	(8,512)	(8,829)	(14,778)
Other income (expense), net	2,548	(1,005)	(167)	(902)
Total other expense	(1,682)	(9,517)	(8,996)	(15,680)
Income (loss) before income taxes	43,396	(213)	67,550	(2,759)
Provision for income taxes	6,602	2,124	9,751	2,785
Net income (loss)	$ 36,794	$ (2,337)	$ 57,799	$ (5,544)
Earnings per share:				
Basic	$ 1.68	$ (0.17)	$ 2.65	$ (0.40)
Diluted	$ 1.60	$ (0.17)	$ 2.53	$ (0.40)
Shares used in computing earnings per share:				
Basic	21,915	13,870	21,794	13,870
Diluted	23,038	13,870	22,877	13,870

(1) Includes sales to affiliates of $34,129, $17,680, $59,857 and $26,688, in three and six months ended February 23, 2018 and February 24, 2017, 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		Six Months Ended	
	February 23, 2018	February 24, 2017	February 23, 2018	February 24, 2017
Net income (loss)	$ 36,794	$ (2,337)	$ 57,799	$ (5,544)
Other comprehensive income (loss):				
Foreign currency translation	6,411	1,591	(766)	4,004
Other comprehensive income (loss)	6,411	1,591	(766)	4,004
Comprehensive income (loss)	$ 43,205	$ (746)	$ 57,033	$ (1,540)

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Six Months Ended	
	February 23, 2018	February 24, 2017
Cash flows from operating activities:		
Net income (loss)	$ 57,799	$ (5,544)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	12,628	17,553
Share-based compensation	3,302	2,144
Provision for doubtful accounts receivable and sales returns	67	(174)
Deferred income tax benefit	(954)	(1,111)
Loss on disposal of property and equipment	244	129
Extinguishment loss on long-term debt	—	1,386
Amortization of debt discounts and issuance costs	1,451	3,944
Changes in operating assets and liabilities:		
Accounts receivable	(40,907)	3,375
Inventories	(21,556)	(26,351)
Prepaid expenses and other assets	1,691	1,476
Accounts payable	37,347	(15,726)
Accrued expenses and other liabilities	(2,158)	3,251
Net cash provided by (used in) operating activities	48,954	(15,648)
Cash flows from investing activities:		
Capital expenditures and deposits on equipment	(10,457)	(7,395)
Proceeds from sale of property and equipment	66	42
Net cash used in investing activities	(10,391)	(7,353)
Cash flows from financing activities:		
Fees paid for revolving line of credit financing	(768)	—
Long-term debt payment	(12,309)	(11,735)
Payment for extinguishment of long-term debt	—	(938)
Payment of costs related to initial public offering (IPO)	(1,591)	—
Proceeds from borrowings under revolving line of credit	208,500	215,250
Repayments of borrowings under revolving line of credit	(208,500)	(215,250)
Proceeds from issuance of ordinary shares from share option exercises	4,177	—
Net cash used in financing activities	(10,491)	(12,673)
Effect of exchange rate changes on cash and cash equivalents	1,308	381
Net increase (decrease) in cash and cash equivalents	29,380	(35,293)
Cash and cash equivalents at beginning of period	22,436	58,634
Cash and cash equivalents at end of period	$ 51,816	$ 23,341
Supplemental disclosures of cash flow information:		
Cash paid during the year:		
Cash paid for interest	$ 7,481	$ 11,591
Cash paid for income taxes, net of refunds	9,835	1,771
Noncash activities information:		
Capital expenditures included in accounts payable at period end	381	385
Warrants issued in connection with debt	—	21,341

See accompanying notes to unaudited condensed consolidated financial statements.

Smart Global Holdings, Inc.
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 six months ended February 23, 2018 and February 24, 2017 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 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		Six Months Ended	
	February 23, 2018	February 24, 2017	February 23, 2018	February 24, 2017
Service revenue, net	$ 9,634	$ 9,042	$ 19,476	$ 17,984
Cost of purchased materials - service (1)	228,217	203,267	456,785	402,388
Gross billings for services	237,851	212,309	476,261	420,372
Product net sales	304,331	162,912	559,898	313,314
Gross billings to customers	$ 542,182	$ 375,221	$ 1,036,159	$ 733,686
Product net sales	$ 304,331	$ 162,912	$ 559,898	$ 313,314
Service revenue, net	9,634	9,042	19,476	17,984
Net sales	$ 313,965	$ 171,954	$ 579,374	$ 331,298

(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 February 23, 2018, the total ICMS tax credits reported on the Company's accompanying condensed consolidated balance sheet are R$41.8 million (or $13.2 million), of which (i) R$16.6 million (or $5.2 million) are fully vested ICMS credits, classified as prepaid and other current assets and R$23.8 million (or $7.5 million) classified as other noncurrent assets, and (ii) R$1.4 million (or $0.5 million) are ICMS credits subject to vesting in 48 equal monthly amounts, classified as prepaid expenses and other current assets (R$0.9 million or $0.3 million) and other noncurrent assets (R$0.5 million or $0.2 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 2018 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 State of Sao Paulo tax authorities to seek approval to sell excess ICMS credits. In December 2017, the Company obtained approval to sell R$31.6 million (or $10.0 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. Once the sale is complete, the tax authorities usually approve the transfer of credits in monthly installments and the proceeds resulting from the sale of the aforementioned credits shall be received by the Company accordingly. 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 February 23, 2018 and August 25, 2017, the carrying value of goodwill on the Company's condensed consolidated balance sheet was $45.7 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 $45.7 million carrying value of goodwill on the Company's condensed consolidated balance sheet as of February 23, 2018 is associated with the Company's single reporting unit. No impairment of goodwill was recognized through February 23, 2018.

The changes in the carrying amount of goodwill during the six months ended February 23, 2018 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	(313)
Balance as of February 23, 2018	$ 45,709

(l) Intangible Assets, Net

The following table summarizes the gross amounts and accumulated amortization of intangible assets from the Acquisition by type as of February 23, 2018 and August 25, 2017 (dollars in thousands):

		February 23, 2018			August 25, 2017		
	Weighted avg. life (yrs)	Gross Carrying amount	Accumulated amortization	Net	Gross Carrying amount	Accumulated amortization	Net
Customer relationships	5	$ 26,700	$ (24,657)	$ 2,043	$ 26,971	$ (22,844)	$ 4,127
Technology	4	4,900	(4,410)	490	4,900	(3,920)	980
Total		$ 31,600	$ (29,067)	$ 2,533	$ 31,871	$ (26,764)	$ 5,107

Amortization expense related to intangible assets for the three and six months ended February 23, 2018 totaled approximately $1.2 million and $2.5 million, respectively, and $2.9 million and $6.0 million, respectively, for the corresponding periods of fiscal 2017. Acquired intangibles are amortized on a straight-line basis over the remaining estimated economic life of the underlying intangible assets.

	Three Months Ended		Six Months Ended	
	February 23, 2018	February 24, 2017	February 23, 2018	February 24, 2017
Amortization of intangible assets (in thousands):				
Research and development	$ 245	$ 1,224	$ 490	$ 2,448
Selling, general and administrative	993	1,723	2,016	3,522
Total	$ 1,238	$ 2,947	$ 2,506	$ 5,970

(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 six months ended February 23, 2018 and February 24, 2017.

(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). 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 and six months ended February 23, 2018, the Company recorded $2.4 million and ($0.3) million, respectively, and $0.2 million and $0.3 million, respectively, for the corresponding periods of fiscal 2017, 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		Six Months Ended	
	February 23, 2018	February 24, 2017	February 23, 2018	February 24, 2017
Share-based compensation expense (in thousands):				
Cost of sales	$ 227	$ 142	$ 445	$ 268
Research and development	288	230	562	445
Selling, general and administrative	1,182	722	2,295	1,431
Total	$ 1,697	$ 1,094	$ 3,302	$ 2,144

(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 February 23, 2018 and August 25, 2017, the Company owed these five suppliers $184.5 million and $153.7 million, respectively, which was recorded as accounts payable. The inventory purchases from these suppliers during the three and six months ended February 23, 2018 were $0.4 billion and $0.8 billion, respectively, and $0.3 billion, and $0.6 billion, respectively for the corresponding periods of fiscal 2017.

(u) New Accounting Pronouncements

In February 2018, the FASB issued, ASU 2018-02, *Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Comprehensive Income*. The new guidance allows companies to reclassify stranded tax effects resulting from the Tax Act, from accumulated other comprehensive income to retained earnings. The guidance also requires certain new disclosures regardless of the election. The Company is required to adopt the guidance in the first quarter of fiscal 2020. Early adoption is permitted. The Company is currently evaluating the timing and the impact of these amendments to its consolidated financial statements

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 $7.0 million of restricted cash at February 23, 2018, 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 $0.9 million, 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 $11.3 million in lease commitments at February 23, 2018 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. The Company is evaluating 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.

(2) Related Party Transactions

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

	Three Months Ended		Six Months Ended	
	February 23, 2018	February 24, 2017	February 23, 2018	February 24, 2017
Affiliates:				
Net sales	$ 34,129	$ 17,680	$ 59,857	$ 26,688
Expenses:				
Management advisory fees	$ —	$ 1,000	$ —	$ 2,000

As of February 23, 2018 and August 25, 2017, amounts due from these affiliates were $12.5 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 February 23, 2018 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 six months ended February 23, 2018 and February 24, 2017, the Sellers sold $0 and $112.4 million of accounts receivables under the RPA respectively. The outstanding balance of receivables sold and not yet collected was $0 as of both February 23, 2018 and August 25, 2017. Total interest expense paid during both the three and six months ended February 23, 2018 was $0, and $0.2 million and $0.4 million, respectively, for the corresponding periods of fiscal 2017.

(4) Balance Sheet Details

Inventories

Inventories consisted of the following (in thousands):

	February 23, 2018	August 25, 2017
Raw materials	$ 65,445	$ 42,255
Work in process	23,795	22,965
Finished goods	59,337	61,915
Total inventories*	$ 148,577	$ 127,135

* As of February 23, 2018 and August 25, 2017, 25% 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):

	February 23, 2018	August 25, 2017
Prepaid ICMS taxes in Brazil*	$ 5,554	$ —
Unbilled service receivables	2,539	4,280
Prepayment for VAT and other transaction taxes	612	1,890
Prepaid income taxes	1,109	1,023
Revolver debt fees	970	970
Other prepaid expenses and other current assets	7,397	5,952
Total prepaid expenses and other current assets	$ 18,181	$ 14,115

* See Note 1(i)

Property and Equipment, Net

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

	February 23, 2018	August 25, 2017
Office furniture, software, computers and equipment	$ 17,481	$ 17,134
Manufacturing equipment	100,220	96,318
Leasehold improvements*	24,706	24,302
	142,407	137,754
Less accumulated depreciation and amortization	89,169	82,572
Net property and equipment	$ 53,238	$ 55,182

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

Depreciation and amortization expense for property and equipment during the three and six months ended February 23, 2018 was approximately $5.1 million and $10.1 million, respectively, and $6.0 million and $11.6 million, respectively, for the corresponding periods of fiscal 2017.

Other Noncurrent Assets

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

	February 23, 2018	August 25, 2017
Prepaid ICMS taxes in Brazil*	$ 7,687	$ 12,253
Restricted cash	6,957	7,027
Revolver debt fees	1,859	2,334
Deferred tax assets	2,345	2,098
Tax receivable	1,344	1,223
Other	1,364	1,793
Total other noncurrent assets	$ 21,556	$ 26,728

* See Note 1(i)

Accrued Liabilities

Accrued liabilities consisted of the following (in thousands):

	February 23, 2018	August 25, 2017
Accrued employee compensation	$ 15,994	$ 17,426
Income taxes payable	2,951	2,459
Accrued credits payable to customers	287	2,296
VAT and other transaction taxes payable	850	1,314
Accrued warranty reserve	200	275
Other accrued liabilities	3,869	3,546
Total accrued liabilities	$ 24,151	$ 27,316

(5) Income Taxes

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

	Three Months Ended		Six Months Ended	
	February 23, 2018	February 24, 2017	February 23, 2018	February 24, 2017
Provision for Income Taxes	$ 6,602	$ 2,124	$ 9,751	$ 2,785

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 and six months ended February 23, 2018 increased by $4.5 million and $7.0 million, respectively, 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 February 23, 2018, 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.

On December 22, 2017, new U.S. federal tax legislation commonly known as the Tax Cuts and Jobs Act (the “Tax Act”) was signed into law. Certain key changes introduced by the Tax Act that would impact the Company in the current fiscal year include the reduction of the U.S. federal corporate tax rate from 35% to 21%, acceleration of expensing of certain business assets, and the elimination of the alternative minimum tax system for corporations. This rate reduction will reduce the gross value of the Company’s U.S. net deferred tax assets and liabilities with a correlative adjustment to the Company’s valuation allowance, therefore, there is no expected material impact to the Company’s quarterly and annual consolidated financial statements for the fiscal year ending August 31, 2018, subject to a continued valuation allowance. Prospectively, the Company will be subject to other provisions of the Tax Act, including, but not limited to, changes to the interest deduction and the repeal of certain exceptions under IRC 162(m), which may limit the Company’s deductibility of such items. These items are dependent on factors including future profits, the timing of payment and the exercises and release of equity awards.

