United States
Securities and Exchange Commission
Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended June 30, 2018

OR

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

For the transition period from _________ to _________

Commission File Number 001-34044

REAL GOODS SOLAR, INC.
(Exact name of registrant as specified in its charter)

COLORADO	**26-1851813**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

110 16th STREET, SUITE 300
DENVER, COLORADO 80202
(Address of principal executive offices)

(303) 222-8300
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities and 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, a smaller reporting company, or an emerging growth company. See 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 checkmark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Class	Outstanding at August 10, 2018
Class A Common Stock ($.0001 par value)	44,713,496

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This report may contain forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995 that involve risks and uncertainties, including statements regarding the Company's results of operations and financial positions, and the Company's business and financial strategies. Forward-looking statements are neither historical facts nor assurances of future performance. Instead, they provide our current beliefs, expectations, assumptions and forecasts about future events, and include statements regarding our future results of operations and financial position, business strategy, budgets, projected costs, plans and objectives of management for future operations. The words "anticipate," "believe," "plan," "estimate," "expect," "future," "intend," "strategy," "likely," "seek," "may," "will" and similar expressions as they relate to us are intended to identify such forward-looking statements. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict and many of which are outside of our control. Our actual results and financial condition may differ materially from those indicated in the forward-looking statements. Therefore, you should not rely on any of these forward-looking statements.

Important factors that could cause our actual results and financial condition to differ materially from those indicated in the forward-looking statements include, without limitation, the following: our history of operating losses; our ability to implement our revenue growth strategy; our ability to achieve profitability; our ability to generate breakeven cash flow to fund our operations; our success in implementing our plans to increase future sales, and installations and revenue; rules, regulations and policies pertaining to electricity pricing and technical interconnection of customer-owned electricity generation such as net energy metering; the continuation and level of government subsidies and incentives for solar energy; existing and new regulations impacting solar installations including electric codes; future shortages in supplies for solar energy systems; our failure to timely or accurately complete financing paperwork on behalf of customers; the adoption and general demand for solar energy; the impact of a drop in the price of conventional energy on demand for solar energy systems; seasonality of customer demand and adverse weather conditions inhibiting our ability to install solar energy systems; changing and updating technologies and the issues presented by these new technologies related to customer demand and our product offering; geographic concentration of revenue from the sale of solar energy systems in Hawaii, California and east coast states; non-compliance with or loss or suspension of licenses required for installation of solar energy systems; loss of key personnel and ability to attract necessary personnel; our failure to accurately predict future warranty claims; adverse outcomes arising from litigation and legal disputes to which we may be subject from time to time; our ability to continue to obtain services and components from suppliers, installers and other vendors; disruption of our supply chain from equipment manufacturers and potential shortages of components for solar energy systems; factors impacting the timely installation of solar energy systems; competition; costs associated with safety and construction risks; continued access to competitive third party financiers to finance customer solar installations; increases in interest rates and tightening credit markets; our ability to successfully and timely commercialize POWERHOUSE™ 3.0; the ability to obtain requisite certification of POWERHOUSE™ 3.0; demand for POWERHOUSE™ 3.0; the adequacy of, and access to, capital necessary to commercialize POWERHOUSE™ 3.0; our ability to satisfy the conditions and our obligations under the POWERHOUSE™ 3.0 license agreement; our ability to manage supply chain in order to have production levels and pricing of the POWERHOUSE™ 3.0 shingles to be competitive; our ability to successfully expand its operations and employees and realize profitable revenue growth from the sale and installation of POWERHOUSE™ 3.0, and to the extent, anticipated; the potential impact of the announcement of our expansion into the POWERHOUSE™ 3.0 business with employees, suppliers, customers and competitors; our ability to successfully and timely expand its POWERHOUSE™ 3.0 business outside of the United States; foreign exchange risks associated with the POWERHOUSE™ 3.0 business; intellectual property infringement claims related to the POWERHOUSE™ 3.0 business; competition in the in-roof solar shingles business; our ability to realize revenue from written reservations for initial POWERHOUSE™ deliveries; our ability to obtain future written reservations for POWERHOUSE™ deliveries; and future cancellations and backlog; our ability to meet customer expectations; risks and liabilities associated with placing employees and technicians in our customers' homes and businesses; product liability claims; future data security breaches, or our inability to protect personally identifiable information or other information about our customers; failure to comply with the director independence standards of the SEC and the Nasdaq Capital Market; our inability to maintain effective disclosure controls and procedures and internal control over financial reporting; the volatile market price of our Class A common stock; the dilutive effect of the conversion of our outstanding convertible notes and exercise of outstanding warrants or other securities issuances and our ability to obtain additional financing in the future; our ability to receive cash payments under the Investor Notes (as defined below); our ability to pay the balance due at maturity of our convertible notes due April 9, 2019 if the holders thereof do not convert them or are not forced to convert; the dilutive effect of future issuances of stock, options, warrants or other securities and the effect on the market price of our Class A common stock; the low likelihood that we will pay any cash dividends on our Class A common stock for the foreseeable future; compliance with public reporting requirements; anti-takeover provisions in our organizational documents; the terms of some of our outstanding securities and transaction documents entered into in connection with past offerings restrict our ability to enter into certain transactions or obtain financing, and could result in our paying premiums or penalties to the holders of some of our outstanding securities; the disruptive effect and costs associated with threatened or commenced proxy contests; our ability to meet The Nasdaq Capital Market continued listing requirements; and such other factors as discussed throughout Part I, Item 1A, Risk Factors and Part II, Item 7, Management's Discussion and Analysis of Financial Conditions and Results of Operations of our Annual Report on Form 10-K for the year ended December 31, 2017 ("2017 10-K") and Part I, Item 2, Management's Discussion and Analysis of Financial Conditions and Results of Operations and Part II, Item 1A, Risk Factors included in our Quarterly Report on Form 10-Q for the period ended March 31, 2018 and this report.

Any forward-looking statement made by us in this report is based only on information currently available to us and speaks only as of the date on which it is made. We undertake no obligation to publicly update any forward-looking statement, whether written or oral, that may be made from time to time, whether as a result of new information, future developments or otherwise, except as required by applicable law.

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

REAL GOODS SOLAR, INC.
Condensed Consolidated Balance Sheets (unaudited)

(in thousands, except share and per share data)	June 30, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash	$ 1,541	$ 1,170
Accounts receivable, net	1,686	2,393
Inventory, net	1,416	1,950
Deferred costs on uncompleted contracts	605	615
Other current assets	1,105	1,264
Current assets of discontinued operations	1,088	1,242
Total current assets	7,441	8,634
Property and equipment, net	949	1,156
POWERHOUSE™ license	1,218	1,114
Goodwill	-	1,338
Net investment in sales-type leases and other assets	1,404	1,437
Noncurrent assets of discontinued operations	308	579
Total assets	$ 11,320	$ 14,258
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Derivative liabilities	$ 74	$ -
Convertible debt, net of deferred cost	290	1
Accounts payable	1,302	1,387
Accrued liabilities	1,452	1,441
Deferred revenue and other current liabilities	1,233	1,392
Current liabilities of discontinued operations	790	721
Total current liabilities	5,141	4,942
Other liabilities	1,027	2,329
Common stock warrant liabilities	4,548	76
Non-current liabilities of discontinued operations	727	745
Total liabilities	11,443	8,092
Commitments and contingencies (Note 5)		
Shareholders' equity:		
Preferred stock, par value $.0001 per share; 50,000,000 shares authorized; no shares issued and outstanding	-	-
Class A common stock, par value $.0001 per share; 150,000,000 shares authorized; 15,661,398 and 8,151,845 shares issued and outstanding at June 30, 2018 and December 31, 2017, respectively	9	8
Class B common stock, par value $.0001 per share; 50,000,000 shares authorized; no shares issued and outstanding	-	-
Additional paid-in capital	212,446	205,830
Proxy contest consideration	-	810
Accumulated deficit	(212,578)	(200,482)
Total shareholders' (deficit) equity	(123)	6,166
Total liabilities and shareholders' equity	$ 11,320	$ 14,258

See accompanying notes.

REAL GOODS SOLAR, INC.
Condensed Consolidated Statements of Operations (unaudited)

(in thousands, except per share data)	For the Three Months Ended June 30, 2018	For the Three Months Ended June 30, 2017	For the Six Months Ended June 30, 2018	For the Six Months Ended June 30, 2017
Contract revenue:				
Sale and installation of solar energy systems	$ 3,420	$ 2,708	$ 5,941	$ 6,070
Service	196	277	484	568
Leasing, net	14	12	29	25
Contract expenses:				
Installation of solar energy systems	3,002	2,668	5,841	5,744
Service	340	491	732	809
Customer acquisition	793	1,329	1,981	2,251
Contract loss	(505)	(1,491)	(2,100)	(2,141)
Operating expense	2,250	2,461	4,881	5,432
Goodwill impairment	1,338	-	1,338	-
Litigation	44	55	161	135
Operating loss	(4,137)	(4,007)	(8,480)	(7,708)
Change in fair value of derivative liabilities and loss on debt extinguishment	(3,073)	21	(3,046)	(465)
Amortization of debt discount & deferred loan costs	(1,435)	-	(1,435)	-
Other (income) expense	950	(11)	954	97
Loss from continuing operations, net of tax	(7,695)	(3,997)	(12,007)	(8,076)
(Loss) Income from discontinued operations, net of tax	(67)	(33)	(89)	12
Net loss	$ (7,762)	$ (4,030)	$ (12,096)	$ (8,064)
Net loss per share – basic and diluted:				
From continuing operations	(0.72)	(0.53)	(1.15)	(1.32)
From discontinued operations	(0.01)	-	(0.01)	-
Net loss per share – basic and diluted	$ (0.73)	$ (0.53)	$ (1.16)	$ (1.32)
Weighted-average shares outstanding:				
Basic and Diluted	10,757	7,481	10,485	6,102

See accompanying notes.

REAL GOODS SOLAR, INC.
Condensed Consolidated Statement of Changes in Shareholders' Equity (unaudited)

(in thousands, except share data)	Class A Common Stock Shares	Class A Common Stock Amount	Additional Paid - in Capital	Accumulated Deficit	Total Shareholders' Equity (Deficit)
Balance, January 1, 2018	**8,151,845**	**$ 8**	**$ 206,640**	**$ (200,482)**	**$ 6,166**
Proceeds from January 2018 Offering of common stock issuance and warrant exercises, net of costs	1,600,000	-	1,524	-	1,524
Conversion of 2018 Notes, net of costs	5,109,553	1	3,821	-	3,822
Proceeds from warrant exercises related to 2018 Note Offering	200,000	-	373	-	373
Share-based compensation	-	-	88	-	88
Common stock issued to settle proxy contest	600,000	-	-	-	-
Net loss	-	-	-	(12,096)	(12,096)
Balance, June 30, 2018	**15,661,398**	**$ 9**	**$ 212,446**	**$ (212,578)**	**$ (123)**

See accompanying notes.

REAL GOODS SOLAR, INC.
Condensed Consolidated Statements of Cash Flows (unaudited)

	For the Six Months Ended June 30,	
(in thousands except share data)	**2018**	**2017**
Operating activities:		
Net loss	$ (12,096)	$ (8,064)
(Loss) Income from discontinued operations	(89)	12
Loss from continuing operations	(12,007)	(8,076)
Adjustments to reconcile net loss to net cash used in operating activities - continuing operations:		
Depreciation	211	201
Share based compensation expense	88	226
Goodwill impairment	1,338	
Change in fair value of derivative liabilities and loss on debt extinguishment	3,046	357
Loss on sale of assets	-	13
Bad debt expense	117	23
Inventory obsolescence	(31)	193
Amortization of debt discount & deferred loan cost	1,435	-
Gain on settlement of liability	(942)	-
Changes in operating assets and liabilities:		
Accounts receivable, net	702	989
Costs in excess of billings on uncompleted contracts	(12)	8
Inventory	575	124
Deferred costs on uncompleted contracts	10	84
Net investment in sales-type leases and other current assets	(82)	(169)
Other non-current assets	33	(689)
Accounts payable	(181)	(1,472)
Accrued liabilities	11	185
Billings in excess of costs on uncompleted contracts	-	(107)
Deferred revenue and other current liabilities	(159)	(218)
Other liabilities	(367)	2
Net cash used in operating activities - continuing operations	(6,215)	(8,326)
Net cash provided by (used in) operating activities - discontinued operations	377	(38)
Net cash used in operating activities	(5,838)	(8,364)
Investing activities:		
Payments related to POWERHOUSE™ license	(104)	-
Purchases of property and equipment	(4)	(372)
Proceeds from sale of property and equipment	-	2
Net cash used in investing activities	(108)	(370)
Financing activities:		
Proceeds from warrant exercises, net of costs	120	-
Restricted cash released upon conversion of debt	-	173
Proceeds from issuance of 2018 Notes	4,545	-
Proceeds from prepayment of warrants, net of costs	822	-
Proceeds from the issuance of common stock, net of costs	830	16,029
Principal payments on revolving line of credit	-	(663)
Net cash provided by financing activities	6,317	15,539
Net increase in cash	371	6,805
Cash at beginning of period	1,170	2,940
Cash at end of period	$ 1,541	$ 9,745
Non-cash items		
Convertible notes interest paid with common stock	-	125
Debt discount arising from 2018 Note Offering	10,088	-
Embedded derivative liability with 2018 Note Offering	7,079	-
Common stock warrant liability with 2018 Note Offering	6,818	-
Issuance of Class A common stock for conversion of 2018 Notes, net of costs	3,822	-
Issuance of Class A common stock for exercise of common stock warrants	262	-
Accrued closing costs on the 2018 Notes	214	-

See accompanying notes.