(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 8.05% as of February 23, 2018.

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 and six months ended February 23, 2018, the borrowers made scheduled principal payments of $4.1 million and $8.3 million, respectively, and $4.4 million and $7.8 million, respectively, for the corresponding periods of fiscal 2017.

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 and six months ended February 23, 2018 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 February 23, 2018, the outstanding principal balance of term loans under the Amended Credit Agreement was $156.8 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 February 23, 2018 and August 25, 2017 was estimated to be approximately $156.0 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 $16.0 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 $1.9 million), which is shown on the Company’s condensed consolidated balance sheets as restricted cash in other noncurrent assets.

As of February 23, 2018, SMART Brazil’s outstanding debt under the BNDES 2013 Credit Agreement was R$19.3 million (or $6.1 million), of which R$9.4 million (or $3.0 million) accrues interest at the fixed rate of 3.5% and R$9.8 million (or $3.1 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 $16.7 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 $5.1 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 February 23, 2018 and August 25, 2017, SMART Brazil's outstanding debt under the BNDES 2014 Credit Agreement was R$33.0 million (or $10.4 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 February 23, 2018 and August 25, 2017 were estimated to be approximately $14.4 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):

	February 23, 2018	August 25, 2017
Term loan	$ 156,750	$ 165,000
BNDES 2013 principal balance	6,089	8,185
BNDES 2014 principal balance	10,434	12,647
Unamortized debt discount	(2,894)	(3,267)
Unamortized debt issuance costs	(4,673)	(5,274)
Net amount	165,706	177,291
Current portion of long-term debt	(22,954)	(22,841)
Long-term debt	$ 142,752	$ 154,450

The future minimum principal payments under the ARCA and the BNDES Agreements as of February 23, 2018 are (in thousands):

	ARCA	BNDES	TOTAL
Fiscal year ending August:			
2018	$ 8,250	$ 4,116	$ 12,366
2019	16,500	8,233	24,733
2020	16,500	4,174	20,674
2021	16,500	—	16,500
2022	99,000	—	99,000
Total	$ 156,750	$ 16,523	$ 173,273

(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 February 23, 2018 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 February 23, 2018:				
Assets				
Cash and cash equivalents	$ 51.8	$ —	$ —	$ 51.8
Restricted cash(1)	7.0	—	—	7.0
Total assets measured at fair value	$ 58.8	$ —	$ —	$ 58.8
Liabilities				
Term loan	$ —	$ 156.0	$ —	$ 156.0
BNDES Credit Agreements	—	14.4	—	14.4
Total liabilities measured at fair value(2)	$ —	$ 170.4	$ —	$ 170.4
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 February 23, 2018, there were 3,175,319 ordinary shares reserved for issuance under the SGH Plan, of which 1,937,680 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		Six Months Ended	
	February 23, 2018	February 24, 2017	February 23, 2018	February 24, 2017
Stock options:				
Expected term (years)	6.25	6.25	6.25	6.25
Expected volatility	46.27%	55.75%	42.28% - 46.27%	54.41% - 55.75%
Risk-free interest rate	2.71%	1.96%	2.15% - 2.71%	1.96% - 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	74	35.57		
Options exercised	(380)	10.97		
Options cancelled	(8)	18.09		
Options outstanding at February 23, 2018	1,474	$ 14.23	7.66	$ 28,180
Options exercisable at February 23, 2018	766	$ 11.81	6.47	$ 16,396
Options vested and expected to vest at February 23, 2018	1,474	$ 14.23	7.66	$ 28,180

The Black-Scholes weighted average fair value of options granted under the SGH Plan during the three and six months ended February 23, 2018 was $17.18 and $16.77 per share, respectively, and $1.64 and $1.62 per share, respectively, for the corresponding periods of fiscal 2017. The total intrinsic value of employee stock options exercised in the three and six months ended February 23, 2018 was $7.3 million and $9.3 million, respectively, and $0 for both the corresponding periods of fiscal 2017. As of February 23, 2018, there was approximately $5.2 million of unrecognized compensation costs related to stock options under the SGH Plan, which will be recognized over a weighted average period of 2.68 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	38	29.93	
Awards vested and paid out	(59)	8.28	
Awards forfeited and cancelled	(9)	7.74	
Awards outstanding at February 23, 2018	348	$ 10.27	$ 11,552

The share-based compensation expense related to RSAs and RSUs during the three and six months ended February 23, 2018 was approximately $0.4 million and $0.7 million, respectively, and $9 thousand and $0.1 million, respectively, for the corresponding periods of fiscal 2017. The total fair value of shares vested during both the three and six months ended February 23, 2018 was approximately $2.2 million, and $0 and $13 thousand, respectively, for the corresponding periods of fiscal 2017.

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. 4, 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 and six months ended February 23, 2018 were approximately $0.3 million and $0.5 million, respectively, and $0.3 million and $0.5 million, respectively, for the corresponding periods of fiscal 2017.

(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 and six months ended February 23, 2018 was $0.7 million and $1.4 million, respectively, and $0.7 million and $1.4 million, respectively, for the corresponding periods of fiscal 2017.

Future minimum lease payments under all leases as of February 23, 2018are as follows (in thousands):

	Amount
Fiscal year ending August:	
Remainder of fiscal 2018	$ 1,332
2019	2,701
2020	2,629
2021	2,478
2022	1,943
Thereafter	178
Total	$ 11,261

(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		Six Months Ended	
	February 23, 2018	February 24, 2017	February 23, 2018	February 24, 2017
Beginning accrued warranty reserve	$ 247	$ 248	$ 275	$ 266
Warranty claims	(112)	(38)	(265)	(244)
Provision for product warranties	65	93	190	281
Ending accrued warranty reserve	$ 200	$ 303	$ 200	$ 303

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 has appealed the decision of the PTAB to the Federal Circuit Court of Appeals.

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. On February 6, 2018, the first level administrative court unanimously ruled in favor of SMART Brazil with respect to the Second Assessment. Due to the size of the Second Assessment, Brazil law requires that the tax authorities appeal the decision to CARF.

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 $4.5 million) and R$13.3 million (or $4.1 million) as of February 23, 2018 and August 25, 2017, respectively.

As a result of the CARF decision in favor of SMART Brazil on the First Assessment and the decision in favor of SMART Brazil at the first level administrative court on the Second 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		Six Months Ended	
	February 23, 2018	February 24, 2017	February 23, 2018	February 24, 2017
Geographic Net Sales:				
U.S.	$ 37,704	$ 36,174	$ 81,856	$ 69,616
Brazil	208,680	78,679	366,676	154,262
Asia	52,723	43,787	103,817	82,969
Europe	7,462	8,109	13,496	14,979
Other Americas	7,396	5,205	13,529	9,472
Total	$ 313,965	$ 171,954	$ 579,374	$ 331,298

	February 23, 2018	August 25, 2017
Property and Equipment, Net:		
U.S.	$ 3,536	$ 3,110
Brazil	42,657	44,180
Malaysia	4,513	5,049
Other	2,532	2,843
Total	$ 53,238	$ 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				Six Months Ended			
	February 23, 2018		February 24, 2017		February 23, 2018		February 24, 2017	
	Amount	Percentage of net sales	Amount	Percentage of net sales	Amount	Percentage of net sales	Amount	Percentage of net sales
	(unaudited)				(unaudited)			
Customer A	$ 120,728	38%	$ 30,353	18%	$ 191,226	33%	$ 59,461	18%
Customer B	35,646	11%	25,459	15%	67,005	12%	49,975	15%
Customer C	33,509	11%	17,459	10%	59,159	10%	—	0%
Customer D	—	0%	—	0%	72,253	12%	—	0%
Customer E	—	0%	17,953	10%	—	0%	—	0%
	$ 189,883	60%	$ 91,224	53%	$ 389,643	67%	$ 109,436	33%

As of February 23, 2018, customer A accounted for 15% of accounts receivable. As of February 23, 2018, four direct customers that represented less than 10% of net sales, Customers E, F, G and H, accounted for approximately 25%, 15%, 13% and 12% of accounts receivable, respectively. As of August 25, 2017, four direct customers that represented less than 10% of net sales, Customers E, F, G and H, accounted for approximately 24%, 14%, 18% 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		Six Months Ended	
	February 23, 2018	February 24, 2017	February 23, 2018	February 24, 2017
Numerator:				
Net income (loss)	$ 36,794	$ (2,337)	$ 57,799	$ (5,544)
Denominator:				
Weighted average shares outstanding:				
Basic	21,915	13,870	21,794	13,870
Diluted	23,038	13,870	22,877	13,870
Earnings per share:				
Basic	$ 1.68	$ (0.17)	$ 2.65	$ (0.40)
Diluted	$ 1.60	$ (0.17)	$ 2.53	$ (0.40)
Anti-dilutive weighted shares excluded from the computation of diluted earnings per share	42	2,851	26	2,139

(13) Other Income (Expense), Net

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

	Three Months Ended		Six Months Ended	
	February 23, 2018	February 24, 2017	February 23, 2018	February 24, 2017
Foreign currency gains (losses)	$ 2,415	$ 204	$ (327)	$ 262
Loss on extinguishment of debt	—	(1,386)	—	(1,386)
Other	133	177	160	222
Total other income (expense), net	$ 2,548	$ (1,005)	$ (167)	$ (902)

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 and six months ended February 23, 2018 and February 24, 2017 (in thousands):

	Three Months Ended				Six Months Ended			
	February 23, 2018	% of sales*	February 24, 2017	% of sales*	February 23, 2018	% of sales*	February 24, 2017	% of sales*
	(in thousands, other than per share data)							
Consolidated Statement of Operations Data:								
Net sales	$ 313,965	100%	$ 171,954	100%	$ 579,374	100%	$ 331,298	100%
Cost of sales (1)	240,948	77%	134,797	78%	448,521	77%	264,431	80%
Gross profit	73,017	23%	37,157	22%	130,853	23%	66,867	20%
Operating expenses:								
Research and development (1) (2)	9,852	3%	9,948	6%	18,402	3%	19,645	6%
Selling, general and administrative (1) (2)	18,087	6%	16,434	10%	35,905	6%	31,844	10%
Management advisory fees	—	0%	1,000	1%	—	0%	2,000	1%
Restructuring	—	0%	471	0%	—	0%	457	0%
Total operating expenses	27,939	9%	27,853	16%	54,307	9%	53,946	16%
Income from operations	45,078	14%	9,304	5%	76,546	13%	12,921	4%
Other income (expense):								
Interest expense, net	(4,230)	(1%)	(8,512)	(5%)	(8,829)	(2%)	(14,778)	(4%)
Other income (expense), net	2,548	1%	(1,005)	-1%	(167)	0%	(902)	0%
Total other expense	(1,682)	(1%)	(9,517)	(6%)	(8,996)	(2%)	(15,680)	(5%)
Income (loss) before income taxes	43,396	14%	(213)	0%	67,550	12%	(2,759)	(1%)
Provision for income taxes	6,602	2%	2,124	1%	9,751	2%	2,785	1%
Net income (loss)	$ 36,794	12%	$ (2,337)	(1%)	$ 57,799	10%	$ (5,544)	(2%)
Earnings per share:								
Basic	$ 1.68		$ (0.17)		$ 2.65		$ (0.40)	
Diluted	$ 1.60		$ (0.17)		$ 2.53		$ (0.40)	
Shares used in computing earnings per share:								
Basic	21,915		13,870		21,794		13,870	
Diluted	23,038		13,870		22,877		13,870	
* Summations may not compute precisely due to rounding.								
(1) Includes share-based compensation expense as follows:								
Cost of sales	$ 227		$ 142		$ 445		$ 268	
Research and development	288		230		562		445	
Selling, general and administrative	1,182		722		2,295		1,431	
(2) Includes amortization of intangible assets expense as follows:								
Research and development	$ 245		$ 1,224		$ 490		$ 2,448	
Selling, general and administrative	993		1,723		2,016		3,522	

Three and Six Months Ended February 23, 2018 as Compared to the Three and Six Months Ended February 24, 2017

Net Sales

Net sales increased by $142.0 million, or 82.6%, during the three months ended February 23, 2018 compared to the same period in the prior year, and by $248.1 million, or 74.9%, during the six months ended February 23, 2018 compared to the same period in the prior year. The increase was primarily due to an 183% and 133% higher sales volume of mobile memory products in Brazil, for the three and six-month periods, respectively, 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 63% and 66% increase in the average selling prices of mobile memory products due to increasing memory density, for the three and six-month periods, respectively. 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 sales also increased as unit demand grew, leading to 110% and 121% higher volumes in the three and six-month periods, respectively. The strength of the worldwide DRAM market also positively impacted our average selling prices as they increased by 85% and 98% in the three and six-month periods, respectively, as well as strength in the server, networking and communications markets

Cost of Sales

Cost of sales increased by $106.2 million, or 78.7%, during the three months ended February 23, 2018 compared to the same period in the prior year, and by $184.1 million, or 69.6%, during the six months ended February 23, 2018 compared to the same period in the prior year. The increase was primarily due to an increase of 90% and 79% in the cost of materials for the higher level of sales for the three and six-month periods, respectively, 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 and $0.4 million for the three and six-month periods, respectively, due to locally sourced cost of sales in Brazil.