Notes to Condensed Consolidated Financial Statements

1. Organization, Nature of Operations, and Principles of Consolidation

Real Goods Solar, Inc. (the "Company" or "RGS") is a residential and small business commercial solar energy engineering, procurement, and construction firm.

These consolidated financial statements have been prepared on the going concern basis, which presumes the realization of assets and the settlement of liabilities in the normal course of operations. The application of the going concern basis is dependent upon the Company achieving profitable operations to generate sufficient cash flows to fund continued operations, or, in the absence of adequate cash flows from operations, obtaining additional financing. The Company has reported losses from operations for the three months and six months ended June 30, 2018 and 2017 and has an accumulated deficit of $213 million at June 30, 2018. These factors raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

The Company is the licensee of POWERHOUSE™, an in-roof solar shingle using technology developed by the Dow Chemical Company that it believes will improve results of operations and generate cash flow. The Company anticipates receiving UL approval during October 2018 to manufacture and sell the shingles. To commercialize POWERHOUSE™, the Company has raised approximately $10 million since July 1, 2018.

Principles of Consolidation

We have prepared our unaudited interim condensed consolidated financial statements included herein pursuant to the rules and regulations of the SEC. Certain information and note disclosures normally included in annual financial statements prepared in accordance with U.S. generally accepted accounting principles ("GAAP") have been condensed or omitted pursuant to these rules and regulations, although we believe that the disclosures made are adequate to make the information not misleading. In our opinion, the unaudited interim financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly, in all material respects, our condensed consolidated financial position as of June 30, 2018, the interim results of operations for the three months and six months ended June 30, 2018 and 2017, and cash flows for the six months ended June 30, 2018 and 2017. These interim statements have not been audited. The balance sheet as of December 31, 2017 was derived from our audited consolidated financial statements included in our 2017 10-K. The interim condensed consolidated financial statements contained herein should be read in conjunction with our audited financial statements, including the notes thereto, for the year ended December 31, 2017.

Discontinued Operations

During 2014, we committed to a plan to sell certain contracts and rights comprising our large commercial installations business, otherwise known as our former Commercial segment. At the same time, we determined not to enter into further large commercial installation contracts in the mainland United States. Most contracts in process at December 31, 2014 were substantially completed during 2015 and remaining work was completed during 2016. We report this business as a discontinued operation, separate from our continuing operations. See Note 12. Discontinued Operations.

Liquidity and Financial Resources Update

The Company has experienced recurring operating losses and negative cash flow from operations which have necessitated: (i) developing plans to grow revenue to generate positive cash flow and (ii) raising additional capital. No assurances can be given that the Company will be successful with its plans to grow revenue for profitable operations or, if necessary, raise additional capital. See Note 6. Shareholders' Equity and Note 7. Convertible Debt for transactions raising capital during the first half of 2018.

The Company's plans to grow revenue are:

- Manufacture and sell solar shingles under the POWERHOUSE™ license. The Company anticipates obtaining UL certification for POWERHOUSE™ 3.0 during October 2018, a prerequisite for commercialization of the product. Upon achieving UL certification, the Company plans to manufacture, market and sell POWERHOUSE™ 3.0 to roofing companies and new home builders. In anticipation of receiving UL certification, the Company continues to receive written reservations;

- Leverage the POWERHOUSE™ brand to generate leads and revenue for the Residential and Sunetric segments.

Until the Company is successful in implementing its plans to increase revenue for profitable operations, the Company expects to have a cash outflow from operating activities. The Company expects to obtain UL certification for POWERHOUSE™ 3.0 in October 2018 and proceed with the commercialization of POWERHOUSE™ 3.0. The Company initially expects to have cash outflow from operating activities for commercialization of POWERHOUSE™ 3.0 and prepayments with supply chain manufacturers as sales of the product commence. Additionally, the Company will be required to make the remaining "Initial License" payment of $2 million, which will be recorded as a cash outflow in investing activities.

To provide funds to commercialize POWERHOUSE™ 3.0, on March 30, 2018, the Company entered into the Securities Purchase Agreement for the 2018 Note Offering (as defined and further discussed in Note 7. Convertible Debt). Cash proceeds received by the Company including hypothetical cash receipts related specifically to the 2018 Note Offering are summarized below:

	Cash	***Principal and Additional Amount***	***Common Stock Warrants***
At closing of the offering on April 9, 2018	$ 5,000,000	$ 11,500,000	9,857,143
Conversions of notes to Class A common stock	-	(6,438,000)	-
Exercises of common stock warrants	112,000	-	(200,000)
Placement Agent Fees	(454,197)	-	-
As of June 30, 2018	4,657,803	5,062,000	9,657,143
Activity during the period July 1 to August 10, 2018			
Additional amounts arising from Shareholder approval reset	-	25,577,431	-
Exercises of common stock warrants	8,166,667	-	(7,191,667)
Conversions of 2018 Notes (Note 7) to Class A common stock	1,672,956	(16,039,109)	-
Placement Agent Fees	(117,107)	-	-
As of August 10, 2018	14,380,319	14,600,322	2,465,476
Expected future activity:			
Common stock warrants	-	-	(1,735,317)
Placement Agent common stock warrants	-	-	(730,159)
Funding of remaining balance on Investor Notes	3,327,044	(3,327,044)	-
Conversions of 2018 Notes to Class A common stock	-	(11,273,278)	-
Placement Agent Fees	(232,893)	-	-
Expected net cash from 2018 Convertible Note Offering	$ 17,474,470	$ -	-

The expected activity above reflects:
* The Company receiving cash of $3.3 million from the Investor Notes (Note 7).
* The noteholders converting shares represented by Additional Amount (Note 7) into Class A common stock at the reset price of $0.3223

The Company has access to hypothetical cash from exercise of other common stock warrants. The hypothetical maximum cash from exercise of other common stock warrants is the mathematical result of the number of warrant shares times the respective exercise price per share. The hypothetical results are premised upon an increase in the future trading value of the company's common stock resulting in the exercise of common stock warrants. It further assumes all investors elect cash exercises (not cashless exercises) and warrant exercise prices are not reduced or reset to a lower amount. The majority of common stock warrants have exercise prices at or below $3.10 per share and could result in cash receipts of approximately $19 million. No assurances can be given that the investors will exercise their remaining common stock warrants.

The Company believes it has arranged for the capital to commercialize POWERHOUSE™ 3.0. No assurances can be given that the Company will successfully commercialize POWERHOUSE™ 3.0.

2. Significant Accounting Policies

The Company made no changes to its significant accounting policies during the six months ended June 30, 2018 with the exception of the adoption of ASC 606 as discussed in Note 3. Revenue and recognition of derivative liabilities and warrant liabilities related to the 2018 Note Offering as discussed in Note 7. Convertible Debt.

Common Stock Warrants

The Company accounts for common stock warrants in accordance with applicable accounting guidance provided in Financial Accounting Standards Board (“FASB”) ASC 480, *Liabilities – Distinguishing Liabilities from Equity*, as either liabilities or as equity instruments depending on the specific terms of the warrant agreement. Certain of the Company’s warrants are accounted for as liabilities due to provisions either allowing the warrant holder to request redemption, at the intrinsic value of the warrant, upon a change of control, event of default or failure to deliver shares. The Company classifies these warrant liabilities with maturities of five years on the Condensed Consolidated Balance Sheet as long-term liabilities. They are revalued at each balance sheet date after their initial issuance with changes in the value recorded in earnings. The Company used a Monte Carlo pricing model to value these warrant liabilities.

Derivatives

The 2018 Notes contain conversion features which have been accounted for in accordance with FASB ASC 815, *Derivatives and Hedging*. The conversion options are embedded within the 2018 Notes but have been separated as (i) their economic characteristics and risks do not clearly and closely relate to the 2018 Notes (ii) the 2018 Notes are not remeasured at fair value and (iii) a separate instrument with the same terms as the conversion options would be considered a derivative. Additionally, the conversion options meet all the criteria of a derivative in that they have an underlying (conversion price) and notional amount (potential shares), the conversion options do not require an initial net investment and the conversion options provide for net settlement. The conversion options have been initially measured at fair value and are revalued at each balance sheet date after their initial issuance with changes in the value recorded in earnings. The Company used a Lattice pricing model to value these derivative liabilities. The Lattice pricing model, which is based, in part, upon unobservable inputs for which there is little or no market data, requires the Company to develop its own assumptions. The Company classifies these derivative liabilities with maturities of one year on the Condensed Consolidated Balance Sheet as short-term liabilities. When the conversion option has been exercised, for accounting purposes both liabilities (i.e., the debt host and the separated derivative liability) will be subject to extinguishment accounting. As such, a gain or loss upon extinguishment of the two liabilities equal to the difference between the recorded value of the liabilities and the fair value of the consideration issued to extinguish them will be recorded.

Reclassification of Prior Year Presentation

Certain prior year amounts have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported results of operations. During the second quarter of 2017, the Company concluded that it was appropriate to classify items in the statement of operations to conform with operating metrics reported to investors and the manner in which management evaluates financial performance and to classify warranty liability separately as current and non-current liabilities. Accordingly, the Company revised the classification of certain items to report items in the statement of operations and balance sheet. These changes in classification did not change the previously reported operating income (loss) in the statement of operations, or cash generated (used) from operations in the statement of cash flows, or operating income (loss) for any business segment.

Recently Issued Accounting Standards

ASU 2018-11

In July 2018, FASB issued Accounting Standards Update No. 2018-11 (“ASU 2018-11”), *Leases (Topic 842): Targeted Improvements*. The amendments in this Update provide entities with an additional (and optional) transition method to adopt the new leases standard. Additionally, the amendments in this Update provide lessors with a practical expedient, by class of underlying asset, to not separate nonlease components from the associated lease component and, instead, to account for those components as a single component if the nonlease components otherwise would be accounted for under the new revenue guidance (Topic 606). The Company will assess the impact of ASU 2018-11in preparation for the adoption of ASU 2016-02.

ASU 2018-10

In July 2018, FASB issued Accounting Standards Update No. 2018-10 (“ASU 2018-10”), *Codification Improvements to Topic 842, Leases*. The amendments in this update narrow aspects of the guidance issued in the amendments in Update 2016-02. The Company has previously disclosed that upon adoption of ASU 2016-02, right-of-use assets and lease liabilities will be recognized on the balance sheet in amounts that will be material. The Company will assess the impact of ASU 2018-10 in preparation for the adoption of ASU 2016-02.

ASU 2018-07

In June 2018, FASB issued Accounting Standards Update No. 2018-07 (“ASU 2018-07”), *Compensation – Stock Compensation (Topic 718) – Improvement to Nonemployee Share-Based Payment Accounting.* The amendments in this Update expand the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. Nonemployee share-based payment awards within the scope of Topic 718 are measured at grant-date fair value of the equity instruments that an entity is obligated to issue when the good has been delivered or the service has been rendered. The definition of the term grant date is amended to generally state the date at which a grantor and a grantee reach a mutual understanding of the key terms and conditions. Consistent with the accounting for employee share-based payment awards, an entity will consider the probability of satisfying performance conditions when nonemployee share-based payment awards contain such conditions. Generally, the classification of equity-classified nonemployee share-based payment awards will continue to be subject to the requirements of Topic 718 unless modified after the good has been delivered, the service has been rendered, any other conditions necessary to earn the right to benefit from the instruments have been satisfied, and the nonemployee is no longer providing goods or services. This eliminates the requirement to reassess classification of such awards upon vesting. This amendment is effective for public entities for fiscal years beginning after December 15, 2018 including interim periods within that fiscal year. The Company will assess the impact of ASU 2018-07 on any nonemployee share-based payments entered in the future.

ASU 2018-05

On March 13, 2018, the FASB issued Accounting Standards Update No. 2018-05 ("ASU 2018-05"), *Income Taxes (Topic 740) – Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118*, which was issued to state the income tax accounting implications of the Tax Cuts and Jobs Act ("TCJA"). The guidance clarifies the measurement period timeframe, changes in subsequent reporting periods and reporting requirements as a result of the TCJA. The measurement period begins in the period that includes the TCJA's enactment date which was December 22, 2017 and as a result the Company has reflected the impact of this ASU on the tax provision and deferred tax calculation as of December 31, 2017.

ASU 2017-11

On July 13, 2017, the FASB issued Accounting Standards Update No. 2017-11 ("ASU 2017-11"), *Earnings Per Share (Topic 260); Distinguishing Liabilities from Equity (Topic 480); Derivatives and Hedging (Topic 815): (Part I) Accounting for Certain Financial Instruments with Down Round Features, (Part II) Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception.* The amendments in Part I of this Update change the classification analysis of certain equity-linked financial instruments (or embedded features) with down round features. When determining whether certain financial instruments should be classified as liabilities or equity instruments, a down round feature no longer precludes equity classification when assessing whether the instrument is indexed to an entity's own stock. The amendments also clarify existing disclosure requirements for equity-classified instruments. The amendments in Part II of this Update recharacterize the indefinite deferral of certain provisions of Topic 480 that now are presented as pending content in the Codification, to a scope exception. Those amendments do not have an accounting effect. For public business entities, the amendments in Part I of this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The amendments in Part II of this Update do not require any transition guidance because those amendments do not have an accounting effect. The Company will assess the impact of ASU 2017-11 on any derivative instruments entered into in the future.

ASU 2016-09

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting, which amends ASC 718 and includes provisions intended to simplify various provisions related to how share-based payments are accounted for and presented in the financial statements. ASU 2016-09 eliminates the previous requirement to gross up the statement of cash flows between financing and operating to reflect the impact of windfall tax benefits has been eliminated. Instead, all tax related cash flows resulting from share-based payments will be reported as operating activities in the statement of cash flows. Additionally, the previous practice of classifying cash outflows related to an employee's minimum statutory tax withholding as operating is no longer available. Instead, all such payments should be classified as financing. ASU 2016-09 is effective for public business entities for annual reporting periods beginning after December 15, 2016, and interim periods within those reporting periods. Due to the 2018 Incentive Plan (defined in Note 8. Share-Based Compensation), this guidance is effective for the current period however, there is no impact to the statement of cash flows.

ASU 2016-02

On February 25, 2016, the FASB issued Accounting Standards Update No. 2016-02 ("ASU 2016-02"), *Leases (Topic 842),*which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. The standard is effective for financial statements issued for fiscal years beginning after December 15, 2018, and interim periods therein. The Company currently expects that upon adoption of ASU 2016-02, right-of-use assets and lease liabilities will be recognized on the balance sheet in amounts that will be material.

3. Revenue

Effective January 1, 2018, the Company has adopted "ASC 606 – *Revenue From Contracts with Customers*" related to revenue recognition. Under the standard, revenue is recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services using a five-step model to achieve that principle. In addition, the standard requires disclosures to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The Company has elected to adopt the modified retrospective method for transitioning this accounting standard which requires that the cumulative effect of applying the revenue standard to existing contracts be recorded as an adjustment to retained earnings. Per our analysis performed as of the prior year ended December 31, 2017 no adjustments were required. For the six months ended June 30, 2018, the adoption of ASC 606 has resulted in the following changes in significant accounting policies:

Deferred Revenue

When we receive consideration, or such consideration is unconditionally due, from a customer prior to transferring goods or services to the customer under the terms of a sales contract, we record deferred revenue, which represents a contract liability. We recognize deferred revenue as net sales after we have satisfied our performance obligations to the customer and all revenue recognition criteria are met.

Revenue Recognition – Installation of photovoltaic modules ("PV") solar systems

We generally recognize revenue for installation of PV solar systems at a point in time ("performance obligation") following the transfer of control to the customer which typically occurs when installers have completed an installation of the PV solar system. Although ASC 606 is generally applied to a single contract with a customer, a portfolio approach may be acceptable if an entity reasonably expects that the effect of applying a portfolio approach to a group of contracts or group of performance obligations would not differ materially from considering each contract or performance obligation separately. The Company uses standard contract templates to initiate sales with customers which may vary based on customer type. As such, applying the portfolio approach to each type of customer contract would not differ materially from considering each contract on a standalone basis. The Company has used the portfolio approach in their analysis and determined that each project started during the six months ended June 30, 2018 contains one performance obligation.

Each project's transaction price is included within the contract and although there is only one performance obligation, certain complexities could exist which impact the transaction price. Specific to solarized programs, wherein the Company has a scalable price per watt to the homeowner based on the number of participating homes in the community, the Company may credit homeowners of previously executed contract. Any credits to homeowners on previously executed contracts are treated as adjustments to the transaction price via change order forms. For solarized program incentives, the Company uses the "most likely amount" method in determining any adjustments to the transaction price due to certainty of the credit amount prior to completion of the project. The Company has also considered financing components on projects started during the six months ended June 30, 2018 and elected the use of a practical expedient where an entity need not adjust the promised amount of consideration for the effects of a significant financing component if the entity expects, at contract inception, that the period between when the entity transfers a promised service to the customer and when the customer pays for that good or service will be one year or less. All receivables from projects entered into during the current quarter are expected to be received within one year from project completion and no adjustments to the transactions prices were made.

Under ASC 606, the Company is required to recognize as an asset the incremental costs of obtaining a contract with a customer if those costs are expected to be recovered. The Company does incur selling and marketing costs and sales commissions that otherwise would not have been incurred if the contract had not been obtained however, these costs are not recoverable from the customer and are expensed as incurred.

The Company may enter into contracts/projects in which control of the PV solar systems transfers to the customer over time. As of June 30, 2018, only one contract satisfied the requirement of control transferring over time.

Since control transfers over time, revenue is recognized based on the extent of progress towards the completion of the performance obligation. The method utilized by the Company to measure the progress towards completion requires judgment and is based on the products and services provided. The Company utilizes the input method to measure the progress of our contracts because it best depicts the transfer of assets to the customer which incurs as materials are consumed by the project. The input method measures the progress towards completion based on the ratio of costs incurred to date ("actual cost") to the total estimated costs ("budget") at completion of performance obligation. Revenues, including estimated fees, are recorded proportionally as costs are incurred. Costs to fulfill include materials, labor and/or subcontractors' costs, and other direct costs. Indirect costs and costs to procure the panels, inverters, and other system miscellaneous costs needed to satisfy the performance obligation are excluded since the customer does not gain control of those items until delivered to the site. Including the costs of those items would overstate the extent of our performance.

If a contract is separated into multiple performance obligations, the Company allocates the total transaction price to each performance obligation based on a budget vs actual ratio at each performance obligation. The Company does not sell contracts that have multiple performance obligations as PV systems are not functionable until completely installed. More frequently, the Company sells a customized customer specific solution, which use the expected cost plus a profit margin to calculate the selling price at each performance obligation.

Revenue Recognition – Operations & Maintenance

We generally recognize revenue for standard, recurring commercial operations and maintenance services over time as customers receive and consume the benefits of such services, which typically include corrective maintenance, data hosting or energy/deck monitoring services for a period. These services are treated as stand-ready performance obligations and satisfied evenly over the length of the agreement, so the Company has elected a time-based method to measure progress and recorded revenue using a straight-line method.

Revenue Recognition – Service & Warranty

Warranties for workmanship and roof penetration are included within each contract. These warranties cannot be purchased separately from the related services, are intended to safeguard the customer against workmanship and does not provide any incremental service to the customer. It is necessary for the Company to perform the specified tasks to provide assurance that the final product complies with agreed-upon specifications and likely do not give rise to a separate performance obligation. The Company will continue to account for any related warranties in accordance with ASC 460-10 and record an accrual for potential warranty costs at the completion of a project. Any services provided to a customer outside of warranties such as system inspections are recognized upon completion of the service.

Adoption of the standards related to revenue recognition had no impact to cash from or used in operating, financing, or investing on our consolidated cash flows statements. Refer to Note 12. Segment Information for further information, including revenue by segment.

4. Property and Equipment

Property and equipment, stated at lower of cost or estimated fair value, consists of the following as of June 30 and December 31, respectively:

(in thousands)	2018	2017
Buildings and leasehold improvements	441	441
Furniture, fixtures and equipment	1,811	1,811
Software	2,135	2,135
Vehicles and machinery	1,019	1,044
Total property and equipment	5,406	5,431
Accumulated depreciation and amortization	(4,457)	(4,275)
Total property and equipment, net	$ 949	$ 1,156

5. Commitments and Contingencies

The Company leases office and warehouse space through operating leases. Some of the leases have renewal clauses, which range from one month to five years.

The Company leases vehicles for certain field personnel through operating leases. Leases range up to four years with varying termination dates through 2021.

The following schedule represents the annual future minimum payments of all leases as of June 30, 2018:

(in thousands)	Future Minimum Lease Payments
2018	$ 452
2019	853
2020	505
2021	439
2022 and thereafter	112
Total future minimum lease payments	$ 2,361

The Company incurred office and warehouse rent expense of $0.2 million and automobile lease expense of $0.06 million for the three months ended June 30, 2018 and $0.3 million and $0.1 million for the six months ended June 30, 2018.

The Company is subject to risks and uncertainties in the normal course of business, including legal proceedings; governmental regulation, such as the interpretation of tax and labor laws; and the seasonal nature of its business due to weather-related factors. The Company has accrued for probable and estimable costs incurred with respect to identified risks and uncertainties based upon the facts and circumstances currently available.

In August 2018, the Company resolved a dispute with a customer of the former Commercial segment wherein the customer alleged that the Company had not completed agreed-upon remedial work to remedy alleged deficiencies. To avoid the costs of arbitration, obtain a release of the funds held in escrow related to this matter, and receive a release of all future obligation or liability, whether based on warranty, contract, or otherwise, the Company agreed to a complete settlement with all parties and increased its liability for this matter by approximately $0.1 million during the first quarter of 2018.

On June 29, 2015, the Company received a subpoena from the U.S. Securities and Exchange Commission requesting the production of documents, records and information related to the July 2014 Offering (the “Subpoena”). The Company had incurred significant legal expenses related to the Subpoena for which it requested coverage from RGS’s Directors’ & Officers’ liability insurance provider. Initially coverage had been denied but the provider paid $1.5 million of legal expense while reserving its right to be reimbursed by the Company. Accordingly, the $1.5 million paid by the insurance provider was accrued for as a long-term liability until a settlement could be reached. On June 30, 2018 the Company and the insurance provider agreed upon a settlement proposal whereby the Company will pay the insurance provider $0.6 million in monthly installments of $25,000 per month beginning September 2018 up to a maximum of $0.6 in full settlement of the obligation. The defeasance of the obligation has been recorded as other income in the accompanying Condensed Consolidated Statement of Operation with the remaining balance split between current and noncurrent liabilities in the accompanying Condensed Consolidated Balance Sheet.

6. Shareholders’ Equity

January 2018 Offering

On January 4, 2018, the Company closed a registered offering and concurrent private placement (“January 2018 Offering”) with one institutional and accredited investor in which the Company issued and sold to the Investor (i) 800,000 shares of Class A common stock, (ii) a prepaid Series P Warrant to purchase 800,000 shares of Class A common stock, and (iii) a Series O Warrant to purchase 1,600,000 shares of Class A common stock pursuant to the terms of the Securities Purchase Agreement, dated as of January 2, 2018, between the Company and the investor. The investor paid $1.15 per share of Class A common stock and $1.14 per share of Class A common stock underlying the Series P Warrant for aggregate gross proceeds of approximately $1.8 million. The Company received net proceeds of approximately $1.5 million at the closing.

The Series O Warrant is exercisable at any time starting six months after issuance and will remain exercisable for a period of five years thereafter at an initial exercise price of $1.47 per share, subject to adjustments for stock splits and similar events. The Series P Warrant is exercisable immediately after issuance and for a period of five years thereafter at an initial exercise price of $1.15 per share, of which $1.14 was paid at the closing with $0.01 per share payable upon exercise. On January 4, 2018, the investor paid $0.01 per share of Class A common stock to exercise the Series P Warrant.

2018 Convertible Note Offering

In connection with the issuance of the 2018 Note Offering, described in Note 7. Convertible Debt, the Company issued $10.75 million in principal and original issue discount of the 2018 Notes and Series Q Warrants exercisable into 9,126,984 shares of Class A common stock. At the closing of that transaction, the Company also sold warrants to the Placement Agents to purchase 730,159 shares of Class A common stock. During the three months ended June 30, 2018, $6.4 million of the 2018 Notes were converted and 0.2 million of the Series Q Warrants were exercised.

Option Exercises, 2018 Convertible Note Conversions and Warrant Exercises

During the three and six months ended June 30, 2018 and 2017, the Company issued stock options as further discussed in Note 8. Share Based Compensation however, none of these options were exercised during the period. During the six months ended June 30, 2018, the Company issued 800,000 shares of its Class A common stock upon the exercise of prepaid Series P warrants attributable to the January 2018 Offering and 5,309,553 shares upon the conversion of the 2018 Notes and exercise of Series Q Warrants.