Gross Profit

Gross margin increased to 23.3% and 22.6% during the three and six months ended February 23, 2018 compared to 21.6% and 20.2% for the same periods in the prior year, respectively, 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 Expense

Research and development (“R&D”) expense decreased by $0.1 million, or 1.0%, during the three months ended February 23, 2018 compared to the same period in the prior year, and by $1.2 million, or 6.3%, during the six months ended February 23, 2018 compared to the same period in the prior year. The decrease in the six-month period was primarily due to $2.0 million lower intangible amortization expense as some intangible assets became fully amortized and lower depreciation, partially offset by higher personnel-related costs and outside services. The reduction in R&D expense was partially offset by an unfavorable foreign exchange impact of $41 thousand and $0.1 million for the three and six-month periods, respectively.

Selling, General and Administrative Expense

Selling, general and administrative (“SG&A”) expense increased by $1.7 million, or 10.1%, during the three months ended February 23, 2018 compared to the same period in the prior year, and by $4.1 million, or 12.8%, during the six months ended February 23, 2018 compared to the same period in the prior year. The increases were primarily due to higher personnel-related expenses such as bonus and stock compensation, partially offset by lower 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 for both the three and six-month periods.

Management Advisory Fees

Management advisory fees were nil during the three and six months ended February 23, 2018 compared to $1.0 million and $2.0 million in the same periods in the prior year, respectively, 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 $4.3 million, or 50.3%, during the three months ended February 23, 2018 compared to the same period in the prior year, and $5.9 million, or 40.3%, during the six months ended February 23, 2018 compared to the same period in the prior year, primarily due to lower interest expense resulting from our debt refinancing in the fourth quarter of fiscal 2017. Other income (expense), net increased by $3.6 million and $0.7 million for the three and six-month periods, respectively, primarily due to foreign currency.

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 and six months ended February 23, 2018 increased by $4.5 million and $7.0 million, respectively, as compared to the same periods in the prior year primarily due to higher income in non-U.S. jurisdictions subject to tax.

As of February 23, 2018, 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.

On December 22, 2017, new U.S. federal tax legislation commonly known as the Tax Cuts and Jobs Act (the "Tax Act") was signed into law. Certain key changes introduced by the Tax Act that would impact the Company in the current fiscal year include the reduction of the U.S. federal corporate income tax rate from 35% to 21%, accelerate the expensing of certain business assets, and the elimination of the alternative minimum tax system for corporations. This rate reduction will reduce the gross value of the Company's U.S. net deferred tax assets and liabilities with a correlative adjustment to the Company's valuation allowance, therefore, there is no expected material impact to the Company's quarterly and annual consolidated financial statements for the fiscal year ending August 31, 2018, subject to a continued valuation allowance. Prospectively, the Company will be subject to other provisions of the Tax Act including, but not limited to, changes to the interest deduction limitation and the repeal of certain exceptions under IRC 162(m), which may limit the Company's deductibility of such items. These items are dependent on factors including future profits, the timing of payments and the exercises and releases of equity awards.

Liquidity and Capital Resources

	Six Months Ended	
	February 23, 2018	February 24, 2017
	(in thousands)	
Cash provided by (used in) operating activities	$ 48,954	$ (15,648)
Cash used in investing activities	(10,391)	(7,353)
Cash used in financing activities	(10,491)	(12,673)
Effect of exchange rate changes on cash and cash equivalents	1,308	381
Net increase (decrease) in cash and cash equivalents	$ 29,380	$ (35,293)

At February 23, 2018, we had cash and cash equivalents of $51.8 million, of which approximately $47.2 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 six months ended February 23, 2018, cash provided by operating activities was $48.9 million. The primary factors affecting our cash flows during this period were a $57.8 net income and $16.7 million of non-cash related expenses, partially offset by a $25.6 million change in our net operating assets and liabilities. The $25.6 million change in net operating assets and liabilities consisted of increases of $40.9 million in accounts receivable and $21.6 million in inventory, and a decrease of $2.2 million in accrued expenses and other liabilities, offset by a decrease of $1.7 million in prepaid expenses and other assets and an increase of $37.3 million in accounts payable. The increases in accounts receivable, inventory and accounts payable were primarily due to higher gross sales.

During the six months ended February 24, 2017, cash used in operating activities was $15.6 million. The primary factors affecting our cash flows during this period were a $34.0 million change in our net operating assets and liabilities and a $5.5 million net loss, partially offset by $23.9 million of non-cash related expenses. The $34.0 million change in net operating assets and liabilities consisted of an increase of $26.4 million in inventory and a decrease of $15.7 million in accounts payable, offset by decreases of $3.4 million in accounts receivable and $1.5 million in prepaid expenses and other assets, and an increase of $3.3 million in accrued expenses and other liabilities. The increase in inventory was due to both higher sales forecast and higher cost of materials resulting from increased DRAM prices, while the decreases in accounts receivable and accounts payable were primarily due to lower gross sales.

Net cash used in investing activities during the six months ended February 23, 2018 was $10.4 million consisting primarily of purchases of property and equipment. Net cash used in investing activities during the six months ended February 24, 2017 was $7.4 million consisting primarily of purchases of property and equipment.

Net cash used in financing activities during the six months ended February 23, 2018 was $10.5 million, consisting primarily of $12.3 million long-term debt payments for both the Amended Credit Agreement and the BNDES Credit Agreements, $1.6 million payment of expenses related to our IPO and $0.8 million payment of fees for our revolving line of credit financing, partially offset by $4.2 million proceeds from issuance of ordinary shares from share option exercises. Net cash used in financing activities during the six months ended February 24, 2017 was $12.7 million consisting primarily of $11.7 million long-term debt payments and $0.9 million payment for extinguishment of long-term debt.

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, Overview, Basis of Presentation and 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 63% and 47% of our net sales during the six months ended February 23, 2018 and February 24, 2017, 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 six months ended February 23, 2018 and February 24, 2017, we recorded ($0.3) million and $0.3 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 $156.8 million aggregate balance under the term loans under the Amended Credit Agreement, R$19.3 million (or $6.1 million) balance under the BNDES 2013 Credit Agreement and R$33.0 million (or $10.4 million) balance under the BNDES 2014 Credit Agreement, in each case as of February 23, 2018. Although we did not have any revolving balances outstanding as of February 23, 2018, 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 February 23, 2018, 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

There have been no material changes to 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 as updated and supplemented by our Quarterly Report on From 10-Q for our fiscal quarter ended November 27, 2017. These risk factors 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.

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 March 14, 2018, the Board of Directors (the "Board") of the Company announced that Executive Chairman Ajay Shah will assume the role of Co-Chief Executive Officer ("CEO") of the Company. Until his resignation becomes effective later this year, Mr. MacKenzie will remain as President and he and Mr. Shah will serve as Co-CEOs during a transition period. After the transition is complete, Mr. Shah will become the President and sole CEO and will continue to serve as the Chairman of the Board.

Additional information regarding this appointment can be found in our Current Report on Form 8-K dated March 14, 2018

Item 6. Exhibits

Exhibit No.	Exhibit Title
10.1*	Offer Letter by and between the Registrant and Ajay Shah, dated March 13, 2018.
10.2*	Amended and Restated Employment Agreement between SMART Modular Technologies, Inc. and Jack Pacheco.
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.
31.3*	Certification of Co-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.
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.
32.3**	Certification of Co-Principal Executive 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: March 22, 2018	By:	/s/ IAIN MACKENZIE
		Name: Iain MacKenzie
		Title: President and Co-Chief Executive Officer (Principal Executive Officer)
Date: March 22, 2018	By:	/s/ JACK PACHECO
		Name: Jack Pacheco
		Title: Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

SMART GLOBAL HOLDINGS

Exhibit 10.1

March 14, 2018

Mr. Ajay Shah
SMART Global Holdings, Inc.
c/o SMART Modular Technologies, Inc.
39870 Eureka Dr.
Newark, CA 94560

Dear Ajay:

On behalf of SMART Global Holdings, Inc. (**"SMART"** or the **"Company"**), I am delighted to offer you, and that you have accepted such offer, from the date hereof until the date you become the sole Chief Executive Officer of the Company (**"CEO"**), the exempt position of Executive Chairman and Co-Chief Executive Officer ("**Co-CEO**") and, from the date on which you become the sole CEO of the Company, the position of Chairman of the Board of Directors of SMART (the "**Board**") and CEO. In each of these positions, you will be reporting directly to the Board.

You will receive a three-year employment agreement with automatic and successive one-year renewal terms unless terminated by either party 60 days prior to the expiration of the then current term. The employment agreement will include the provisions set forth in this offer letter as well as other mutually agreed terms and conditions typical for an employment contract for the position and responsibilities of a President and CEO of a company of similar size and industry as SMART; *provided* that such agreement will not provide you with any additional benefits upon a termination of your employment other than with respect to the treatment of equity awards consistent with the termination of employment provisions described in **Exhibit A**.

Your start date as Co-CEO will be March 14, 2018.

Your compensation package will include the following:

1. Base Salary. Base salary of $1,924 per 2-week pay period, payable in accordance with the normal payroll policies of SMART Modular Technologies, Inc. and subject to the usual, required withholdings and deductions. The base salary shall increase commensurate with minimum wage requirements if applicable.

2. Performance Bonus. Other than as set forth in this letter, you will not be eligible to participate in any cash or other bonus or incentive compensation plans.

3. Equity Awards. In consideration for your service to date as Executive Chairman and your continuing service transitioning into the role of Co-CEO and then President and sole

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CEO of the Company, on the date hereof, you will be granted the equity awards described in **Exhibit A** pursuant to the SMART Global Holdings, Inc. Amended and Restated 2017 Share Incentive Plan (as amended from time to time, the **"Plan"**). All future equity awards will contain acceleration provisions substantially similar to those described in **Exhibit A** in the event of a termination without "Cause" or a resignation for "Good Reason" (each as defined in **Exhibit A**) with and without a Change in Control substantially similar to those described in **Exhibit A**.

All equity awards and underlying shares are subject to the Amended and Restated Sponsor Shareholders Agreement dated May 30, 2017 (the "**SSA**") to which you are a party, as such agreement may be amended from time to time pursuant to its terms; *provided*, that nothing in the SSA will negatively affect the material economic terms described in **Exhibit A**. For the avoidance of doubt, provisions in the SSA relating to the voting of shares shall not be deemed to negatively affect the material terms described in **Exhibit A**. Additionally, to the extent the terms of Article III of the SSA prevent you from exercising your options and/or selling shares to cover the exercise price of your options or to cover your tax obligations upon such exercise, such prohibition shall not be deemed to negatively affect the material terms described in **Exhibit A** to the extent that the term of such options continues or is extended until such time as the SSA does not prohibit such exercise of options and/or sale of such shares.

4. Benefits. Upon your start of employment you will be eligible to participate in SMART's Executive Benefits Program, which includes an annual comprehensive physical exam, financial counseling services, life insurance, and disability benefits as well as a number of company-sponsored benefits, subject in each case to the generally applicable terms and conditions of each particular plan. Your eligibility for, and benefits under, all employee benefit plans and programs will be determined under the terms of those plans and programs, but in all cases will be on terms at least as favorable to you as is available to any officer or director of SMART. The company-sponsored plans include group healthcare insurance, group term life insurance, and long-term and short-term disability insurance. SMART's healthcare insurance package consists of medical, dental, vision and prescription coverage. You will begin accruing vacation, at the rate of 20 days per year, on your first day of employment. After three months of employment, you will automatically be enrolled in SMART's 401(k) program at the automatic enrollment rate whereby 5% of your gross pay per paycheck will be deferred into your 401(k) account. You can contact Fidelity, our 401(k) provider, to opt-out of this automatic service by calling 1-800-835-5097, or you can contact HR for more information.

5. Indemnification. If needed to provide protection in your new capacity, your current indemnification agreement with SMART (formerly known as Saleen Holdings, Inc.) dated September 13, 2011 will be amended as appropriate. You will be entitled to an indemnification agreement and liability insurance on terms at least as favorable to you as is available to any officer or director of SMART, which indemnification and insurance coverage shall survive your termination of employment.

This offer, and any employment pursuant to this offer, is contingent on you: (1) providing the legally required proof of your identity and authorization to work in the United States, and (2) executing and complying with the Company's standard Employment, Confidential Information and Invention Assignment Agreement (the "Confidentiality Agreement") and the Company's standard Arbitration and Class Action Waiver Agreement. Prior to your signing the Confidentiality Agreement, Section 7 of the Confidentiality Agreement will be amended to include carve-outs reasonably acceptable to you to permit you to conduct reasonable activities in your capacity as a private equity investor and manager and to permit recruiting activities that are general in nature and not directed specifically at employees of the Company and/or in which you have no material involvement.

By signing and accepting this offer, you represent and warrant that: (i) you are not subject to any pre-existing contractual or other legal obligation with any person, company or business enterprise which would prohibit your employment with, or your providing services to, SMART as its employee or to any of SMART's affiliates; and (ii) you have not and shall not use in the course of your employment with SMART and to the benefit of SMART, any confidential or proprietary information of another person, company or business enterprise to whom you currently provide, or previously provided services.

To confirm your acceptance of this offer, please sign below. I look forward to your positive response, and I am very excited about your re-taking the reins at SMART.