At June 30, 2018, the Company had the following shares of Class A common stock reserved for future issuance:

Stock options and grants outstanding under incentive plans	1,120,145
Common stock warrants outstanding - derivative liability	550
Common stock warrants outstanding - non- derivative liability	9,657,143
Common stock warrants outstanding - equity security	7,538,846
2018 Notes outstanding - derivative liability	11,130,417
Total shares reserved for future issuance	29,447,101

7. Convertible Debt

2018 Convertible Note Offering

On March 30, 2018, the Company entered into a Securities Purchase Agreement with two unaffiliated institutional and accredited investors for a private placement (the "2018 Note Offering") of up to $10.75 million in principal amount and $10 million funding amount (reflecting $0.75 million of original issue discount) of Senior Convertible Notes (the "2018 Notes"), and Series Q Warrants (the “Series Q Warrants”) to purchase 9,126,984 shares of Class A Common Stock. On April 9, 2018, the Company closed the 2018 Note Offering. At the closing on April 9, 2018, the Company received $5 million of the gross proceeds and two secured promissory notes from each investor, in a combined aggregate amount of $5 million (each, an “Investor Note”), secured by cash and/or securities held in investor accounts. The Securities Purchase Agreement required the Company to hold a shareholders’ meeting before June 30, 2018 to seek approval of the issuance of shares of Class A Common Stock upon conversion of the 2018 Notes and exercise of the Series Q Warrants at conversion and exercise prices below the market price of its Class A common stock at the time of entering into the Securities Purchase Agreement, in compliance with Nasdaq Marketplace Rules. On June 21, 2018 the Company held its 2018 annual shareholder meeting at which time the shareholders approved the 2018 Note Offering and thereby initiating a reset period which enabled the note holders to earn additional amounts, effectively a make-whole for amounts previously converted. As a result of the shareholder approval, the conversion price of the 2018 Notes and the exercise price of the Series Q Warrants were reset to $0.3223 on July 9, 2018.

Activity with respect to the 2018 Note Offering is presented below:

	Cash	Principal and Additional Amount	Common Stock Warrants
At closing of the offering on April 9, 2018	$ 5,000,000	$ 11,500,000	9,857,143
Conversions of notes to Class A common stock	-	(6,438,000)	-
Exercises of common stock warrants	112,000	-	(200,000)
Placement Agent Fees	(454,197)	-	-
As of June 30, 2018	4,657,803	5,062,000	9,657,143
Activity during the period July 1 to August 10, 2018			
Additional amounts arising from Shareholder approval reset	-	25,577,431	-
Exercises of common stock warrants	8,166,667	-	(7,191,667)
Conversions of 2018 Notes (Note 7) to Class A common stock	1,672,956	(16,039,109)	-
Placement Agent Fees	(117,107)	-	-
As of August 10, 2018	14,380,319	14,600,322	2,465,476

The 2018 Notes are convertible at any time, at the option of the holder, into shares of Class A common stock at a conversion price. The initial fixed conversion price was $1.26 per share (which was above the closing bid price of our Class A common stock immediately before executing the Securities Purchase Agreement; the conversion price was increased from $1.2405 to $1.26 in the Amendments) and the initial exercise price of the Series Q Warrants was $1.12, subject to reduction under certain circumstances as well as adjustment for stock splits, stock dividends and similar events. The Company will not be required to amortize the 2018 Notes. All amounts owed under the 2018 Notes not previously converted into shares of Class A common stock will mature and come due on April 9, 2019. As discussed above, the conversion price of the 2018 Notes and the exercise price of the Series Q Warrants were reset to $0.3223 on July 9, 2018.

The 2018 Notes contain negative and affirmative covenants, including a requirement that the Company on a quarterly basis has available cash of at least $0.75 million.

At the closing of the 2018 Note Offering, the Company entered into a Registration Rights Agreement with the purchaser of the 2018 Notes under which it is required to file an initial registration statement with the SEC covering the resale of the shares of Class A common stock issuable pursuant to the 2018 Notes and the Series Q Warrants and to use the Company’s reasonable best efforts to have that initial registration statement declared effective within specified deadlines. The Company will be subject to certain monetary penalties, as set forth in the Registration Rights Agreement, if it fails to meet specified filing deadlines, effectiveness deadlines, maintenance requirements, and/or current public information requirements under the Registration Rights Agreement. The Company filed the required registration statement with the SEC on April 27, 2018, and the SEC declared the registration statement effective on May 4, 2018. As a result of the conversion price and exercise price reset, and in accordance with the provisions of the 2018 Note offering, the Company expects to file a Form S-3 Registration Statement with the SEC to register additional shares of the Company’s Class A common stock covering future conversions.

The Company determined that based on the terms set forth in the 2018 Notes, the 2018 Notes contained embedded derivatives namely the conversion options. These conversion options were incorporated into the Notes to incentivize the Holders to provide the company with short term funding for POWERHOUSE™. The embedded derivatives do not meet the criteria for equity classification and have been recorded at their fair value on the Condensed Consolidated Balance Sheets as a short-term liability due to the 2018 Notes maturing in one year. Any changes in the fair value of the conversion options have been recorded as a gain or loss directly on the Condensed Consolidated Statement of Operations. See Note 9. Fair Value Measurements for information about the techniques we use to measure the fair value of our derivative instruments.

The following tables present the fair values of derivative instruments included in our consolidated balance sheets as of June 30, 2018 and 2017 (in thousands):

Fair Value of Derivative Instruments

	Liability Derivatives			
	2018		2017	
Balance at June 30, 2018 (in thousands)	**Balance Sheet Location**	**Fair Value**	**Balance Sheet Location**	**Fair Value**
Derivatives not designated as hedging instruments				
2018 Notes Conversion Options	Current Liabilities	$ 74	N/a	$ -

The Effect of Derivative Instrument on the Statement of Operations for the Six Months Ended June 30, 2018 and 2017

Derivatives not designated as hedging instruments	**Location of Loss Recognized in Statement of Operations**	**Amount of Loss Recognized in Statement of Operations 2018**	**2017**
2018 Notes Conversion Options			
	Change in fair value of derivative liabilities and loss on debt extinguishment	$ (5,242)	$ -
	Amortization of debt discount & deferred loan costs	(1,435)	-
		$ (6,677)	$ -

In addition to the derivative liabilities, the Company accounts for the Series Q warrants in accordance with ASC 480. The Series Q Warrants are accounted for as liabilities due to provisions allowing the warrant holder to request redemption, upon a change of control, failure to timely deliver shares of Class A common stock upon exercise or default. The Company classifies these warrant liabilities on the Condensed Consolidated Balance Sheet as long-term liabilities, which are revalued at each balance sheet date subsequent to their initial issuance. The Company used a Monte Carlo pricing model to value these warrant liabilities. The Monte Carlo pricing model, which is based, in part, upon unobservable inputs for which there is little or no market data, requires the Company to develop its own assumptions. See Note 9. Fair Value Measurements for information about the techniques we use to measure the fair value of our Series Q Warrants.

8. Share-Based Compensation

On June 21, 2018, the shareholders approved the Real Goods Solar 2018 Long-Term Incentive Plan ("2018 Incentive Plan") which allows the Company to issue up to 1,300,000 Class A Common Stock shares. Employees or individuals who perform services for the Company are eligible to participate in the 2018 Incentive Plan, which terminates upon the earlier of a board resolution terminating the 2018 Incentive Plan or ten years after the effective date of June 21, 2018 ("Effective Date"). All outstanding options are non-qualified and are generally granted with an exercise price equal to the closing market price of the Company's stock on the date of the grant. Under the 2018 Incentive Plan, the Company granted non-qualified stock options ("2018 Options") with an explicit requisite service period of 2.78 years and a maximum contractual term of seven years from the Effective Date. On the last day of each calendar quarter occurring after the Effective Date, the 2018 Options will vest at 8.3% contingent on continuous employment. The 2018 Options are classified as equity and measured using the "fair-value-based method" with share-based compensation expense recognized in the income statement on a straight-line basis over the requisite service for the entire award. The Company uses a Black-Scholes pricing model to estimate the value of the 2018 Options as of the effective date and will account for forfeitures when they occur.

The table below presents a summary of the Company's option activity as of June 30, 2018 and changes during the quarter then ended:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Yrs)	Aggregate Intrinsic Value
Outstanding at January 1, 2017	185	$ 15,736.67	3.30	$ -
Granted	-	-		
Exercised	-	-		
Forfeited or expired	(36)	4,990.00		
Outstanding at December 31, 2017	149	$ 18,452.38	2.60	$ -
Exercisable at December 31, 2017	141	$ 19,418.30	2.80	$ -
Granted	1,120,000	1.08		
Exercised	-	-		
Forfeited or expired	(4)	1,428.00		$ -
Outstanding at June 30, 2018	1,120,145	$ 3.53	6.98	$ -
Exercisable at June 30, 2018	93,447	$ 30.37	6.97	$ -

During the six months ended June 30, 2018, the Company granted 1,120,000 stock options and cancelled four stock options versus zero grants of stock options and zero cancellations of stock options during the six months ended June 30, 2017. Total share-based compensation expense recognized was $0.09 million and $0.05 million during both the three months ended June 30, 2018 and 2017 and $0.09 million and $0.2 million during the six months ended June 30, 2018 and 2017, respectively.

9. Fair Value Measurements

The following tables summarize the basis used to measure certain financial assets and liabilities at fair value on a recurring basis in the consolidated balance sheets:

Balance at June 30, 2018 (in thousands)	Total	Quoted Prices in Active Markets for Identical Items (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Common stock warrant liability	$ 4,548	-	-	$ 4,548
Derivative liability	74	-	-	74
	$ 4,622	-	-	$ 4,622

For the Company's Level 3 measures, which represent Series Q Warrants and the 2018 Notes Conversion Options, fair value is based on a Monte Carlo model and Lattice pricing model, respectively. The models are based, in part, upon unobservable inputs for which there is little or no market data, requiring the Company to develop its own assumptions. The Company used a market approach to value these liabilities.

The following table shows the reconciliation from the beginning to the ending balance for the Company's common stock warrant liability and embedded derivative liability measured at fair value on a recurring basis using significant unobservable inputs (i.e. Level 3) for the period ended June 30, 2018:

(in thousands)	Common Stock warrant liability	Embedded derivative liability	Total
Fair value of financial liabilities at December 31, 2017	$ 76	$ -	$ 76
Common stock warrant liability	6,818	-	6,818
Expiration of common stock warrant liabilities	(48)	-	(48)
Change in the fair value of common stock warrant liabilities, net	(2,148)	-	(2,148)
Adjustment for exercise of common stock warrant liabilities	(150)	-	(150)
Derivative liability	-	3,195	3,195
Investor Note		(5,000)	(5,000)
Change in the fair value of derivative liabilities and additional amount earned	-	3,884	3,884
Adjustment for conversions of 2018 Notes	-	(2,005)	(2,005)
Fair value of financial liabilities at June 30, 2018	$ 4,548	$ 74	$ 4,622

2018 Notes Derivative Liability

The fair value of the 2018 Notes Derivative Liabilities was derived using a Lattice pricing model, which is based, in part, upon unobservable inputs for which there is little or no market data, requiring the Company to develop its own assumptions. The assumptions used on April 9, 2018 and June 30, 2018 to value the Derivative Liabilities are as follows:

	Conversion Price	Closing Market Price (average)	Risk-free Rate	Dividend Yield	Market Price Volatility	Remaining Term (years)	Debt Yield	Soft Call Threshold	First Redemption Period	Second Redemption Period
Derivative Liability April 09, 2018	$ 1.26	$ 0.85	2.08%	0.00%	110%	1.00	60%	$ 2.52	20%	25%
Derivative Liability June 30, 2018	$ 0.55	$ 0.57	2.23%	0.00%	130%	0.78	60%	$ 2.52	20%	25%

Common Stock Warrants

The fair value of the Series Q Warrants was derived using a Monte Carlo pricing model, which is based, in part, upon unobservable inputs for which there is little or no market data, requiring the Company to develop its own assumptions. The assumptions used on April 9, 2018 and June 30, 2018 to value the common stock warrant liabilities are as follows:

	Exercise Price	Strike Floor	Closing Market Price (average)	Risk-free Rate	Dividend Yield	Market Price Volatility	Remaining Term (years)
Warrant Liability April 09, 2018	$ 1.12	$ 0.97	$ 0.85	2.60%	0.00%	120%	5.00
Warrant Liability June 30, 2018	$ 0.55	$ 0.19	$ 0.57	2.72%	0.00%	115%	4.78

2018 Options

The determination of the estimated fair value of the 2018 Options using the Black-Scholes option-pricing model is affected by the Company's stock price as well as assumptions regarding a number of complex and subjective variables. Expected volatilities are based on a value calculated using the historical stock price volatility. Expected life is based on the specific vesting terms of the option and anticipated changes to market value and expected employee exercise behavior. The risk-free interest rate used in the option valuation model is based on U.S. Treasury zero-coupon securities with remaining terms similar to the expected term on the options. RGS does not anticipate paying any cash dividends on its Class A common stock in the foreseeable future and, therefore, an expected dividend yield of zero is used in the option valuation model. The assumptions used to value to 2018 Options on June 21, 2018 are as follows:

	Vesting Period	Expected Life	Expected Dividend Rate	Risk-free Rate	Market Price Volatility
2018 Non-Qualified Stock Options	2.78 years	4.2 years	0%	2.70%	148.81%

10. Goodwill Impairment

The Company performed its annual test of goodwill and based on the results of this test, the Company determined that the fair value of the goodwill no longer exceeded the carrying amount. The fair value was determined using a discounted cash flow valuation technique and resulted in an impairment of goodwill of $1.3 million for the quarter ended June 30, 2018.