Sincerely,

/s/ IAIN MACKENZIE

Iain MacKenzie

ACCEPTED AND AGREED:

/s/ AJAY SHAH
Ajay Shah

Date: March 14, 2018

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EXHIBIT A
Initial Equity Awards

1. *Time-Based Option Award*. 450,000 time-based options to purchase ordinary shares of SMART with an exercise price equal to the closing price on the date of grant. These options will vest in four equal tranches of 25% (or 112,500 ordinary shares) on each annual anniversary of the grant date provided that at such time you are serving as CEO or Co-CEO.

2. *1.5X Performance-Based Option Award*. 225,000 performance-based options to purchase ordinary shares of SMART with an exercise price equal to the closing price on the date of grant. These options will be eligible to vest in four equal tranches of 25% (or 56,250 ordinary shares) on each annual anniversary of the grant date if (i) the 30 trading day rolling average closing price of an ordinary share of SMART equals or exceeds 150% of the exercise price (such 30 trading day average, the **"150% Price Target"**) at any time during the four year period following the grant date, and (ii) you are serving as CEO or Co-CEO on the date of vesting occurring after the 150% Price Target is first achieved (provided that if the 150% Price Target is satisfied after any annual vesting date for any portion of the option, such prior portion or portions will vest upon achievement of the 150% Price Target). The Company will monitor performance versus the 150% Price Target and, upon satisfaction thereof, the Board will certify that the 150% Price Target has been satisfied and promptly notify you that the 150% Price Target being achieved. If the 150% Price Target is not achieved during said four year period, these options will terminate on the fourth anniversary of the grant date.

3. *2.0X Performance-Based Option Award*. 225,000 performance-based options to purchase ordinary shares of SMART with an exercise price equal to the closing price on the date of grant. These options will be eligible to vest in four equal tranches of 25% (or 56,250 ordinary shares) on each annual anniversary of the grant date if (i) the 30 trading day rolling average closing price of an ordinary share of SMART equals or exceeds 200% of the exercise price (such 30 trading day average, the **"200% Price Target"**) at any time during the seven year period following the grant date, and (ii) you are serving as CEO or Co-CEO on the date of vesting occurring after the 200% Price Target is first met (provided that if the 200% Price Target is satisfied after any annual vesting date for any portion of the option, such prior portion or portions will vest upon achievement of the 200% Price Target). The Company will monitor performance versus the 200% Price Target and, upon satisfaction thereof, the Board will certify that the 200% Price Target has been satisfied and promptly notify you that the 200% Price Target being achieved. If the 200% Price Target is not achieved during said seven year period, these options will terminate on the seventh anniversary of the grant date.

4. *Term of Initial Equity Awards*. All of the above equity awards will have an eight year term unless earlier terminated as set forth above or in the Plan or the award agreement. The post-termination periods of exercisability provided by the award agreement will be at least as favorable as those provided in the Company's standard form option award agreement, and if you are terminated for Cause, you will have 30 days to exercise any vested options that were vested and outstanding immediately prior to your termination, and, to the extent the terms of the SSA or applicable securities laws prevent you from exercising your options and/or selling shares to cover the exercise price of your options or to cover your tax obligations upon such

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exercise, the term of such options will be extended until fifteen (15) days after the time the SSA or applicable securities laws do not prohibit such exercise of options and/or sale of such shares. In addition, to the extent your performance-based options are scheduled to expire at a time that the Board is determining whether the applicable 150% Price Target and/or the 200% Price Target have been met and certifying the same, the term of such options will be extended until fifteen (15) days after such certification has been made. You will be permitted to transfer any portion of the vested or unvested equity awards to immediate family members, estate planning entities benefitting you or immediate family members and/or to a charity, charitable foundation or similar organization.

5. _Termination of Employment Not in Connection with a Change in Control_. In the event of a termination of your employment other than for Cause (as defined below) or a termination of your employment for Good Reason (as defined below) and in either case, not in connection with a Change in Control (as defined in below), then, with respect to options that have not previously terminated, (i) 25% of the total number of initial time-based options granted that were not previously vested, will have their vesting accelerated at the time of termination in addition to any options previously vested, (ii) 25% of the initial amount of each performance-based option grant that were not previously vested, will have their vesting accelerated at the time of termination in addition to any options previously vested but only if the 30 trading day rolling average closing price of an ordinary share of SMART equals or exceeds the percentage of the exercise price as shown on **Schedule 1** of the 1.5X performance-based option award and/or the 2.0X performance-based option award, respectively, on the termination date when the termination occurs in the time periods as set forth on **Schedule 1**. All other equity awards will be forfeited upon termination, and all other unvested equity grants will be terminated. For the avoidance of doubt, the accelerated vesting provided by this Section and Section 6 will be applied only after the determination of any vesting earned through performance goal achievement up to and including your date of termination. For example, if you are terminated other than for Cause in the fourth year of employment and the 150% price target is satisfied as of your termination date, you will receive vesting of 100% of the 1.5X option (75% having been earned for your first three years of employment and an additional 25% under this Section 5). The accelerated vesting provided in this Section 5 also shall apply for a termination due to death or disability. For the avoidance of doubt, the terms of this Section 5 shall not apply in the event you cease to be CEO or Co-CEO, but agree to continue as Executive Chairman and, in connection with such role, are involved in the day to day management of the Company at a level substantially more significant than the Company's non-employee directors.

6. _Termination of Employment in Connection with a Change in Control_. In the event of a termination other than for Cause or a termination for Good Reason in either case, in connection with a Change in Control, then, with respect to options that have not previously terminated, (i) 100% of the unvested initial time-based options will have their vesting accelerated at the time of termination, and (ii) 100% of the unvested initial performance-based options will have their vesting accelerated at the time of termination but only if the 30 trading day rolling average closing price of an ordinary share of SMART equals or exceeds the percentage of the exercise price as shown on **Schedule 1** of the 1.5X performance-based option award and/or the 2.0X performance-based option award, respectively, on the

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termination date when the termination occurs in the time periods as set forth on **Schedule 1**. All other equity awards will be forfeited upon termination, and all other unvested equity grants will be terminated. In the event of a Chang in Control, the 30 trading day rolling average closing price of an ordinary share of SMART shall be deemed to be the price per share paid in the Change in Control. "In connection with a Change in Control" refers to the period that begins two months before the Change in Control and ends 12 months after the Change in Control. For the avoidance of doubt, the terms of this Section 6 shall not apply in the event you cease to be CEO or Co-CEO, but agree to continue as Executive Chairman and, in connection with such role, are involved in the day to day management of the Company at a level substantially more significant than the Company's non-employee directors.

7. *Definitions*. "**Good Reason**" shall mean the occurrence, without your written consent, of any of the following events: (A) a material reduction in the nature or scope of your responsibilities, duties or authority from those contemplated as a Board member or CEO of publicly-held company similar in size to SMART, (B) causing or requiring you to report to any person other than the Board, (C) the relocation of your primary office to a location that is not within a fifty (50) mile radius of SMART's offices in Newark, California, (D) a material reduction in the disability or death benefits provided to you, other than a reduction of not more than 10% that applies to all executives generally, (E) a material reduction in the health benefits provided to you, other than a reduction that applies to all executives generally, (F) if (and only if) your salary or bonus opportunity increase to a meaningful level (of at least $500,000 annually or more), a material reduction in your salary or bonus opportunity, other than a reduction of not more than 10% that applies to all executives generally, or (G) the Company's material violation of a material provision of this offer letter (or any other material provision of a material agreement between you and the Company or any of its affiliates (the "**Company Group**")); provided, that any such event described in (A) through (G) above shall not constitute Good Reason unless you deliver to the Board a Notice of Termination for Good Reason within ninety (90) days after you first learn of the existence of the circumstances giving rise to Good Reason, and within thirty (30) days following the delivery of such Notice of Termination for Good Reason, SMART has failed to cure the circumstances giving rise to Good Reason and following such failure to cure, you resign your employment within thirty (30) days thereof.

"**Cause**" shall mean: (A) an act of material fraud or material dishonesty against any member of the Company Group in connection with the performance of your responsibilities that the Board reasonably determines will damage the business of any member of the Company Group, (B) your conviction of, or plea of *nolo contendere* to¸ a felony (excluding traffic offenses) which the Board reasonably determines had or will have a materially detrimental effect on the reputation or business of the Company Group, (C) intentional or gross misconduct which the Board reasonably determines had or will have a materially detrimental effect on the reputation or business of the Company Group, (D) intentional improper disclosure of Confidential Information (as defined in the Confidentiality Agreement) which the Board reasonably determines had or will have a materially detrimental effect on the reputation or business of the Company Group, or (E) your material violation of a material Company Group policy or a material provision of this offer letter (or any other material provision of a material agreement between you and any member of the Company Group),

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after written notice from the Company, and a reasonable opportunity of not less than thirty (30) days to cure (to the extent curable) such violations during which time you will be given a reasonable opportunity to address any issues with the Board.

"**Change in Control**" means the occurrence, in a single transaction or in a series of related transactions, of any one or more of the following events:

(i) the sale or disposition, in one or a series of related transactions, of all or substantially all of the assets of the Company and its Subsidiaries, taken as a whole;

(ii) any person or group, other than any of the Silver Lake Investors or any of their respective Affiliates, is or becomes the Beneficial Owner, directly or indirectly, of more than fifty percent (50%) of the total voting power of the outstanding voting shares of the Company, including (but not limited to) by way of merger, amalgamation or consolidation or otherwise;

(iii) Silver Lake Investors, together and/or any of their respective Affiliates, is or becomes the Beneficial Owner, directly or indirectly, of more than eighty percent (80%) of the total voting power of the outstanding voting shares of the Company, including (but not limited to) by way of merger, amalgamation or consolidation or otherwise; or

(iv) during any period of twelve consecutive months, individuals who at the beginning of such period constitute the Board, and any new directors (other than a director designated by a person who has entered into an agreement with the Company to effect a transaction described in subsections (i), (ii) or (iii)) whose election by the Board or nomination for election by the Company's stockholders was approved by a majority of the directors then still in office who either were directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute at least a majority of the members of the Board.

8. *Dividends*. In the event that SMART were to make an extraordinary cash dividend or upon the occurrence of another event described in Section 4(d) of the Plan, an equitable adjustment will be made in the exercise price of all option grants and an equitable adjustment will be made in each of the 150% Price Target and the 200% Price Target in a manner reasonably expected to prevent diminution of the value of the award to be caused by the occurrence of such event.

9. *Right to Net-Exercise*. Except if prohibited by Article III of the SSA or applicable securities laws, SMART will permit the sale of a number of ordinary shares that are issued under any equity award, which SMART determines is sufficient to generate an amount that pays the exercise price and/or meets the tax withholding obligations under applicable law or regulation, plus additional shares to account for rounding and market fluctuations, and payment of such exercise price and/or tax withholding to SMART, and such shares may (but will not be required to) be sold as part of a block trade with other Plan participants.

10. *Exercise of Discretion*. Notwithstanding any contrary provision of the Plan or of any award agreement, the Committee (as defined in the Plan) will not use its authority or discretion under the Plan, including, but not by way of limitation, under Sections 3(a)(vi), 3(a)(vii), 4(d), 9(d), and 14(a) of the Plan, to implement a change of any term of your awards

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that would divest you of any value or rights under the any of the options described above. The preceding prohibition shall be reflected in all applicable award agreements. Any clawback policy described in Section 15(a) of the Plan shall not, by its terms, discriminate against you except to the extent required by law. The Company will use its commercially reasonable best efforts to avoid the application of Section 15(n) to any award granted to you (or shares acquired under any such award).

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SMART GLOBAL HOLDINGS

Schedule 1

Year After Grant That Termination Occurs	Target 30 Trading Day Rolling Average as % of Exercise Price of 1.5X Option	Target 30 Trading Day Rolling Average as % of Exercise Price of 2.0X Option
During 1st Year	111%	110%
During 2nd Year	122%	122%
During 3rd Year	135%	135%
During 4th Year	150%	150%
During 5th Year		164%
During 6th Year		181%
During 7th Year		200%

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Amended and Restated Employment Agreement

Jack Pacheco

AMENDED AND RESTATED EMPLOYMENT AGREEMENT (the "**Agreement**"), dated as of December 19, 2017 (the "**Effective Date**"), by and between SMART Modular Technologies, Inc, a California corporation (the "**Company**"), and Jack Pacheco ("**Executive**" and, together with the Company, the "**Parties**" individually, a "**Party**").

WHEREAS, the Parties entered into that certain Employment Agreement dated as of October 10, 2011 (the "**Original Agreement**");

WHEREAS, the Parties desire to amend and restate the Original Agreement as more specifically set forth herein; and

WHEREAS, Executive acknowledges that (i) Executive's employment with the Company will provide Executive with trade secrets of, and confidential information concerning, SMART Global Holdings, Inc. ("**SGH**") and all of the direct and indirect subsidiaries of SGH (collectively with SGH, the "**Company Group**") and (ii) the covenants contained in this Agreement are essential to protect the business and goodwill of the Company Group.

NOW, THEREFORE, in consideration of the promises and the mutual covenants herein contained, the Parties hereby agree as follows:

Term.