11. Net Income (Loss) Per Share

Basic net income (loss) per share excludes any dilutive effects of options, warrants or our senior secured convertible notes due on April 1, 2019 (the "2016 Notes"). The Company computes basic net income (loss) per share using the weighted average number of shares of its Class A common stock outstanding during the period. The Company computes diluted net income (loss) per share using the weighted average number of shares of its Class A common stock and common stock equivalents outstanding during the period. The Company excluded common stock equivalents of 29.4 million and 6.5 million for the three months ended June 30, 2018 and 2017, respectively, and 29.4 million and 6.5 million for the six months ended June 30, 2018 and 2017, respectively from the computation of diluted net loss per share because their effect was antidilutive.

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
(In thousands, except per share data)	**2018**	**2017**	**2018**	**2017**
Numerator for basic and diluted net loss per share	$ (7,762)	$ (4,030)	$ (12,096)	$ (8,064)
Denominator:				
Weighted average shares for basic net loss per share	10,757	7,481	10,485	6,102
Effect of dilutive securities:				
Weighted average of common stock, stock options and warrants	-	-	-	-
Denominators for diluted net loss per share	10,757	7,481	10,485	6,102
Net loss per share—basic and diluted	$ (0.73)	$ (0.53)	$ (1.16)	$ (1.32)

12. Segment Information

The Company operates as four reportable segments: (1) Residential – the installation of solar energy systems for homeowners, including lease financing thereof, and small business commercial in the continental U.S.; (2) Sunetric – the installation of solar energy systems for both homeowners and business owners (commercial) in Hawaii; (3) POWERHOUSE™ – the manufacturing and sale of solar shingles; and (4) Other – corporate operations. The Company discontinued its former large commercial segment and it is presented as discontinued operations.

Financial information for the Company's segments and a reconciliation of the total of the reportable segments' loss from operations to the Company's consolidated net loss are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	**2018**	**2017**	**2018**	**2017**
Contract revenue:				
Residential	3,370	2,472	5,858	6,119
Sunetric	260	525	596	544
POWERHOUSE™	-	-	-	-
Other	-	-	-	-
Consolidated contract revenue	3,630	2,997	6,454	6,663
Operating loss from continuing operations:				
Residential	(242)	(1,706)	(2,113)	(2,354)
Sunetric	(384)	(532)	(981)	(1,336)
POWERHOUSE™	(58)	-	(108)	-
Other	(3,453)	(1,769)	(5,278)	(4,018)
Operating Loss	(4,137)	(4,007)	(8,480)	(7,708)
Reconciliation of consolidated loss from operations to consolidated net loss:				
Change in fair value of derivative liabilities and loss on debt extinguishment	(3,073)	21	(3,046)	(465)
Amortization of debt discount & deferred loan costs	(1,435)	-	(1,435)	-
Other (income) expense	950	(11)	954	97
(Loss) gain from discontinued operations, net of tax	(67)	(33)	(89)	12
Net loss	(7,762)	(4,030)	(12,096)	(8,064)

The following is a reconciliation of reportable segments' assets to the Company's consolidated total assets. The Other segment includes certain unallocated corporate amounts.

(in thousands)	June 30, 2018	December 31, 2017
Total assets – continuing operations:		
Residential	$ 4,204	$ 5,877
Sunetric	1,146	2,142
POWERHOUSE™	100	1,140
Other	4,474	3,278
	$ 9,924	$ 12,437
Total assets – discontinued operations:		
Commercial	1,396	1,821
	$ 11,320	$ 14,258

13. Discontinued Operations

The following is a reconciliation of the major line items constituting pretax income of discontinued operations to the after-tax gain on discontinued operations that are presented in the condensed consolidated statements of operations as indicated:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
(in thousands)	2018	2017	2018	2017
Major line items constituting pretax loss of discontinued operations:				
Contract revenue	$ (62)	$ 1	$ (62)	$ 5
Contract expense (income)	10	2	(36)	-
Operating and other expense	(5)	32	63	(17)
Pretax income (loss) from discontinued operations	(67)	(33)	(89)	22
Income from discontinued operations, net of tax	$ (67)	$ (33)	$ (89)	$ 12

The following is a reconciliation of the carrying amounts of major classes of assets and liabilities of the discontinued operations to the total assets and liabilities of the discontinued operations presented separately in the condensed consolidated balance sheets as indicated:

(in thousands)	June 30, 2018	December 31, 2017
Carrying amounts of major classes of assets included as part of discontinued operations:		
Current assets:		
Accounts receivable, net	$ 395	$ 394
Costs in excess of billings on uncompleted contracts	-	62
Inventory, net	68	63
Other current assets	625	723
Total major classes of current assets of the discontinued operations	1,088	1,242
Noncurrent assets:		
Other noncurrent assets	308	579
Total noncurrent assets of discontinued operations	308	579
Total assets of the discontinued operations in the balance sheet	$ 1,396	$ 1,821
Carrying amounts of major classes of liabilities included as part of discontinued operations:		
Current liabilities:		
Accounts payable	$ 270	$ 270
Accrued liabilities	34	33
Deferred revenue and other current liabilities	486	418
Total current liabilities of discontinued operations	790	721
Noncurrent liabilities:		
Other liabilities	727	745
Total major classes of noncurrent liabilities of the discontinued operations	727	745
Total liabilities of the discontinued operations in the balance sheet	$ 1,517	$ 1,466

14. Subsequent Events

See Note 7. Convertible Debt for information on activity after the period. The Company has evaluated events up to the filing date of these interim financial statements and determined that, other than what has been disclosed above, no further subsequent event activity required disclosure.

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

The following discussion and analysis provides information that we believe is relevant to an assessment and understanding of our results of operation and financial condition. You should read this analysis in conjunction with our interim condensed consolidated financial statements and related footnotes. This discussion and analysis contains statements of a forward-looking nature relating to future events or our future financial performance. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results, level of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements, including those set forth in our 2017 10-K and in this report for the period ended June 30, 2018.

Discontinued Operations

During 2014, we committed to a plan to sell certain contracts and rights comprising our large commercial installations business, otherwise known as our former Commercial segment. At the same time, we determined not to enter into further large commercial installation contracts in the mainland United States. Most contracts in process at December 31, 2014 were substantially completed during 2015 and remaining work was completed in 2017. We now report this business as a discontinued operation, separate from our continuing operations. The following management discussion and analysis of financial condition and results of operations is for our continuing operations, unless indicated otherwise.

Overview

We are a residential and small business commercial solar energy engineering, procurement and construction firm. We offer turnkey services, including design, procurement, permitting, build-out, grid connection, financing referrals and warranty and customer satisfaction activities. Our solar energy systems use high-quality solar photovoltaic modules. We use proven technologies and techniques to help customers achieve meaningful savings by reducing their utility costs. In addition, we help customers lower their reliance upon fossil fuel energy sources. As of September 29, 2017, we are the exclusive domestic and international licensee of the POWERHOUSE™ in-roof solar shingle, an innovative and visually stunning solar shingle system developed by Dow.

We, including our predecessors, have more than 40 years of experience in residential solar energy and trace our roots to 1978, when Real Goods Trading Corporation sold the first solar photovoltaic panels in the United States. We have designed and installed over 26,000 residential and commercial solar energy systems since our founding.

During 2014, we discontinued our entire former Commercial segment and sold the assets associated with our catalog business (a portion of the Other segment). As of September 30, 2017, we created a new segment for our POWERHOUSE™ business. As a result, we now operate as four reportable segments: (1) Residential – the installation of solar energy systems for homeowners, including lease financing thereof, and small business commercial in the continental United States; (2) Sunetric – the installation of solar energy systems for both homeowners and business owners (commercial) in Hawaii; (3) POWERHOUSE™ - the manufacturing and sales of solar shingles; and (4) Other – corporate operations. We believe this structure enables us to more effectively manage our operations and resources.

We generally recognize revenue from solar energy systems sold to our customers when we install the solar energy system. Our business requires that we incur costs of acquiring solar panels and labor to install solar energy systems on our customer rooftops up-front and receive cash from customers thereafter. As a result, during periods when we are increasing sales, we expect to have negative cash flow from operations.

POWERHOUSE™ License Agreement

A material significant event occurred on September 29, 2017 (the "Effective Date"), when we executed the international world-wide Technology License Agreement (the "License") with Dow, providing an exclusive domestic and international right to commercialize its POWERHOUSE™ in-roof solar shingle, an innovative and aesthetically pleasing solar shingle system developed by Dow. The POWERHOUSE™ 1.0 and 2.0 versions used CIGS (copper indium gallium selenide solar cells) technology which had a high manufacturing cost, resulting in the product not being consumer price friendly. Conversely, the POWERHOUSE™ 3.0 is being developed with traditional silicon solar cells to increase solar production and to provide a competitive consumer price point. The License requires us to commercialize and sell a minimum of 50 megawatts of solar within 5-years of the Effective Date to retain exclusive world-wide rights, a requirement we believe is achievable.

Under the terms of the License, we will produce, market and sell POWERHOUSE™ 3.0, for which we have agreed to a license fee of $3 million and a running royalty fee equal to 2.5% against net sales of the POWERHOUSE™ product and services, payable quarterly in arrears. Further, we will be responsible for all post-Effective Date costs to obtain UL certification and for the prosecution of all related patents world-wide, which may be offset against the payment of the running royalty fee. The license fee is comprised of two payments. We paid the first $1 million within 10 days of the Effective Date of the License in 2017 in accordance with the Trademark License Agreement (the "TLA"). The remaining $2 million is due within 30 days of the Company receiving UL certification of the POWERHOUSE™ 3.0 product. Upon obtaining UL certification, we intend to begin commercialization of POWERHOUSE™ 3.0 entailing the manufacturing, marketing and sale of POWERHOUSE™ 3.0 to roofing companies.

As of June 30, 2018, we have invested approximately $1.2 million that has been capitalized to the POWERHOUSE™ License, an intangible asset on the Consolidated Balance Sheet.

Key Metrics

Key Operational Metric, Gross Margin on Residential Segment, Our Largest Segment

We utilize a job costing system whereby employees record their time to projects. We accumulate the cost of idle time reflecting the cost we incur to maintain a construction organization until our revenue grows, allowing for greater utilization of our construction organization. Cost of goods sold ("COGS") include direct project installation costs (materials, labor, travel, financing fees, and estimated warranty costs) and indirect costs for project installation support (including un-utilized labor of idle time of construction crews, supplies, and insurance). We employ an internal time reporting system to determine COGS and resulting gross margin percentage used by us to measure our performance in achieving gross margin percentage targets. Further, we measure COGS per watt based upon COGS, excluding idle time, divided by the aggregate watts of systems installed during the period. For financial reporting purposes, COGS include the idle time of construction crews currently maintained in anticipation of future growth of backlog. Gross margin percentage on actual installation time is not a measure defined by generally accepted accounting principles.

The majority of indirect labor costs are fixed, which impacts the gross margin percentage when we consider idle time. During the first quarter of 2018, the suspension of the Rhode Island Renewable Energy Growth Program (the "Rhode Island Program") resulted in our carrying greater idle time than the same period in 2017, as management elected to keep all of our Rhode Island installation crews during this period having knowledge the Rhode Island Program would be reinstated on April 1, 2018.We anticipate an improvement in our gross margin percentage in future periods from increased revenue from our implementation of our revenue growth strategy.

	Three Months Ended		Six Months Ended	
	June 30, 2018	**June 30, 2017**	**June 30, 2018**	**June 30, 2017**
Gross margin % on actual installation time	24%	20%	24%	24%
Gross margin % including idle time	15%	4%	9%	11%

Backlog

Backlog represents the dollar amount of revenue that we may recognize in the future from signed contracts to install solar energy systems that have not yet been installed without taking into account possible future cancellations. Backlog is not a measure defined by GAAP, and is not a measure of contract profitability. Our methodology for determining backlog may not be comparable to methodologies used by other companies in determining their backlog amounts. The backlog amounts we disclose are net of cancellations and include anticipated revenues associated with (i) the original contract amounts, and (ii) change orders for which we have received written confirmations from the applicable customers. Backlog may not be indicative of future operating results, and projects in our backlog may be cancelled, modified or otherwise altered by customers. We can provide no assurance as to the profitability of our contracts reflected in backlog.

The following table summarizes changes to our backlog by segment during the six-month period ended June 30, 2018:

(in thousands)	Residential	Sunetric	Totals
Backlog at December 31, 2017	$ 10,521	$ 2,244	$ 12,765
Bookings from new awards ("Sales")	7,168	320	7,488
Cancellations and reductions on existing contracts	(3,068)	(791)	(3,859)
Amounts recognized in revenue upon installation	(2,212)	(295)	(2,507)
Backlog at March 31, 2018	12,409	1,478	13,887
Bookings from new awards ("Sales")	8,010	167	8,177
Cancellations and reductions on existing contracts	(3,069)	(111)	(3,180)
Amounts recognized in revenue upon installation	(3,087)	(114)	(3,201)
Backlog at June 30, 2018	$ 14,263	$ 1,420	$ 15,683

Historically, we experience higher customer cancellations during the first quarter of the calendar year from customers whose systems were not installed before the end of the prior year for them to realize the benefit of the investment tax credit. We have determined that for optimum internal operations, and customer satisfaction, that a backlog equivalent to a few months of sales is optimal.

We compete with larger capitalized firms for customers, employees, and the services of third party financiers and installers and, accordingly, there can be no assurance that we will be successful in meeting our goals for increasing sales and revenue.

Critical Accounting Policies and Estimates

There were no material changes to our critical accounting policies or estimates during the six months ended June 30, 2018 from those disclosed in our 2017 10-K. The adoption of ASC 606 related to revenue recognition has not had a material impact on our results of operation, financial condition or cash flows.

Results of Operations

Three Months Ended June 30, 2018 Compared to Three Months Ended June 30, 2017

Contract revenue:

Sale and installation of solar energy systems. Sale and installation of solar energy system revenue increased $0.7 million, or 26.3%, to $3.4 million during the three months ended June 30, 2018, from $2.7 million during the three months ended June 30, 2017. This is primarily due to a 155% increase in the backlog of the Residential Segment at the start of the second quarter in 2018 over 2017 resulting in more installations while achieving greater efficiencies of our field crews. Additionally, the Rhode Island Program, which reached its funding cap in the fourth quarter of 2017 came back on-line. Backlog associated with the Rhode Island Program required permit re-application beginning April 1, 2018, and permit approval prior to commencing field work.

Contract expenses:

Installation of solar energy systems. Installation of solar energy system expenses increased $0.3 million, or 12.5%, to $3 million during the three months ended June 30, 2018, from $2.7 million during the three months ended June 30, 2017, which coincides with the increase in installation revenue.

Customer acquisition. Customer acquisition expense decreased $0.5 million during the three months ended June 30, 2018, or 40.3%, to $0.8 million during the three months ended June 30, 2018 from $1.3 million during the three months ended June 30, 2017. This decrease is due to a reduction in labor costs related to our February 2018 strategic realignment. Additionally, with the decrease in personnel there was a corresponding decrease in marketing expenses. While both personnel and marketing expenses decreased, leveraging our marketing generated leads, the efficiency of our residential sales team members increased resulting in a 20% growth in new sales in the same year over year quarter.

Operating Expenses. Operating expenses for the three months ended June 30, 2018 was $2.2 million compared to $2.5 million during the three months ended June 30, 2017. The decrease was mainly due to reduction in labor costs as a result of our February 2018 strategic realignment and a reduction in the use of IT consultants when compared to the same period in prior year. Additionally, beginning in the three months ended June 30, 2017 and continuing throughout the remainder of 2017, we incurred excessive costs related to the 2017 annual shareholder meeting proxy contest which was resolved in January of 2018.

Goodwill impairment. Goodwill impairment increased by $1.3 million during the three months ended June 30, 2018 due to the results of our annual impairment testing. We concluded that the fair value of the goodwill no longer exceeds its carrying value and wrote off the goodwill balance.

Change in fair value of derivative liabilities, loss on debt extinguishment and amortization of debt discount & deferred loan costs. We entered into a Securities Purchase Agreement with two unaffiliated institutional and accredited investors for a private placement (the "2018 Note Offering") of up to $10.75 million in principal amount and $10 million funding amount (reflecting $0.75 million of original issue discount) of Senior Convertible Notes (the "2018 Notes"), and Series Q Warrants (the "Series Q Warrants") to purchase 9,126,984 shares of Class A Common Stock. On April 9, 2018, we closed the 2018 Note Offering and received $5 million of the gross proceeds and two secured promissory notes from each investor, in a combined aggregate amount of $5 million (each, an "Investor Note"), secured by cash and/or securities held in investor accounts. The issuance of the 2018 Notes, subsequent conversions and revaluation of the derivative liabilities resulted in a net loss of $3.1 million. Additionally, interest expense increased due to the accretion of the debt discount and deferred loan costs related to the 2018 Notes. No such transaction occurred during the three months ended June 30, 2017 resulting in an increase of $1.4 million.

Other (income) expenses. On June 29, 2015, we received a subpoena from the U.S. Securities and Exchange Commission requesting the production of documents, records and information related to the July 2014 Offering (the "Subpoena"). We had incurred significant legal expenses related to the Subpoena for which we requested coverage from our Directors' & Officers' liability insurance provider. Initially coverage had been denied but the provider paid $1.5 million of legal expense while reserving its right to be reimbursed. Accordingly, the $1.5 million paid by the insurance provider was accrued for as a long-term liability until a settlement could be reached. On June 30, 2018 we and the insurance provider agreed upon a settlement proposal whereby we will pay the insurance provider $0.6 million in monthly installments of $25,000 per month beginning September 2018 up to a maximum of $0.6 million in full settlement of the obligation. The defeasance of the remaining obligation was recorded as other income with the remaining balance split between current and noncurrent liabilities in the accompanying Condensed Consolidated Balance Sheet.

Six Months Ended June 30, 2018 Compared to Six Months Ended June 30, 2017

Contract revenue:

Sale and installation of solar energy systems. Sale and installation of solar energy system revenue decreased $0.1 million, or 2.1%, to $5.9 million during the six months ended June 30, 2018, from $6.0 million during the six months ended June 30, 2017. This is primarily the result of the Rhode Island Program reaching its funding cap earlier than expected in the fourth quarter of 2017 and deferring installations until the second quarter of 2018. As such, we were able to resume installations in the state of Rhode Island during the three months ended June 30, 2018 and offset the reduction in contract revenue we realized during the first quarter of 2018 versus 2017.

Contract expenses:

Installation of solar energy systems. Installation of solar energy system decreased by approximately $0.1 million during the six months ended June 30, 2018 as compared to June 30, 2017, which corresponds to the reduction of installation revenue during this same time comparison.

Customer acquisition. Customer acquisition expense decreased $0.3 million during the six months ended June 30, 2018, or 12.0%, to $2 million during the six months ended June 30, 2018. This decrease is due to a reduction in labor costs related to our February 2018 strategic realignment. Additionally, with the decrease in personnel there was a corresponding decrease in marketing expenses. While both personnel and marketing expenses decreased, leveraging our marketing generated leads, the efficiency of our residential sales team members increased resulting in a 60% growth in new sales during the six months ended June 30, 2018 as compared to 2017.

Operating expense. Operating expenses decreased $0.5 million, or 10.1%, to $4.8 million during the six months ended June 30, 2018 compared to $5.4 million during the six months ended June 30, 2017. The decrease was mainly due to reduction in labor costs as a result of our February 2018 strategic realignment and a reduction in the use of consultants when compared to the same period in prior year.

Change in fair value of derivative liabilities, loss on debt extinguishment and amortization of debt discount & deferred loan costs. The issuance of the 2018 Notes, subsequent conversions and revaluation of the derivative liabilities resulted in a net loss of $3.1 million compared to $0.5 million during the three months ended June 30, 2017. Additionally, interest expense increased due to the accretion of the debt discount and deferred loan costs related to the 2018 Notes. No such transaction occurred during the three months ended June 30, 2017 resulting in an increase of $1.4 million.

Other (income) expenses. On June 29, 2015, we received a subpoena from the U.S. Securities and Exchange Commission requesting the production of documents, records and information related to the Subpoena. We had incurred significant legal expenses related to the Subpoena for which we requested coverage from our Directors' & Officers' liability insurance provider. Initially coverage had been denied but the provider paid $1.5 million of legal expense while reserving its right to be reimbursed. Accordingly, the $1.5 million paid by the insurance provider was accrued for as a long-term liability until a settlement could be reached. On June 30, 2018 we and the insurance provider agreed upon a settlement proposal whereby we will pay the insurance provider $0.6 million in monthly installments of $25,000 per month beginning September 2018 up to a maximum of $0.6 million in full settlement of the obligation. The defeasance of the remaining obligation was recorded as other income with the remaining balance split between current and noncurrent liabilities in the accompanying Condensed Consolidated Balance Sheet.

Seasonality

Our quarterly net revenue and operating results for solar energy system installations are difficult to predict and have, in the past, and may, in the future, fluctuate from quarter to quarter as a result of changes in state, federal, or private utility company subsidies, as well as weather, economic trends and other factors. We have historically experienced seasonality in our solar installation business, with the first quarter representing our lowest installation quarter of the year primarily due to adverse weather. We have historically experienced seasonality in our sales of solar systems, with the fourth and first quarters of the year seeing less sales orders than the second and third quarters.

Liquidity and Financial Resources Update

We have experienced recurring operating losses and negative cash flow from operations which have necessitated: (i) developing plans to grow revenue to generate positive cash flow and (ii) raising additional capital. No assurances can be given that we will be successful with its plans to grow revenue for profitable operations or, if necessary, raising additional capital. See Note 6. Shareholders Equity, Note 7. Convertible Debt and Note 13. Subsequent Events for transactions raising capital during the first half of 2018.

Our plans to grow revenue are:

- Manufacture and sell solar shingles under the POWERHOUSE™ license. We anticipate obtaining UL certification for POWERHOUSE™ 3.0 during October 2018, a prerequisite for commercialization of the product. Upon achieving UL certification, we plan to manufacture, market and sell POWERHOUSE™ 3.0 to roofing companies and new home builders. We continue to receive written reservations for the Powerhouse™ 3.0 product;

- Leverage the POWERHOUSE™ brand to generate leads and revenue for the Residential and Sunetric segments;

Until we are successful in implementing its plans to increase revenue for profitable operations, we expect to have a cash outflow from operating activities. We expect to obtain UL certification for POWERHOUSE™ 3.0 in 2018 and proceed with the commercialization of POWERHOUSE™ 3.0. We initially expect to have cash outflow from operating activities for commercialization of POWERHOUSE™ 3.0 and prepayments with supply chain manufacturers as sales of the product commence. Additionally, we will be required to make the remaining "Initial License" payment of $2 million, which will be recorded as a cash outflow in investing activities.

To provide funds to commercialize POWERHOUSE™ 3.0, on April 9, 2018, we closed the 2018 Note Offering (as defined and further discussed in Note 7. Convertible Debt). Cash proceeds received by us including hypothetical cash receipts related specifically to the 2018 Note Offering are summarized below:

	Cash	*Principal and Additional Amount*	*Common Stock Warrants*
At closing of the offering on April 9, 2018	$ 5,000,000	$ 11,500,000	9,857,143
Conversions of notes to Class A common stock	-	(6,438,000)	-
Exercises of common stock warrants	112,000	-	(200,000)
Placement Agent Fees	(454,197)	-	-
As of June 30, 2018	4,657,803	5,062,000	9,657,143
Activity during the period July 1 to August 10, 2018			
Additional amounts arising from Shareholder approval reset	-	25,577,431	-
Exercises of common stock warrants	8,166,667	-	(7,191,667)
Conversions of 2018 Notes (Note 7) to Class A common stock	1,672,956	(16,039,109)	-
Placement Agent Fees	(117,107)	-	-
As of August 10, 2018	14,380,319	14,600,322	2,465,476
Expected future activity:			
Common stock warrants	-	-	(1,735,317)
Placement Agent common stock warrants	-	-	(730,159)
Funding of remaining balance on Investor Notes	3,327,044	(3,327,044)	-
Conversions of 2018 Notes to Class A common stock	-	(11,273,278)	-
Placement Agent Fees	(232,893)	-	-
Expected net cash from 2018 Convertible Note Offering	$ 17,474,470	$ -	-

The expected activity above reflects:
* The Company receiving cash of $3.3 million from the Investor Notes (Note 7).
* The noteholders converting shares represented by Additional Amount (Note 7) into Class A common stock at the reset price of $0.3223

We have access to hypothetical cash from exercise of other common stock warrants. The hypothetical maximum cash from exercise of other common stock warrants is the mathematical result of the number of warrant shares times the respective exercise price per share. The hypothetical results are premised upon an increase in the future trading value of our common stock resulting in the exercise of common stock warrants. It further assumes all investors elect cash exercises (not cashless exercises) and warrant exercise prices are not reduced or reset to a lower amount. The majority of common stock warrants have exercise prices at or below $3.10 per share and could result in cash receipts of approximately $19 million. No assurances can be given that the investors will exercise their remaining common stock warrants.

We believe it has arranged for the capital to commercialize POWERHOUSE™ 3.0. No assurances can be given that we will successfully commercialize POWERHOUSE™ 3.0.