Subject to earlier termination in accordance with the provisions of **Section 6** of this Agreement, Executive shall be employed by the Company for an initial period commencing on the Effective Date and ending at 11:59 pm Pacific time on the day before the first anniversary thereof (the "**Term**"); provided, that the Term shall be automatically extended for successive one-year periods thereafter unless, no later than ninety (90) days prior to the expiration of the initial one-year period, or any such successive one-year renewal period, either Party shall provide to the other Party written notice of its or Executive's desire not to extend the Term. Upon Executive's termination of employment with the Company for any reason, Executive shall immediately resign all positions with all members of the Company Group, including any position on the Company's Board of Directors (the "**Board**") and/or any other position as any officer or director of any other member of the Company Group.

2. Position and Duties.

Position.

During the Term, Executive shall serve as Executive Vice President, Chief Operating Officer and Chief Financial Officer for the Company. If requested by the board of directors of SMART Global Holdings, Inc. (the "**SGH Board**"; the SGH Board as well as the board of directors of any subsidiary of SMART Global Holdings, Inc., are referred to herein as the "**Board**"), Executive hereby agrees to serve (without additional compensation) as a member of the Board and/or as an officer or director of any other member of the Company Group.

Duties.

Executive shall have the powers, authorities, and duties of management usually vested in the offices of Executive Vice President, Chief Operating Officer and Chief Financial Officer of a corporation of a similar size and nature to the Company, subject to the legal directives of the Company's chief executive officer, and, as applicable, the Board. Executive shall report solely to the Company's chief executive officer and the Board. Executive shall devote Executive's full business time and attention to the performance of Executive's duties hereunder and shall not engage in any other business, profession or occupation for compensation or otherwise which would conflict or interfere with the rendition of such services, either directly or indirectly; provided that, nothing herein shall preclude Executive from (i) with the prior written consent of the Board, serving on the board of directors of other for-profit companies that do not compete with the Company, (ii) serving on civic or charitable boards or committees and (iii) managing personal investments, so long as all such activities described in (i) through (iii) above do not materially interfere with the performance of Executive's duties and responsibilities under this Agreement.

3. Compensation.

Base Salary.

During the Term, Executive shall receive an annual base salary (the "**Base Salary**") of $425,000.16, payable in regular installments in accordance with the Company's usual payroll practices. Executive shall be entitled to such increases (but not decreases) in Base Salary, if any, as may be determined from time to time in the sole discretion of the Board.

Annual Bonus.

With respect to each fiscal year of the Company ending during the Term (a "**fiscal year**" is the period commencing on the first Monday after the last Friday of August and ending on the last Friday of August) and subject to the achievement of the applicable performance goals of the Executive and the Company and/or members of the Company Group, Executive shall be entitled to participate in the Company's annual bonus program pursuant to which Executive shall be eligible to earn an annual bonus with a target amount equal to 85% of the Base Salary (the "**Annual Bonus**"). The applicable performance goals for the Annual Bonus shall be determined by the SGH Board (or the compensation committee thereof), and shall be communicated to Executive within the first 90 days of the applicable fiscal year. The Annual Bonus, if any, earned for a fiscal year shall be paid to Executive on the date selected by the Company and/or the Board, which date shall fall within the two and one-half (2½) month period beginning on the first day of the fiscal year following the fiscal year to which the Annual Bonus relates. The Company and/or the Board shall have the right, but not the obligation, at its sole discretion, (i) to change from time-to-time the payment periods of the Annual Bonus to be semi-annual, quarterly or otherwise, with appropriate holdbacks to year-end within the pre-year-end periods and/or (ii) to change from time-to-time the Company's fiscal year.

Equity Compensation.

Executive will be granted equity awards at the discrection of the SGH Board (or a compensation committee thereof).

Employee Benefits.

Benefit Plans.

During the Term, Executive shall be able to participate in employee benefit plans and perquisite and fringe benefit programs on a basis no less favorable than such benefits and perquisites are provided by the Company from time to time to the Company's other senior executives. Additionally, Executive is entitled to participate in the Company's executive benefits program as in place from time-to-time, which currently includes an annual comprehensive physical exam, financial counseling services, life insurance, and disability benefits.

Expense Reimbursement.

Executive shall be entitled to receive prompt reimbursement for all travel and business expenses reasonably incurred and properly accounted for by Executive (in accordance with the policies and procedures established from time to time by the Company) in performing services hereunder.

Indemnification; D&O Coverage.

Executive shall be subject to the Company's standard indemnification agreement, which agreement shall be executed by Executive and the Company on or prior to the Effective Date.

Termination of Employment.

The Term and Executive's employment hereunder may be terminated under the following circumstances:

Death.

The Term and Executive's employment hereunder shall terminate upon Executive's death. Upon any termination of Executive's employment hereunder as a result of this **Section 6(a)**, Executive's estate shall be entitled to receive (A) Executive's Base Salary through the date of termination (the "**Accrued Salary**"), which shall be paid within fifteen (15) days following the date of termination or such earlier date as may be required by California law, and (B) any earned but unpaid Annual Bonus for any fiscal year preceding the fiscal year in which the termination occurs (the "**Accrued Bonus**"), which shall be paid at the same time as bonuses are paid to other senior executive officers, but in no event later than the date provided for in **Section 3(b)** hereof (the Accrued Bonus and the Accrued Salary, including the respective times by which such amounts are to be paid, are hereafter referred to as the "**Accrued Amounts**"). All other benefits, if any, due to Executive's estate following Executive's termination due to death shall be determined in accordance with the plans, policies and practices of the Company; provided, that Executive's estate shall not be entitled to any severance payments or benefits under any other agreement or any severance plan, policy or program of the Company Group. Executive's estate shall not accrue any additional compensation (including any Base Salary or Annual Bonus) or other benefits under this Agreement following such termination of employment.

Disability.

The Company may terminate the Term and Executive's employment hereunder for Disability. "**Disability**" shall mean Executive's inability, due to physical or mental incapacity, to perform Executive's duties under this Agreement with substantially the same level of quality as immediately prior to such incapacity for a period of 90 consecutive days or 120 days during any consecutive six-month period. In conjunction with determining Disability for purposes of this Agreement, Executive hereby (i) consents to any such examinations which are relevant to a determination of whether Executive is mentally and/or physically disabled and (ii) agrees to furnish such medical information as may be reasonably requested. Upon any termination of Executive's employment hereunder pursuant to this **Section 6(b)**, Executive shall be entitled to receive payment of the Accrued Amounts. All other benefits, if any, due to Executive following Executive's termination by the Company for

Disability shall be determined in accordance with the plans, policies and practices of the Company; provided, that Executive shall not be entitled to any payments or benefits under any other agreement or any severance plan, policy or program of the Company Group. Executive shall not accrue any additional compensation (including any Base Salary or Annual Bonus) or other benefits under this Agreement following such termination of employment.

Termination for Cause; Voluntary Termination.

At any time during the Term, (i) the Company may terminate the Term and Executive's employment hereunder for "Cause" (as defined below) by Notice of Termination (as defined in **Section 6(f)**), and (ii) Executive may terminate the Term and Executive's employment hereunder "voluntarily" (that is, other than by death, Disability or for Good Reason, in accordance with **Section 6(a), 6(b)** or **6(d)**, respectively); provided, that Executive will be required to give at least ninety (90) days advance written notice of such termination. "**Cause**" shall mean Executive's: (A) material breach of this Agreement, including failure to substantially perform Executive's duties, (B) willful failure to carry out, or comply with, in any material respect, any lawful and reasonable directive of the Board, not inconsistent with the terms of this Agreement, (C) commission at any time of any act or omission that results in, or that may reasonably be expected to result in, a conviction, plea of guilty or no contest or imposition of unadjudicated probation for any felony or any crime involving moral turpitude, (D) unlawful use (including being under the influence) or possession of illegal drugs on the Company's premises or while performing Executive's duties and responsibilities hereunder, (E) breach of any written policies or procedures of the Company Group that are applicable to Executive and that have previously been provided to Executive, which breach causes or is reasonably expected to cause material harm to any member of Company Group, or (F) commission at any time of any act of fraud, embezzlement, misappropriation, material misconduct, or breach of fiduciary duty against any member of the Company Group (or any of their respective affiliates, predecessors or successors), which, for the avoidance of doubt, shall not include any good faith disputes regarding immaterial amounts that relate to Executive's expense account, reimbursement claims or other *de minimis* matters; provided, however, in the case of (A), (B) or (E) above, if any such breach or failure is curable, such breach or failure shall only constitute Cause if Executive fails to cure such breach or failure to the reasonable satisfaction of the Board within fifteen (15) days of the date the Company delivers written notice of such breach or failure to Executive.

Upon the termination of the Term and Executive's employment hereunder pursuant to this **Section 6(c)** by the Company for Cause, Executive shall be entitled to receive Executive's Base Salary through the date of termination. Upon the termination of the Term and Executive's employment hereunder pursuant to this **Section 6(c)** due to Executive's voluntary termination, Executive shall be entitled to receive payment of the Accrued Amounts. All other benefits, if any, due to Executive following Executive's termination of employment for Cause or due to Executive's voluntary termination pursuant to this **Section 6(c)** shall be determined in accordance with the plans, policies and practices of the Company; provided, that Executive shall not be entitled to any severance payments or benefits under any other agreement or any severance plan, policy or program of the Company Group. Executive shall not accrue any additional compensation (including any Base Salary or Annual Bonus) or other benefits under this Agreement following such termination of employment. The termination of Executive's employment upon the expiration of the Term as a result of Executive's delivery of a notice of nonrenewal pursuant to **Section 1** shall be treated as a voluntary termination by Executive pursuant to this **Section 6(c)**.

Termination for Good Reason or Without Cause Outside of the Change in Control Protection Period.

At any time outside of the "Change in Control Protection Period" (as defined below) during the Term, (i) Executive may terminate the Term and Executive's employment hereunder for "Good Reason" (as defined below) and (ii) the Company may terminate the Term and Executive's employment hereunder without Cause (that is, other than by death, Disability or for Cause, in accordance with **Section 6(a), 6(b)** or **6(c)**, respectively). "**Good Reason**" shall mean the occurrence, without Executive's written consent, of any of the following events: (A) a material reduction in the nature or scope of Executive's responsibilities, duties or authority from those contemplated by this Agreement, (B) a reduction in the then current Base Salary, (C) causing or requiring Executive to report to any person other than the chief executive officer and/or the Board, (D) the relocation of Executive's primary office to a location that is not within a sixty (60) mile radius of the Company's offices in Newark, California or (E) any other breach by the Company of a material term of this Agreement, including but not limited to complying with **Section 10(d)(iii)** by causing any successor to the Company to expressly assume and agree to perform this Agreement; provided, that any such event described in (A) through (E) above shall not constitute Good Reason unless Executive delivers to the Company a Notice of Termination for Good Reason within ninety (90) days after Executive first learns of the existence of the circumstances giving rise to Good Reason, and within thirty (30) days following the delivery of such Notice of Termination for Good Reason the Company has failed to cure the circumstances giving rise to Good Reason.

Upon the termination of Executive's employment hereunder pursuant to this **Section 6(d)**, Executive shall receive (i) the Accrued Amounts and (ii) subject to Executive's continued compliance with the provisions of **Section 8** and subject to Executive's execution, delivery and non-revocation of an effective release of all claims against each member of the Company Group substantially in the form attached hereto as Exhibit A (the "**Release**") within the sixty (60) day period following the date of the termination of Executive's employment (such 60-day period, the "**Release Period**"): (A) severance pay in an aggregate amount equal to seventy-five percent (75%) of Executive's then current Base Salary; (B) to the extent any Annual Bonus could be earned in the current fiscal year under the terms of the Company's bonus program but is not yet earned or paid, a prorated bonus (based on the Board's determination of Company performance through the date of termination), prorated through the date of termination; and (C) payment or reimbursement of health benefit continuation coverage under COBRA or otherwise from the termination date through the earlier of (x) nine (9) months following the termination date or (y) the date Executive becomes eligible for health benefits with another employer, which shall be paid no later than the due date of payments for such coverage; *provided* that if Executive is no longer eligible for COBRA continuation coverage, the Company may provide a lump sum payment calculated based on the monthly premiums immediately prior to the expiration of COBRA coverage. The severance amounts provided hereunder will be paid in accordance with the Company's regular payroll practices in equal or substantially equal payments over the twelve (12) month period following the date of termination, with the first installment being paid on the first payroll date following the date on which the Release has become effective and irrevocable. Notwithstanding the foregoing, if the Release Period spans two (2) calendar years, then the first installment of the severance pay will commence on the first payroll date that occurs in the second calendar year, with any amounts otherwise payable prior to such payroll date being paid instead on such payroll date. All other benefits, if any, due Executive following a termination pursuant to this **Section 6(d)** shall be determined in accordance with the plans, policies and practices of the Company; provided, that Executive shall not be entitled to any severance payments or benefits under any other agreement or any severance plan, policy or program of the Company Group. Executive shall not accrue any additional compensation (including any Base Salary or Annual Bonus) or other benefits under this Agreement following such termination of employment. The termination of Executive's employment upon the expiration of the Term as a result of the Company's delivery of a notice of nonrenewal pursuant to **Section 1** shall be treated as a termination by the Company without Cause pursuant to this **Section 6(d)** (unless Executive's employment is earlier terminated pursuant to **Sections 6(a), (b)** or **(c)** hereof).

If a termination of Executive's employment occurs without Cause or if Executive resigns for Good Reason under this **Section 6(d)** and such termination or resignation occurs outside of the "Change in Control Protection Period" (as defined below) but within one (1) year after the date when Iain MacKenzie is no longer the chief executive officer or co-chief executive officer of SGH, and subject to Executive's execution, delivery and non-revocation of a Release within the Release Period then, the health benefit continuation provided in sub-part (C) in the immediately preceding paragraph shall be increased from nine (9) months to twelve (12) months and all unvested equity awards held by Executive that would, but for the termination, vest within one (1) year of the effective date of such termination, (i) shall not expire or terminate until after the expiration of the Release Period and (ii) shall accelerate and vest if and when the Release has become effective and irrevocable; *provided*, that if the Release has not become effective prior to the expiration of the Release Period or the Release is revoked such unvested equity awards shall expire and be immediately terminated.

Termination for Good Reason or Without Cause during the Change in Control Protection Period.

If, during the Change in Control Protection Period (defined below), Executive is terminated by the Company without Cause or Executive resigns for Good Reason, Executive shall be entitled to (i) the Accrued Amounts and (ii) subject to Executive's execution, delivery and non-revocation of a Release within the Release Period, the following payments and benefits in lieu of any severance benefits under **Section 6(d) above**: (A) 1.5 times Executive's then existing Base Salary; (B) 1.5 times the Annual Bonus paid or payable for the most recently completed fiscal year (in addition to the Annual Bonus paid or payable with respect to the most recently completed fiscal year); (C) to the extent any Annual Bonus could be earned in the current fiscal year under the terms of the Company's bonus program but is not yet earned or paid, a prorated bonus (based on the Board's determination of Company performance through the date of termination), prorated through the date of termination; (D) payment or reimbursement of health benefit continuation coverage under COBRA or otherwise from the termination date through the earlier of (x) eighteen (18) months following the termination date or (y) the date Executive becomes eligible for health benefits with another employer, which shall be paid no later than the due date of payments for such coverage; *provided* that if Executive is no longer eligible for COBRA continuation coverage, the Company may provide a lump sum payment calculated based on the monthly premiums immediately prior to the expiration of COBRA coverage; and (E) 100% vesting of all of the Executive's unvested and outstanding equity awards. The amounts payable under this **Section 6(e)** shall be paid, at the Company's sole discretion, in accordance with the Company's regular payroll practices in equal or substantially equal payments over a period of no longer than twelve (12) months following the date of termination, with the first installment being paid on the first payroll date following the date on which the Release has become effective and irrevocable. Notwithstanding the foregoing, if the Release Period spans two (2) calendar years, then the first installment will commence on the first payroll date that occurs in the second calendar year, with any amounts otherwise payable prior to such payroll date being paid instead on such payroll date. All other benefits, if any, due Executive following a termination pursuant to this **Section 6(e)** shall be determined in accordance with the plans, policies and practices of the Company; provided, that Executive shall not be entitled to any severance payments or benefits under any other agreement or any severance plan, policy or program of the Company Group. Executive shall not accrue any additional compensation (including any Base Salary or Annual Bonus) or other benefits under this Agreement following such termination of employment. For purposes of this **Section 6**, the "**Change in Control Protection Period**" means the twelve (12) month period following a "Change in Control" (**"Change in Control"** as used in this Agreement shall have the meaning as such term is defined in the Saleen Holdings, Inc. 2011 Share Incentive Plan).

Notice of Termination.

Any purported termination of the Executive's employment by the Company or by Executive shall be communicated by written Notice of Termination to the other Party in accordance with **Section 10(e)** hereof. For purposes of this Agreement, "**Notice of Termination**" shall mean a notice that shall indicate the specific termination provision in this Agreement relied upon and shall, to the extent applicable, set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated.

Board/Committee Resignation.

Upon termination of Executive's employment for any reason, Executive agrees to resign, as of the date of such termination and to the extent applicable, from the Board (and any committees thereof) and, as applicable, the board of directors (and any committees thereof) of each of the other members of the Company Group.

Non-Solicitation of Clients; No Hire.

Executive acknowledges and recognizes the highly competitive nature of the businesses of the Company Group and accordingly agrees as follows:

(a) During the Term and the "Restricted Period" (as defined below), Executive shall not, whether on Executive's own behalf or on behalf of or in conjunction with any person, firm, partnership, joint venture, association, corporation or other business organization, entity or enterprise whatsoever ("**Person**"), directly or indirectly, solicit or service, or assist in soliciting or servicing the business of any then current customer or client or "prospective customer or client" (as such term is defined herein), or any supplier, licensee, licensor or other business relation of any member of the Company Group in order to induce such Person to cease doing business with, or reduce the amount of business conducted with, the member of the Company Group, or in any way interfere with the relationship between any then current or prospective customer or client, or any supplier, licensee or business relation of any member of the Company Group:

(i) with whom Executive had personal contact or dealings on behalf of any member of the Company Group during the one-year period preceding Executive's termination of employment;

(ii) with whom Executive had knowledge of any member of the Company Group's plans with respect to such current or prospective customer or client, or supplier, licensee, business or Person;

(iii) with whom any employees reporting to Executive have had personal contact or dealings on behalf of any member of the Company Group during the one-year period immediately preceding Executive's termination of employment; or

(iv) for whom Executive had direct or indirect responsibility during the one-year immediately preceding Executive's termination of employment.

(b) During the Term, Executive shall not directly or indirectly in any place in the world, own any interest in, manage, control, participate in (whether as an officer, director, manager, employee, partner, equity holder, member, agent, representative or otherwise), consult with, render services for, or in any other manner engage in any business engaged in anywhere in the world, by the Company or as conducted by any member of the Company Group as of the date of Executive's termination, other than any business that is not directly related to the business conducted by any member of the Company Group as of the date hereof, as such business may be extended or expanded, or proposed to be extended or expanded, prior to the date of Executive's termination; provided, that nothing herein shall prohibit Executive from investing in stocks, bonds, or other securities in any business if: (x) such stocks, bonds, or other securities are listed on any United States securities exchange or are publicly traded in an over the counter market, and such investment does not exceed, in the case of any capital stock of any one issuer, two percent (2%) of the issued and outstanding capital stock or in the case of bonds or other securities, two percent (2%) of the aggregate principal amount thereof issued and outstanding, or (y) such investment is completely passive and no control or influence over the management or policies of such business is exercised by Executive.

(c) During the Restricted Period, Executive shall not, directly or indirectly, solicit, induce or encourage to cease to work with the Company or any member of the Company Group, any independent contractor, consultant or partner then under exclusive contract with any member of the Company Group.

(d) For purposes of this Agreement, the "**Restricted Period**" means the twelve (12) month period following the date of the termination of Executive's employment. Termination of Executive's employment by the Company without Cause or by Executive for Good Reason at any time during the Term is each a "**Qualifying Termination**".

(e) In consideration for the covenants contained in **Sections 7(a), (b)** and **(c)** and provided that Executive is not otherwise in breach of **Sections 7** and **8** hereof or the Release, in the event Executive experiences a Qualifying Termination, the Company shall, during the Restricted Period, pay to Executive payments in the amount of fifty percent (50%) per month of Executive's monthly Base Salary (the "**Restrictive Covenant Payments**"), which Restrictive Covenant Payments shall be payable in accordance with the Company's normal payroll practices. Payments made pursuant to the terms of **Section 6** shall count toward any Restrictive Covenant Payments due under this **Subsection (e)**.

8. Non-Solicitation of Employees/Contractors; Confidentiality; Intellectual Property.

Non-Solicitation of Employees/Contractors.

During the twelve (12) month period following the termination of Executive's employment for any reason, Executive shall not, without the prior written consent of the Company, whether on Executive's own behalf or on behalf of or in conjunction with any Person:

(i) directly or indirectly solicit, induce or encourage any employee of any member of the Company Group to leave the employment of the Company Group; or

(ii) directly hire any employee who was a direct report of Executive and was employed by the Company Group as of the date of Executive's termination of employment with the Company or who left the employment of the Company Group coincident with, or within one year after, the termination of Executive's employment with the Company.

Confidentiality.

(i) Executive shall not at any time (whether during or after Executive's employment with the Company or any of its affiliates) (x) retain or use for the benefit, purposes or account of Executive or any other Person (other than the Company or any member of the Company Group) or (y) disclose, divulge, reveal, communicate, share, transfer or provide access to any Person outside the Company (other than its professional advisers who are bound by confidentiality obligations), any non-public, proprietary or confidential information – including, without limitation, trade secrets, know-how, research and development, software, databases, inventions, processes, formulae, technology, designs and other intellectual property, information concerning finances, investments, profits, pricing, costs, products, services, vendors, customers, clients, partners, investors, personnel, compensation, recruiting, training, advertising, sales, marketing, promotions, government and regulatory activities and approvals – concerning the past, current or future business, activities and operations of the Company or any member of the Company Group and/or any third party that has disclosed or provided any of same to the Company or any member of the Company Group on a confidential basis ("**Confidential Information**") without the prior written authorization of the Board.

(ii) "Confidential Information" shall not include any information that is (x) generally known to the industry or the public other than as a result of Executive's breach of this covenant or any breach of other confidentiality obligations by third parties (y) made legitimately available to Executive by a third party without breach of any confidentiality obligation or (z) required by law to be disclosed; provided that Executive shall give prompt written notice to the Company of such requirement, disclose no more information than is so required, and cooperate with any attempts by the Company to obtain a protective order or similar treatment.

(iii) Except as required by law, Executive shall not disclose to anyone, other than Executive's immediate family and legal or financial advisors, the existence or contents of this Agreement, provided they agree to maintain the confidentiality of such terms.

(iv) Upon termination of Executive's employment with the Company for any reason, Executive shall (x) cease and not thereafter commence use of any Confidential Information (including without limitation, any patent, invention, copyright, trade secret, trademark, trade name, logo, domain name or other source indicator) owned or used by the Company, or any member of the Company Group (y) immediately destroy, delete, or return to the Company, at the Company's option, all originals and copies in any form or medium (including memoranda, books, papers, plans, computer files, letters and other data) in Executive's possession or control (including any of the foregoing stored or located in Executive's office, home, laptop or other computer, whether or not Company property) that contain Confidential Information or otherwise relate to the business of the Company, any member of the Company Group or their affiliates, except that Executive may retain only those portions of any personal notes, notebooks and diaries that do not contain any Confidential Information and (z) notify and fully cooperate with the Company regarding the delivery or destruction of any other Confidential Information of which Executive is or becomes aware.

(v) Executive and the Company acknowledge and agree that nothing in this Agreement or otherwise limits Executive's ability to communicate directly with and provide information, including documents, not otherwise protected from disclosure by any applicable law or privilege to the U.S. Securities and Exchange Commission (the "**SEC**"), any other federal, state or local governmental agency or commission ("**Government Agency**") or self-regulatory organization regarding possible legal violations, without disclosure to the Company. The Company may not retaliate against Executive for any of these activities, and nothing in this Agreement requires Executive to waive any monetary award or other payment that Executive might become entitled to from the SEC or any other Government Agency or self-regulatory organization.

(vi) Further, nothing in this Agreement precludes Executive from filing a charge of discrimination, unfair labor practice or inappropriate working conditions with the Equal Employment Opportunity Commission or a like charge or complaint with a state or local fair employment or labor Government Agency. However, once this Agreement becomes effective, Executive may not receive a monetary award or any other form of personal relief from the Company in connection with any such charge or complaint that Executive has filed or is filed on Executive's behalf.

Intellectual Property.

(i) If Executive creates, invents, designs, develops, contributes to or improves any works of authorship, inventions, intellectual property, materials, documents or other work product (including, without limitation, research, reports, software, databases, systems, applications, presentations, textual works, content or audiovisual materials) ("**Works**"), either alone or with third parties, at any time during Executive's employment by the Company or any member of the Company Group and within the scope of such employment and/or with the use of any of the Company Group resources ("**Company Works**"), Executive shall promptly and fully disclose same to the Company and hereby irrevocably assigns, transfers and conveys, to the maximum extent permitted by applicable law, all rights and intellectual property rights therein (including rights under patent, industrial property, copyright, trademark, trade secret, unfair competition and related laws) to the Company to the extent ownership of any such rights does not vest originally in the Company.

(ii) Executive agrees to keep and maintain adequate and current written records (in the form of notes, sketches, drawings, and any other form or media requested by the Company) of all Company Works. The records will be available to and remain the sole property and intellectual property of the Company at all times.

(iii) Executive shall take all requested actions and execute all requested documents (including any licenses or assignments required by a government contract) at the Company's expense (but without further remuneration) to assist the Company in validating, maintaining, protecting, enforcing, perfecting, recording, patenting or registering any of the Company's rights in the Company Works. If the Company is unable for any other reason to secure Executive's signature on any document for this purpose, then Executive hereby irrevocably designates and appoints the Company and its duly authorized officers and agents as Executive's agent and attorney in fact, to act for and in Executive's behalf and stead to execute any documents and to do all other lawfully permitted acts in connection with the foregoing.