The accompanying consolidated financial statements have been prepared on a basis that assumes we will continue as a going concern and contemplates the continuity of operations, realization of assets and the satisfaction of liabilities and commitments in the normal course of business. We have experienced a history of operating losses and have an accumulated deficit of approximately $213 million at June 30, 2018. During the three months ended and six months ended June 30, 2018, we generated a net loss of approximately $7.8 million and $12.1 million, respectively. We expect that we will continue to generate operating losses until sales are increased and we subsequently recognize an increase in installation revenue. At August 10, 2018, our consolidated cash balance was approximately $10 million.

We believe that we have sufficient capital resources for the ensuing 12 months.

Cash Flows

The following table summarizes our primary sources (uses) of cash during the periods presented:

	For the Six Months Ended June 30, 2018	For the Six Months Ended June 30, 2017
Net cash (used in) provided by:		
Operating activities - continuing operations	$ (6,215)	$ (8,326)
Operating activities - discontinued operations	377	(38)
Operating activities	(5,838)	(8,364)
Investing activities	(108)	(370)
Financing activities	6,317	15,539
Net increase in cash	$ 371	$ 6,805

Continuing Operations

Operating activities. Our operating activities used net cash of $6.2 million and $8.3 million during the six months ended June 30, 2018 and 2017, respectively. The change in cash outflows compared to prior year is principally due to timing of vendor payments.

Investing activities. During the six months ended June 30, 2018, we incurred $0.1 million of charges related to our investment in obtaining UL certification for POWERHOUSE™.

Financing activities. Our financing activities provided net cash of $6.3 million and $15.5 million during the six months ended June 30, 2018 and 2017, respectively. Our net cash provided by financing activities during the six months ended June 30, 2018 reflected net proceeds of $1.7 million from the January 2018 offering, $4.5 million of proceeds from the offering of the 2018 Notes and $0.1 million of proceeds from the exercise of Series Q Warrants. Our net cash provided by financing activities during the six months ended June 30, 2017 reflected the net proceeds $0.2 million from the conversion of debt related to the offering of 2016 Notes and net proceeds of $16.0 million from the issuance of common stock and warrants in our February 2017 offerings, offset by repayment of our line-of-credit facility of $0.7 million.

Discontinued Operations

Operating activities. Our operating activities provided net cash of $0.4 million and used $0.1 million during the six months ended June 30, 2018 and 2017, respectively, due to the collection of a long-term receivable.

Off-Balance Sheet Arrangements

We do not participate in transactions that generate relationships with unconsolidated entities or financial partnerships, such as special purpose entities or variable interest entities, established for the purpose of facilitating off-balance sheet arrangements or other limited purposes and as a result we do not have and are not reasonably likely to have future off-balance sheet arrangements.

Risk Factors

We caution that there are risks and uncertainties that could cause our actual results to be materially different from those indicated by forward-looking statements that, from time-to-time, we make in filings with the SEC, news releases, reports, proxy statements, registration statements and other written communications as well as oral forward-looking statements made by our representatives. These risks and uncertainties include, but are not limited to, those risks set forth listed in the section entitled “RISK FACTORS” in our 2017 10-K, which is on file with the SEC. Except for the historical information contained herein, the matters discussed in this analysis are forward-looking statements that involve risk and uncertainties, including, but not limited to, general economic and business conditions, competition, pricing, brand reputation, consumer trends, and other factors which are often beyond our control.

The risks and uncertainties we have described are not the only ones facing our Company. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect our business operations. We do not undertake any obligation to update forward-looking statements except as required by law.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our chief executive officer and principal financial officer conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and Rule 15d-15(e) under the Securities Exchange Act of 1934, as amended. Based upon their evaluation as of June 30, 2018, they have concluded that our disclosure controls and procedures were not effective due to a material weakness in our internal control over financial reporting described below.

Changes in Internal Control over Financial Reporting

During the second quarter of fiscal 2018, we identified a material weakness in our internal controls over accounting for complex and non-routine transactions. Although we had appropriately addressed and concluded upon the accounting for a complex and non-routing transaction that occurred during the three months ended June 30, 2018, certain of the adjusting journal entries were originally recorded incorrectly. Although correcting entries were recorded and are reflected in this quarterly report on Form 10-Q, the fact that our existing controls over complex and non-routine transactions did not detect the errors indicates that a more specific control is necessary in order to prevent and/or detect misstatements in a timely manner. Based upon that discovery, our Chief Executive Officer and Chief Financial Officer have concluded we did not adequately design a process to mitigate the risks associated with a complex transaction of this nature.

Remediation Plan for Material Weakness in Internal Control over Financial Reporting

We have begun taking steps and plan to take additional measures to remediate the underlying cause of the material weakness in our internal control over financial reporting for complex non-routine transactions, which, management has concluded, require development of unique control procedures specific to the transaction. Accordingly, and specific to our 2018 Notes, non-accounting personnel will maintain and enhance our note conversion tracking system to validate the accounting reconciliation of the note conversions and therefore timely identify and take corrective action of any general ledger postings.
Our management believes that these measures will address the above issue. We can make no assurances that these plans will be sufficient to correct the material weakness in internal control over financial reporting or that additional steps may not be necessary in the future. Our management and the audit committee of our board of directors will continue to monitor the effectiveness of our internal control over financial reporting and will take further action as appropriate.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, the Company may be involved in legal proceedings that are considered to be in the normal course of business. There were no material developments to previously reported legal proceedings during the three months ended June 30, 2018.

Item 1A. Risk Factors

There have been no material changes from the risk factors disclosed in Item 1A of the Company's 2017 10-K.

Item 6. Exhibits.

Exhibit No.	Description
1.1	Placement Agency Agreement, dated January 29, 2018, between Real Goods Solar, Inc. and WestPark Capital, Inc.
4.1	Form of Series A Senior Convertible Note, dated April 9, 2018, issued to the investors under the Securities Purchase Agreement, dated March 30, 2018 (Incorporated by reference to Exhibit 4.1 to Real Goods Solar's Current Report on Form 8-K filed April 10, 2018 (Commission File No. 001-34044)).
4.2	Form of Series B Senior Secured Convertible Note, dated April 9, 2018, issued to the investors under the Securities Purchase Agreement, dated March 30, 2018 (Incorporated by reference to Exhibit 4.2 to Real Goods Solar's Current Report on Form 8-K filed April 10, 2018 (Commission File No. 001-34044)).
4.3	Form of Series Q Warrants, dated April 9, 2018, issued to the investors under the Securities Purchase Agreement, dated March 30, 2018 (Incorporated by reference to Exhibit 4.3 to Real Goods Solar's Current Report on Form 8-K filed April 10, 2018 (Commission File No. 001-34044)).
4.4	Form of Secured Promissory Notes, dated April 9, 2018, issued to Real Goods Solar, Inc. under the Note Purchase Agreement, dated April 9, 2018 by each of the investors under the Securities Purchase Agreement, dated March 30, 2018 (Incorporated by reference to Exhibit 4.4 to Real Goods Solar's Current Report on Form 8-K filed April 10, 2018 (Commission File No. 001-34044)).
4.5	Form of Placement Agent Warrant, dated April 9, 2018, issued by Real Goods Solar, Inc. to WestPark Capital, Inc. (Incorporated by reference to Exhibit 4.5 to Real Goods Solar's Current Report on Form 8-K filed April 10, 2018 (Commission File No. 001-34044)).
10.1	Form of Amendment No. 1 to Securities Purchase Agreement, dated April 9, 2018, between Real Goods Solar, Inc. and each of the investors under the Securities Purchase Agreement, dated March 30, 2018 (Incorporated by reference to Exhibit 10.1 to Real Goods Solar's Current Report on Form 8-K filed April 10, 2018 (Commission File No. 001-34044)).
10.2	Registration Rights Agreement, dated April 9, 2018, among Real Goods Solar, Inc. and the investors under the Securities Purchase Agreement, dated March 30, 2018 (Incorporated by reference to Exhibit 10.2 to Real Goods Solar's Current Report on Form 8-K filed April 10, 2018 (Commission File No. 001-34044)).
10.3	Form of Note Purchase Agreement, dated April 9, 2018, between Real Goods Solar, Inc. and each of the investors under the Securities Purchase Agreement, dated March 30, 2018 (Incorporated by reference to Exhibit 10.3 to Real Goods Solar's Current Report on Form 8-K filed April 10, 2018 (Commission File No. 001-34044)).
10.4	Form of Master Netting Agreement, dated April 9, 2018, between Real Goods Solar, Inc. and each of the investors under the Securities Purchase Agreement, dated March 30, 2018 (Incorporated by reference to Exhibit 10.4 to Real Goods Solar's Current Report on Form 8-K filed April 10, 2018 (Commission File No. 001-34044)).
10.5	Registration Rights Agreement, dated June 5, 2018, among Real Goods Solar, Inc., Iroquois Master Fund Ltd. and Iroquois Capital Investment Group LLC (Incorporated by reference to Exhibit 10.1 to Real Goods Solar's Current Report on Form 8-K filed June 7, 2018 (Commission File No. 001-34044)).
10.6†	Real Goods Solar, Inc. 2018 Long-Term Incentive Plan (Incorporated by reference to Exhibit 10.1 to Real Goods Solar's Current Report on Form 8-K filed June 21, 2018 (Commission File No. 001-34044)).
10.7†	Form of Real Goods Solar, Inc. Employee Stock Option Agreement (Incorporated by reference to Exhibit 10.2 to Real Goods Solar's Current Report on Form 8-K filed June 21, 2018 (Commission File No. 001-34044)).
31.1*	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934
31.2*	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934
32.1**	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2**	Certification of the Chief Financial Officer pursuant to 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
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase
101.DEF**	XBRL Taxonomy Extension Definition Linkbase
101.LAB**	XBRL Taxonomy Extension Label Linkbase
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase

* Filed herewith

** Furnished herewith

† Indicates management contract or compensatory plan or arrangement.

SIGNATURES

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

	Real Goods Solar, Inc. (Registrant)	
Date: August 14, 2018	By:	/s/ Dennis Lacey Dennis Lacey Chief Executive Officer and Director (Authorized Officer)
Date: August 14, 2018	By:	/s/ Alan Fine Alan Fine Chief Financial Officer and Treasurer (Principal Financial Officer)
Date: August 14, 2018	By:	/s/ Nicolle Dorsey Nicolle Dorsey Principal Accounting Officer and Controller

WESTPARK CAPITAL, INC.
INVESTMENT BANKING

January 29, 2018

PERSONAL AND CONFIDENTIAL

Real Goods Solar, Inc.
833 West South Boulder Road
Louisville, CO 80027

Attention: Mr. Dennis J. Lacey
Chief Executive Officer

This letter will confirm the understanding and agreement (the "Agreement") between WestPark Capital, Inc. ("WestPark") and Real Goods Solar, Inc. (the "Company") as follows:

1. **Engagement**: The Company hereby engages WestPark as its exclusive agent in the placement of approximately $10.0 million of one or more classes or series of securities of the Company to investors (the "Investors"). Such securities (the "Securities") may take the form of common stock of the Company (the "Common Stock"), convertible debt, or other equity-linked securities or any combination thereof. Such placement shall be referred to as the "Transaction;" provided, however, that a "Transaction" shall expressly exclude any issuance of Securities (i) as consideration for the settlement of any dispute with any investor or other third party, (ii) upon any exchange, amendment or repricing of issued and outstanding warrants, and (iii) in connection with the exercise of issued and outstanding warrants.

2. **WestPark's Role**: WestPark hereby accepts the engagement described herein and, in that connection, agrees to:

   (a) review any offering documents used in connection with the Transaction (the "Offering Documents") describing the Company and the Securities;

   (b) review with the Company the Investors to whom the Offering Documents will be provided;

   (c) upon request from the Company and if applicable, obtain consents and/or waivers from past investors with respect to the Transaction; and

   (d) assist and advise the Company with respect to the negotiation of the sale of the Securities to the Investors.

3. **Term; Exclusivity**: This engagement will commence on the date hereof and terminate on the earlier of (a) the date on which the party receives written notice from the other party of termination of this engagement or (b) the date immediately following the closing of a Transaction contemplated hereunder. During WestPark's engagement hereunder: (i) the Company will not, and will not permit its representatives to, other than in coordination with WestPark or with respect to Northbridge Financial, contact or solicit institutions, corporations, individuals, or other entities as potential purchasers of the Securities in a Transaction, and (ii) the Company will not pursue any financing transaction which would be in lieu of a Transaction, other than with Northbridge Financial. Furthermore, the Company agrees that during WestPark's engagement hereunder, all inquiries, whether direct or indirect, from prospective Investors with respect to a Transaction will be referred to WestPark and will be deemed to have been contacted by WestPark in connection with the Transaction other than with respect to Northbridge Financial. Either party may terminate this Agreement at any time upon ten (10) days prior written notice at which the Company shall pay to WestPark all fees earned and reimburse WestPark for all expenses incurred, in accordance with Paragraph 6. The Company agrees to pay WestPark any fees specified in Paragraph 6 during the time limitations specified herein. The Company agrees that this Paragraph 3 and the provisions relating to the payment of fees, reimbursement of expenses, indemnification and contribution, confidentiality, conflicts, independent contractor and waiver of the right to trial by jury will survive any termination of this Agreement.