(iv) Executive shall not improperly use for the benefit of, bring to any premises of, divulge, disclose, communicate, reveal, transfer or provide access to, or share with the Company or any of its subsidiaries or affiliates any confidential, proprietary or non-public information or intellectual property relating to a former employer or other third party without the prior written permission of such third party. Executive shall comply with all relevant policies and guidelines of the Company, including, without limitation, policies and guidelines regarding the protection of confidential information and intellectual property and potential conflicts of interest. Executive acknowledges that the Company may amend any such policies and guidelines from time to time, and that Executive remains at all times bound by their most current version.

(v) Notwithstanding the foregoing, this **Section 8(c)** is subject to the provisions of California Labor Code Sections 2870, 2871 and 2872. In accordance with Section 2870 of the California Labor Code, Executive's obligation to assign Executive's right, title and interest throughout the world in and to all Company Works does not apply to any Works that Executive developed entirely on Executive's own time without using the Company's equipment, supplies, facilities, or Confidential Information except for those Works that relate to either (A) the business of the Company at the time of conception or reduction to practice of the Work, or actual or demonstrably anticipated research or development of the Company or (B) result from any work performed by Executive for the Company. A copy of California Labor Code Sections 2870, 2871 and 2872 is attached to this Agreement as Exhibit B. Executive shall disclose all Works to the Company, even if Executive does not believe that Executive is required under this Agreement, or pursuant to California Labor Code Section 2870, to assign Executive's interest in such Works to the Company.

(vi) Pursuant to the Defend Trade Secrets Act of 2016, Executive and the Company acknowledge and agree that Executive shall not have criminal or civil liability under any Federal or State trade secret law for the disclosure of a trade secret that (A) is made (i) in confidence to a Federal, State, or local government official, either directly or indirectly, or to an attorney and (ii) solely for the purpose of reporting or investigating a suspected violation of law; or (B) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal. In addition and without limiting the preceding sentence, if Executive files a lawsuit for retaliation by the Company for reporting a suspected violation of law, Executive may disclose the trade secret to Executive's attorney and may use the trade secret information in the court proceeding, if Executive (X) files any document containing the trade secret under seal and (Y) does not disclose the trade secret, except pursuant to court order.

General

. It is expressly understood and agreed that although Executive and the Company consider the restrictions contained in this **Section 8** to be reasonable (the "**Covenants**") if a final judicial determination is made by a court of competent jurisdiction that the time or territory or any other restriction contained in this Agreement is an unenforceable restriction against Executive, the provisions of this Agreement shall not be rendered void but shall be deemed amended to apply as to such maximum time and territory and to such maximum extent as such court may judicially determine or indicate to be enforceable. Alternatively, if any court of competent jurisdiction finds that any restriction contained in this Agreement is unenforceable, and such restriction cannot be amended so as to make it enforceable, such finding shall not affect the enforceability of any of the other restrictions contained herein.

Specific Performance

. Executive acknowledges and agrees that the Company's remedies at law for a breach or threatened breach of any of the Covenants would be inadequate and the Company would suffer irreparable damages as a result of such breach or threatened breach. In recognition of this fact, Executive agrees that, in the event of such a breach or anticipated or threatened breach, in addition to any remedies at law, the Company, without posting any bond, shall be entitled to cease making any payments or providing any benefit otherwise required by this Agreement and obtain equitable relief in the form of specific performance, temporary restraining order, temporary or permanent injunction or any other equitable remedy which may then be available.

10. Miscellaneous.

Executive's Representations.

Executive hereby represents and warrants to the Company that (i) Executive has read this Agreement in its entirety, fully understands the terms of this Agreement, has had the opportunity to consult with counsel prior to executing this Agreement and is signing the Agreement voluntarily and with full knowledge of its significance, (ii) the execution, delivery and performance of this Agreement by Executive does not and shall not conflict with, breach, violate or cause a default under any contract, agreement, instrument, order, judgment or decree to which Executive is a party or by which he is bound, (iii) Executive is not a party to or bound by an employment agreement, non-compete agreement or confidentiality agreement with any other person or entity which would interfere in any material respect with the performance of Executive's duties hereunder and (iv) Executive shall not use any Confidential Information or trade secrets of any person or party other than a member of the Company Group in connection with the performance of Executive's duties hereunder.

Mitigation.

Executive shall have no duty to mitigate Executive's damages by seeking other employment and, should Executive actually receive compensation from any such other employment, the payments required hereunder shall not be reduced or offset by any other compensation except as specifically provided herein.

Waiver.

No provision of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in a writing signed by Executive and an officer of the Company (other than Executive) duly authorized by the Board to execute such amendment, waiver or discharge. No waiver by either Party of any breach of the other Party of, or compliance with, any condition or provision of this Agreement shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time.

(d) Successors and Assigns.

(i) This Agreement is personal to Executive and without the prior written consent of the Company shall not be assignable by Executive other than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by Executive's legal representatives.

(ii) This Agreement shall inure to the benefit of and be binding upon the Company and its successors and, other than as set forth in **Section 10(d)(iii)**, shall not be assignable by the Company without the prior written consent of the Executive (which shall not be unreasonably withheld).

(iii) This Agreement shall be assignable by the Company to any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company; provided that, the Company shall require such successor to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. As used in this Agreement, "**Company**" shall mean the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid which assumes and agrees to perform this Agreement by operation of law or otherwise.

Notice.

For the purpose of this Agreement, notices and all other communications provided for in this Agreement shall be in writing and shall be deemed to have been duly given if delivered personally, if delivered by overnight courier service, or if mailed by registered mail, return receipt requested, postage prepaid, addressed to the respective addresses or sent via facsimile to the respective facsimile numbers, as the case may be, as set forth below, or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notice of change of address shall be effective only upon receipt; provided, however, that (i) notices sent by personal delivery or overnight courier shall be deemed given when delivered, (ii) notices sent by facsimile transmission shall be deemed given upon the sender's receipt of confirmation of complete transmission, and (iii) notices sent by registered mail shall be deemed given two days after the date of deposit in the mail.

If to Executive, to such address as shall most currently appear on the records of the Company.

If to the Company, to:

SMART Modular Technologies, Inc.
39870 Eureka Drive
Newark, California 94560-4809

Attention: Legal Department

With a copy, which shall not constitute notice, to:

Silver Lake Partners and
Silver Lake Sumeru
2775 Sand Hill Road, Suite 100
Menlo Park, California 94025
Fax No.: (650) 233-8125
Attention: Karen King

GOVERNING LAW; CONSENT TO JURISDICTION.

THIS AGREEMENT WILL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF CALIFORNIA, WITHOUT GIVING EFFECT TO ANY CHOICE OF LAW OR CONFLICTING PROVISION OR RULE (WHETHER OF THE STATE OF CALIFORNIA OR ANY OTHER JURISDICTION) THAT WOULD CAUSE THE LAWS OF ANY JURISDICTION OTHER THAN THE STATE OF CALIFORNIA TO BE APPLIED. IN FURTHERANCE OF THE FOREGOING, THE INTERNAL LAW OF THE STATE OF CALIFORNIA WILL CONTROL THE INTERPRETATION AND CONSTRUCTION OF THIS AGREEMENT, EVEN IF UNDER SUCH JURISDICTION'S CHOICE OF LAW OR CONFLICT OF LAW ANALYSIS, THE SUBSTANTIVE LAW OF SOME OTHER JURISDICTION WOULD ORDINARILY APPLY. ANY ACTION TO ENFORCE THIS AGREEMENT MUST BE BROUGHT IN, AND THE PARTIES HEREBY CONSENT TO THE JURISDICTION OF, A COURT SITUATED IN ALAMEDA COUNTY, CALIFORNIA. EACH PARTY HEREBY WAIVES THE RIGHTS TO CLAIM THAT ANY SUCH COURT IS AN INCONVENIENT FORUM FOR THE RESOLUTION OF ANY SUCH ACTION.

Set Off.

The Company's obligation to pay Executive the amounts provided and to make the arrangements provided hereunder shall be subject to set-off, counterclaim or recoupment of any amounts owed by Executive to the Company or any of its affiliates except to the extent any such set-off, counterclaim or recoupment would violate, or result in the imposition of tax under Section 409A of the Internal Revenue Code of 1986, as amended (the "**Code**"), in which case such right shall be null and void.

Compliance with IRC Section 409A.

Notwithstanding anything herein to the contrary, (i) if at the time of Executive's termination of employment with the Company, Executive is a "specified employee" as defined in Section 409A of the Code and the deferral of the commencement of any payments or benefits otherwise payable hereunder as a result of such termination of employment is necessary in order to prevent any accelerated or additional tax under Section 409A of the Code, then the Company will defer the commencement of the payment of any such payments or benefits hereunder (without any reduction in such payments or benefits ultimately paid or provided to Executive) to the extent necessary to comply with the requirements of Section 409A of the Code until the first business day that is more than six months following Executive's termination of employment with the Company (or the earliest date as is permitted under Section 409A of the Code) and (ii) if any other payments of money or other benefits due to Executive hereunder could cause the application of an accelerated or additional tax under Section 409A of the Code, such payments or other benefits shall be deferred if deferral will make such payment or other benefits compliant under Section 409A of the Code, or otherwise such payment or other benefits shall be restructured, to the extent possible, in a manner, determined by the Board, that does not cause such an accelerated or additional tax. In the event that payments under this Agreement are deferred pursuant to this **Section 10(h)** in order to prevent any accelerated tax or additional tax under Section 409A of the Code, then such payments shall be paid at the time specified under this **Section 10(h)** without any interest thereon. The Company shall consult with Executive in good faith regarding the implementation of this **Section 10(h)**; provided that neither the Company nor any member of the Company Group, employees or representatives shall have any liability to Executive with respect to the imposition of any early or additional tax under Section 409A of the Code, including, without limitation, under **Section 10(i)**. Notwithstanding anything to the contrary herein, to the extent required by Section 409A of the Code, a termination of employment shall not be deemed to have occurred for purposes of any provision of this Agreement providing for the payment of amounts or benefits upon or following a termination of employment unless such termination is also a "Separation from Service" within the meaning of Section 409A of the Code and, for purposes of any such provision of this Agreement, references to a "resignation," "termination," "termination of employment" or like terms shall mean "Separation from Service." For purposes of Section 409A of the Code, each payment made under this Agreement shall be designated as a "separate payment" within the meaning of Section 409A of the Code. Notwithstanding anything to the contrary herein, except to the extent any expense, reimbursement or in-kind benefit provided pursuant to this Agreement does not constitute a "deferral of compensation" within the meaning of Section 409A of the Code, (x) the amount of expenses eligible for reimbursement or in-kind benefits provided to Executive during any calendar year will not affect the amount of expenses eligible for reimbursement or in-kind benefits provided to Executive in any other calendar year, (y) the reimbursements for expenses for which Executive is entitled to be reimbursed shall be made on or before the last day of the calendar year following the calendar year in which the applicable expense is incurred and (z) the right to payment or reimbursement or in-kind benefits hereunder may not be liquidated or exchanged for any other benefit.

280G Cutback.

Notwithstanding any other provision of this Agreement to the contrary, if payments made or benefits provided pursuant to **Section 6** herein are considered "parachute payments" under Code Section 280G, then such parachute payments plus any other payments made or benefits provided by the Company to Executive which are considered parachute payments shall be limited to the greatest amount which may be paid to Executive under Code Section 280G without causing any loss of deduction to the Company under such section, but only if, by reason of such reduction, the net after tax benefit to Executive shall exceed the net after tax benefit if such reduction were not made. "**Net after tax benefit**" for purposes of this Agreement shall mean the sum of (i) the total amounts payable to Executive under **Section 6**, plus (ii) all other payments and benefits which Executive receives or then is entitled to receive from the Company or an affiliate that would constitute a "parachute payment" within the meaning of Code Section 280G, less (iii) the amount of federal and state income taxes payable with respect to the foregoing calculated at the maximum marginal income tax rate for each year in which the foregoing shall be paid to Executive (based upon the rate in effect for such year as set forth in the Code at the time of termination of Executive's employment), less (iv) the amount of excise taxes imposed with respect to the payments and benefits described in (i) and (ii) above by Code Section 4999. The determination as to whether and to what extent payments are required to be reduced in accordance with this **Section 10(i)** shall be made at the

Company's expense by a nationally recognized certified public accounting firm as may be designated by the Company and reasonably acceptable to Executive prior to a Change in Control (the "**Accounting Firm**"). In the event of any mistaken underpayment or overpayment under this **Section 10(i)**, as determined by the Accounting Firm, the amount of such underpayment or overpayment shall forthwith be paid to Executive or refunded to the Company, as the case may be, but only to the extent any such refund would result in (i) no portion of such payments being subject to the excise tax imposed by Section 4999 of the Code and (ii) a dollar-for-dollar reduction in Executive's taxable income and wages for purposes of federal, state and local income and employment taxes, with interest at the applicable Federal rate provided for in Code Section 7872(f)(2). Any reduction in payments required by this **Section 10(i)** shall, to the extent possible, be made in a manner does not violate the provisions of Section 409A of the Code and shall occur in the following order: (1) any cash severance, (2) any other cash amount payable to Executive, (3) any benefit valued as a "parachute payment," and (4) the acceleration of vesting of any equity-based awards.

Severability of Invalid or Unenforceable Provisions.

The invalidity or unenforceability of any provision or provisions of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which other provisions shall remain in full force and effect.

Advice of Counsel and Construction.

Each Party acknowledges that such Party had the opportunity to be represented by counsel in the negotiation and execution of this Agreement. Accordingly, the rule of construction of contract language against the drafting party is hereby waived by each Party.

Entire Agreement.

This Agreement constitutes the entire agreement between the parties as of the Effective Date and supersedes all previous agreements and understandings between the Parties with respect to the subject matter hereof.

Withholding Taxes.

The Company shall be entitled to withhold from any payment due to Executive hereunder any amounts required to be withheld by applicable tax laws or regulations.

Section Headings.

The headings of the Sections hereof are provided for convenience only and are not to serve as a basis for interpretation or construction, and shall not constitute a part of this Agreement.

Cooperation.

During the Term and at any time thereafter, Executive agrees to cooperate (i) with the Company in the defense of any legal matter involving any matter that arose during Executive's employment with the Company or any other member of the Company Group and (ii) with all government authorities on matters pertaining to any investigation, litigation or administrative proceeding pertaining to the Company or any other member of the Company Group. The Company will reimburse Executive for any reasonable travel and out of pocket expenses incurred by Executive in providing such cooperation.

Survival.

Sections 5, 7, 8 and **9** shall survive and continue in full force in accordance with their terms notwithstanding any termination for any reason of this Agreement or of the Term or of Executive's employment with the Company or any other member of the Company Group.

Continuation of Employment; Termination On or After Expiration of the Term.

Unless the Parties otherwise agree in writing, continuation of Executive's employment with the Company or any other member of the Company Group beyond the expiration of the Term shall be deemed an employment "at-will" and shall not be deemed to extend any of the provisions of this Agreement, and Executive's employment may thereafter be terminated "at-will" by Executive or the Company.

Counterparts.

This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same instrument.

[*Signature page follows.*]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

SMART MODULAR TECHNOLOGIES, INC.

By: /s/ IAIN MACKENZIE
Name: Iain MacKenzie
Title: President & CEO

EXECUTIVE

/s/ JACK PACHECO
Jack Pacheco

[Signature Page to Employment Agreement]

<u>EXHIBIT A</u>

GENERAL RELEASE

THIS AGREEMENT AND RELEASE, dated as of _______, 20__ (this **"<u>Agreement</u>"**), is entered into by and between ____________________ (**"<u>Executive</u>"**) and ____________ (the **"<u>Company</u>"**).

WHEREAS, Executive is currently employed with the Company; and

WHEREAS, Executive's employment with the Company will terminate effective as of ____, 20__;

NOW, THEREFORE, in consideration of the mutual promises and covenants contained in this Agreement and other good and valuable consideration, Executive and the Company hereby agree as follows:

1. Executive shall be provided severance pay and other benefits (the **"<u>Severance Benefits</u>"**) in accordance with the terms and conditions of **Section 6** of the amended and restated employment agreement by and between Executive and the Company, dated as of December 19, 2017 (the **"<u>Employment Agreement</u>"**); <u>provided</u>, that no such Severance Benefits shall be paid or provided if Executive revokes this Agreement pursuant to Section 5 below.

2. Executive, for and on behalf of himself and Executive's heirs, successors, agents, representatives, executors and assigns, hereby waives and releases any common law, statutory or other complaints, claims, demands, expenses, damages, liabilities, charges or causes of action (each, a **"<u>Claim</u>"**) arising out of or in any way relating to Executive's employment or termination of employment with, Executive's serving in any capacity in respect of, or Executive's status at any time as a holder of any securities of, any of the Company and any of its affiliates (collectively, the **"<u>Company Group</u>"**), both known and unknown, in law or in equity, which Executive may now have or ever had against any current or former member of the Company Group or any current or former equityholder, investor, agent, representative, administrator, trustee, attorney, insurer, fiduciary, employee, director or officer of any member of the Company Group, including their successors and assigns (collectively, the **"<u>Company Releasees</u>"**), including, without limitation, any Claim for any severance benefit which might have been due Executive under any previous agreement executed by and between any member of the Company Group and Executive; any Claim related to compensation or benefits from any of the Company Releasees, including salary, bonuses, commissions, vacation pay, expense reimbursements, severance pay, fringe benefits, stock, stock options, or any other ownership interests in any member of the Company Group; any Claim for breach of contract, wrongful termination or breach of the implied covenant of good faith and fair dealing; any tort Claim, including claims for fraud, defamation, emotional distress, and discharge in violation of public policy; all federal, state, and local statutory claims, including claims for discrimination, harassment, retaliation, attorneys' fees, or other claims arising under the federal Civil Rights Act of 1964 (as amended); and any complaint, charge or cause of action arising out of Executive's employment with any member of the Company Group under the Age Discrimination in Employment Act of 1967 (**"<u>ADEA</u>,"** a law which prohibits discrimination on the basis of age

against individuals who are age 40 or older), the National Labor Relations Act, the Civil Rights Act of 1991, the Americans with Disabilities Act of 1990, the Employee Retirement Income Security Act of 1974, the Family Medical Leave Act, the Equal Pay Act, the Securities Act of 1933, the Securities Exchange Act of 1934, the Rehabilitation Act of 1973, the Worker Adjustment and Retraining Notification Act, the California Fair Employment and Housing Act (as amended), Calif. Gov't Code §12900 et seq., the California Family Rights Act, California law regarding Relocations, Terminations and Mass Layoffs and the California Labor Code, all as amended; Sections 1981 through 1988 of Title 42 of the United States Code, California Business and Professions Code § 17200 or any other provisions of the California unfair trade or business practices laws, the California Occupational Safety and Health Act, Divisions 4, 4.5, and 4.7 of the California Labor Code beginning at § 3200, any provision of the California Constitution, any provision of the California Labor Code that may lawfully be released, the Employee Retirement Income Security Act of 1974 (except for any vested benefits under any tax qualified benefit plan), the Immigration Reform and Control Act, the Workers Adjustment and Retraining Notification Act, the Fair Credit Reporting Act; any public policy, contract, tort, or common law; all other federal, state and local statutes, ordinances and regulations and any basis for recovering costs, fees, or other expenses including attorneys' fees incurred in these matters.. By signing this Agreement, Executive acknowledges that Executive intends to waive and release any rights known or unknown Executive may have against any and all of the Company Releasees under these and any other laws; provided that, Executive does not waive or release Claims (i) with respect to the right to enforce this Agreement or those provisions of the Employment Agreement that expressly survive the termination of Executive's employment with the Company, (ii) with respect to any vested right Executive may have under any employee pension or welfare benefit plan of any member of the Company Group or (iii) any rights to indemnification preserved by Section 5 of the Employment Agreement.

3. Executive has read Section 1542 of the California Civil Code, which states in full: "A general release does not extend to claims which the creditor does not know or suspect to exist in his or her favor at the time of executing the release, which if known by him or her must have materially affected his or her settlement with the debtor." Executive expressly waives any rights that Executive may have under Section 1542 of the California Civil Code to the full extent that Executive may lawfully waive such rights pertaining to a general release of claims, and Executive affirms that Executive is releasing all known or unknown claims that Executive has or may have against the Company or any of the Company Releasees as stated in this Release.

THIS MEANS THAT, BY SIGNING THIS RELEASE, EXECUTIVE WILL HAVE WAIVED ANY RIGHT EXECUTIVE MAY HAVE HAD TO BRING A LAWSUIT OR MAKE ANY CLAIM AGAINST ANY OF THE COMPANY RELEASEES BASED ON ANY ACTS OR OMISSIONS OF ANY OF THE COMPANY RELEASEES UP TO THE DATE OF THE SIGNING OF THIS RELEASE. NOTWITHSTANDING THE ABOVE, NOTHING IN THIS AGREEMENT SHALL PREVENT THE EXECUTIVE FROM (I) INITIATING OR CAUSING TO BE INITIATED ON EXECUTIVE'S BEHALF ANY COMPLAINT, CHARGE, CLAIM OR PROCEEDING AGAINST THE COMPANY BEFORE ANY LOCAL, STATE OR FEDERAL AGENCY, COURT OR OTHER BODY CHALLENGING THE VALIDITY OF THE WAIVER OF EXECUTIVE'S CLAIMS UNDER ADEA CONTAINED IN THIS AGREEMENT (BUT NO OTHER PORTION OF SUCH WAIVER); OR (II) INITIATING OR PARTICIPATING IN (BUT NOT BENEFITING FROM)

AN INVESTIGATION OR PROCEEDING CONDUCTED BY THE EQUAL EMPLOYMENT OPPORTUNITY COMMISSION WITH RESPECT TO ADEA.

4. Executive acknowledges that Executive has been given [twenty-one (21)][1] days from the date of receipt of this Agreement to consider all of the provisions of the Agreement and, to the extent Executive has not used the entire [21-day] period prior to executing this Agreement, Executive does hereby knowingly and voluntarily waive the remainder of said [21-day period]. EXECUTIVE FURTHER ACKNOWLEDGES THAT EXECUTIVE HAS READ THIS AGREEMENT CAREFULLY, HAS BEEN ADVISED BY THE COMPANY TO CONSULT AN ATTORNEY AND FULLY UNDERSTANDS THAT BY SIGNING BELOW EXECUTIVE IS GIVING UP CERTAIN RIGHTS WHICH EXECUTIVE MAY HAVE TO SUE OR ASSERT A CLAIM AGAINST ANY OF THE COMPANY RELEASEES, AS DESCRIBED HEREIN AND THE OTHER PROVISIONS HEREOF. EXECUTIVE ACKNOWLEDGES THAT EXECUTIVE HAS NOT BEEN FORCED OR PRESSURED IN ANY MANNER WHATSOEVER TO SIGN THIS AGREEMENT AND EXECUTIVE AGREES TO ALL OF ITS TERMS VOLUNTARILY.

5. Executive shall have seven (7) days from the date of Executive's execution of this Agreement to revoke the release, including with respect to all claims referred to herein (including, without limitation, any and all claims arising under ADEA). If Executive revokes this Agreement, Executive will be deemed not to have accepted the terms of this Agreement.

6. Executive hereby agrees not to defame or disparage any member of the Company Group or any executive, manager, employee, director, or officer of any member of the Company Group in any medium to any person without limitation in time. Notwithstanding this provision, Executive may confer in confidence with Executive's legal representatives and make truthful statements as required by law.

7. Each party and its counsel have reviewed this Agreement and have been provided the opportunity to review this Agreement and accordingly, the normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of this Agreement. Instead, the language of all parts of this Agreement shall be construed as a whole, and according to their fair meaning, and not strictly for or against either party.

[Signature Page Follows]

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1 Note to Draft: If Executive's termination of employment is in conjunction with the termination of other Company employees, period to be forty-five (45) days.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

SMART MODULAR TECHNOLOGIES, INC.

By:
Name:
Its:

EXECUTIVE

____
Jack Pacheco

EXHIBIT B

California Labor Code Sections 2870, 2871 and 2872

SECTION 2870

(a) Any provision in an employment agreement which provides that an employee shall assign, or offer to assign, any of his or her rights in an invention to his or her employer shall not apply to an invention that the employee developed entirely on his or her own time without using the employer's equipment, supplies, facilities, or trade secret information except for those inventions that either:

(1) Relate at the time of conception or reduction to practice of the invention to the employer's business, or actual or demonstrably anticipated research or development of the employer; or

(2) Result from any work performed by the employee for the employer.

(b) To the extent a provision in an employment agreement purports to require an employee to assign an invention otherwise excluded from being required to be assigned under subdivision (a), the provision is against the public policy of this state and is unenforceable.

SECTION 2871

No employer shall require a provision made void and unenforceable by Section 2870 as a condition of employment or continued employment. Nothing in this article shall be construed to forbid or restrict the right of an employer to provide in contracts of employment for disclosure, provided that any such disclosures be received in confidence, of all of the employee's inventions made solely or jointly with others during the term of his or her employment, a review process by the employer to determine such issues as may arise, and for full title to certain patents and inventions to be in the United States, as required by contracts between the employer and the United States or any of its agencies.

SECTION 2872

If an employment agreement entered into after January 1, 1980 contains a provision requiring the employee to assign or offer to assign any of his or her rights in any invention to his or her employer, the employer must also, at the time the agreement is made, provide a written notification to the employee that the agreement does not apply to an invention which qualifies fully under the provisions of Section 2870. In any suit or action arising thereunder, the burden of proof shall be on the employee claiming the benefits of its provisions.

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: March 22, 2018

By: /s/ IAIN MACKENZIE
Name: Iain MacKenzie
Title: President and Co-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: March 22, 2018

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

Exhibit 31.3

**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, Ajay Shah, 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: March 22, 2018

By: /s/ AJAY SHAH
Name: Ajay Shah
Title: Co-Chief Executive Officer
(Principal Executive 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 February 23, 2018 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: March 22, 2018

By: /s/ IAIN MACKENZIE
Name: Iain MacKenzie
Title: President and Co-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 February 23, 2018 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: March 22, 2018

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

Exhibit 32.3

**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 February 23, 2018 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Ajay Shah, Co-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: March 22, 2018

By: /s/ AJAY SHAH
Name: Ajay Shah
Title: Co-Chief Executive Officer
(Principal Executive Officer)