4. **Best Efforts**: It is understood that WestPark's involvement in the Transaction is strictly on a reasonable best efforts basis and that the consummation of the Transaction will be subject to, among other things, market conditions. It is understood that WestPark's assistance in the Transaction will be subject to the satisfactory completion of such investigation and inquiry into the affairs of the Company as WestPark deems appropriate under the circumstances (such investigation hereinafter to be referred to as "Due Diligence"). WestPark shall have the right in its sole discretion to terminate this Agreement if the outcome of the Due Diligence is not satisfactory to WestPark.

5. **Information**: The Company shall furnish, or cause to be furnished, to WestPark all information reasonably requested by WestPark for the purpose of rendering services hereunder (all such information being the "Information"). In addition, the Company agrees to make available to WestPark upon reasonable request from time to time the officers, directors, accountants, counsel and other advisors of the Company. The Company recognizes and confirms that WestPark (a) will use and rely on the Information, including the Offering Documents, and on information available from generally recognized public sources in performing the services contemplated by this Agreement without having independently verified the same; (b) does not assume responsibility for the accuracy or completeness of the Offering Documents or the Information and such other information; and (c) will not make an appraisal of any of the assets or liabilities of the Company. Upon reasonable request, the Company will meet with WestPark or its representatives to discuss all information relevant for disclosure in the Offering Documents and will cooperate in any investigation undertaken by WestPark thereof, including any document included or incorporated by reference therein.

6. **Fees**: As compensation for the services to be rendered by WestPark hereunder, the Company will pay WestPark the following fee (" Transaction Fee"):

   (a) A cash fee (the "Cash Fee") payable immediately upon the closing of the Transaction and upon any subsequent funding equal to 7.0% of the aggregate gross proceeds raised in the Transaction (excluding any amounts to be received in the future upon the exercise of any warrant or other derivative Security). The Cash Fee shall be reduced to 3.5% of gross cash consideration paid by Northbridge Financial in the Transaction or by any officers, directors and employees of the Company who participate in the Transaction, provided, further, in the event WestPark introduces or contacts an Investor during the Term and the Transaction does not occur during the Term but a transaction does occur with such Investors within the 90 days following the Term, WestPark shall be paid the full Transaction Fee for such Investor's participation in a transaction as if it occurred during the Term.

(b) Escrow Agreement and Payment: The Cash Fee shall be paid at the closing of a Transaction through a third-party escrow agent, or other means reasonably acceptable to WestPark, from the gross proceeds of the Securities sold. The Company agrees to pay the escrow agent fees. All Investor funds will be placed in an escrow account to be selected by WestPark and reasonably approved by the Company. WestPark shall be a party to the Escrow Agreement.

(c) WestPark shall have the right to purchase for the sum of $100.00 that number of warrants to purchase that number of shares of Common Stock (the "WestPark Warrants") at the Closing equal to 8.0% of the aggregate number of shares of Common Stock issued or issuable pursuant to the Transaction (reduced to 4.0% of the aggregate number of shares of Common Stock issued or issuable to officers, directors and employees of the Company who participate in the Transaction). The WestPark Warrants shall have the same terms as the warrants issued to the Investors in the Transaction. The WestPark Warrants will have a cashless exercise provision (regardless if there is an effective registration statement). Such warrants may be transferable to WestPark employees and affiliates.

(d) Expenses: The Company agrees to reimburse WestPark's reasonable and documented out-of-pocket accountable expenses (including travel, mailings, roadshow, ceremonial lucites and background checks) actually incurred by WestPark (with supporting invoices/receipts) up to $5,000. In addition, the Company agrees to reimburse WestPark's reasonable and documented out-of-pocket legal expense up to $75,000 of which $30,000 of such expense reimbursement shall be payable immediately to WestPark's legal counsel, Ellenoff Grossman & Schole upon the execution of this Agreement. The Company agrees to reimburse WestPark for such legal expenses whether or not a Transaction is completed.

(e) If within the 6 month period following consummation of a Transaction with gross proceeds of at least $8 million to the Company, the Company or any of its subsidiaries decides to raise funds by means of a public offering or a private placement of equity or debt securities using an underwriter or placement agent, WestPark (or any affiliate designated by WestPark) shall have the right to act as lead underwriter or lead placement agent for such financing. If WestPark or one of its affiliates decides to accept any such engagement, the agreement governing such engagement will contain, among other things, provisions for customary fees for transactions of similar size and nature and the provisions of this Agreement, including indemnification, which are appropriate to such a transaction.

7. **Representations and Warranties.**

The Company agrees WestPark may rely upon, and is a third-party beneficiary of, the representations and warranties, and applicable covenants, set forth in any agreements with Investors in the Transaction

8. **Indemnification**:

(a) To the extent permitted by law, the Company will indemnify WestPark and its affiliates, stockholders, directors, officers, employees and controlling persons (within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act) against all losses, claims, damages, expenses and liabilities, as the same are incurred (including the reasonable fees and expenses of counsel), relating to or arising out of its activities hereunder or pursuant to this engagement letter, except to the extent that any losses, claims, damages, expenses or liabilities (or actions in respect thereof) are found in a final judgment (not subject to appeal) by a court of law to have resulted primarily and directly from WestPark's willful misconduct or gross negligence in performing the services described herein.

(b) Promptly after receipt by WestPark of notice of any claim or the commencement of any action or proceeding with respect to which WestPark is entitled to indemnity hereunder, WestPark will notify the Company in writing of such claim or of the commencement of such action or proceeding, and the Company will assume the defense of such action or proceeding and will employ counsel reasonably satisfactory to WestPark and will pay the fees and expenses of such counsel. Notwithstanding the preceding sentence, WestPark will be entitled to employ counsel separate from counsel for the Company and from any other party in such action if counsel for WestPark reasonably determines that it would be inappropriate under the applicable rules of professional responsibility for the same counsel to represent both the Company and WestPark. In such event, the reasonable fees and disbursements of no more than one such separate counsel will be paid by the Company, in addition to local counsel. The Company will have the exclusive right to settle the claim or proceeding provided that the Company will not settle any such claim, action or proceeding without the prior written consent of WestPark, which will not be unreasonably withheld.

(c) The Company agrees to notify WestPark promptly of the assertion against it or any other person of any claim or the commencement of any action or proceeding relating to a transaction contemplated by this engagement letter.

(d) If for any reason the foregoing indemnity is unavailable to WestPark or insufficient to hold WestPark harmless, then the Company shall contribute to the amount paid or payable by WestPark as a result of such losses, claims, damages or liabilities in such proportion as is appropriate to reflect not only the relative benefits received by the Company on the one hand and WestPark on the other, but also the relative fault of the Company on the one hand and WestPark on the other that resulted in such losses, claims, damages or liabilities, as well as any relevant equitable considerations. The amounts paid or payable by a party in respect of losses, claims, damages and liabilities referred to above shall be deemed to include any legal or other fees and expenses incurred in defending any litigation, proceeding or other action or claim. Notwithstanding the provisions hereof, WestPark's share of the liability hereunder shall not be in excess of the amount of fees actually received, or to be received, by WestPark under this engagement letter (excluding any amounts received as reimbursement of expenses incurred by WestPark).

(e) The Company and WestPark agree that the Arbitrator (as defined below) shall enforce the plain terms of this Indemnity and Reimbursement provision, notwithstanding any law or public policy to the contrary.

(f) These indemnification provisions shall remain in full force and effect whether or not the transaction contemplated by this engagement letter is completed and shall survive the termination of this engagement letter, and shall be in addition to any liability that the Company might otherwise have to any indemnified party under this engagement letter or otherwise.

9. **Governing Laws**: This letter agreement will be governed by and construed in accordance with the laws of the State of California applicable to agreements made and to be fully performed therein.

10. **Confidentiality**: Except as required by law, this Agreement and the services and advice to be provided by WestPark hereunder, shall not be disclosed to third parties without WestPark's prior written permission. Notwithstanding, WestPark shall be permitted to advertise the services it provided in connection with the Transaction subsequent to the consummation of the Transaction. Such expense shall not be reimbursable under paragraph 6 hereof.

11. **No Brokers**: The Company represents and warrants to WestPark that there are no brokers, representatives or other persons which have an interest in compensation due to WestPark from any transaction contemplated herein or which would otherwise be due any fee, commission or remuneration upon consummation of any Transaction.

12. **Authorization**: The Company and WestPark represent and warrant that each has all requisite power and authority to enter into and carry out the terms and provisions of this Agreement and the execution, delivery and performance of this Agreement does not breach or conflict with any agreement, document or instrument to which it is a party or bound.

13. **Independent Contractor**: The Company acknowledges that in performing its services, WestPark is acting as an independent contractor, and not as a fiduciary, agent or otherwise, of the Company or any other person. The Company acknowledges that in performing its services hereunder, WestPark shall act solely pursuant to a contractual relationship on an arm's length basis (including in connection with determining the terms of any Transaction). Any review by WestPark of the Company, the transaction contemplated hereby or other matters relating to such transactions has been and shall be performed solely for the benefit of WestPark and shall not be on behalf of the Company. The Company agrees that is shall not claim that WestPark owes a fiduciary duty to the Company in connection with such transaction or the process leading thereto. No one other than the Company is authorized to rely upon engagement of WestPark hereunder or any statements, advice, opinions or conduct by WestPark. The Company further acknowledges that WestPark may perform certain of the services described herein through one or more of its affiliates and any such affiliates shall be entitled to the benefit of this Agreement. This Paragraph 13 shall survive the termination or expiration of this Agreement.

14. **Conflicts**: The Company acknowledges that WestPark and its affiliates may have and may continue to have investment banking and other relationships with parties other than the Company pursuant to which WestPark may acquire information of interest to the Company. WestPark shall have no obligation to disclose such information to the Company or to use such information in connection with any contemplated transaction.

15. **Anti-Money Laundering**: To help the United States government fight the funding of terrorism and money laundering, the federal laws of the United States requires all financial institutions to obtain, verify and record information that identifies each person with whom they do business. This means we must ask you for certain identifying information, including a government-issued identification number (e.g., a U.S. taxpayer identification number) and such other information or documents that we consider appropriate to verify your identity, such as certified articles of incorporation, a government-issued business license, a partnership agreement or a trust instrument.

16. **Costs and Attorneys' Fees.** If any action, suit, arbitration proceeding, or any other proceeding is instituted arising out of this Agreement, the prevailing party shall recover all of such party's costs, including, without limitation, the court costs and attorneys' fees incurred therein, including any and all appeals or petitions therefrom. As used herein, "attorneys' fees" shall mean the full and actual costs of any legal services actually rendered in connection with the matters involved, calculated on the basis of the usual fee charged by the attorneys performing such services. The Parties agree that final, binding, non-appealable arbitration is the sole method of dispute resolution under this Agreement.

17. **Pre-Arbitration Informal Dispute Resolution and Arbitration.**
Informal Dispute Resolution. The Parties shall use good faith efforts to resolve any disputes that arise under this Agreement. In the event of a dispute, the party with a dispute shall provide written notice, by facsimile or email, of the dispute to the other party. Both Parties shall meet in person or by conference call within fifteen (15) business days of the effective date of a notice of a dispute to resolve the issues in dispute. The effective date of the notice of a dispute is the date that the notice was faxed or e-mailed.

Arbitration. The Company and WestPark agree that any dispute concerning this Agreement, including disputes as to arbitrability, that cannot be resolved by the Pre-Arbitration Informal Dispute Resolution meeting shall be resolved through final, binding, non-appealable arbitration, before a single, neutral arbitrator, at JAMS, in Santa Monica, California. Venue of all arbitration shall be JAMS Dispute Resolution Center, Santa Monica, California. The Parties initially shall split the costs of any arbitration proceeding fifty-fifty (50-50), but the arbitrator shall award arbitration costs and attorneys' fees to the prevailing party. Judgment on any arbitration award may be entered in any Court having jurisdiction. Any arbitration award shall be in United States Dollars and may be enforced in any jurisdiction in which the party against whom enforcement is sought maintains assets. The Arbitrator shall have no authority to award punitive, consequential, indirect, special, exemplary, or other damages not measured by the prevailing party's actual compensatory damages and may not, in any event, make any ruling, finding, or award that does not conform to the terms and conditions of this Agreement. IN NO EVENT SHALL EITHER PARTY BE LIABLE TO THE OTHER PARTY FOR ANY INDIRECT, SPECIAL OR CONSEQUENTIAL DAMAGES OR LOST PROFITS ARISING OUT OF OR RELATED TO THIS AGREEMENT OR THE PERFORMANCE OR BREACH THEREOF, EVEN IF SUCH PARTY HAS BEEN ADVISED OF THE POSSIBILITY THEREOF. The Parties agree that the arbitrator shall enforce the terms of this Agreement, including the indemnity and reimbursement provisions of this Agreement, and no bar order or any other Court order shall operate to extinguish WestPark's claims to indemnity and reimbursement. The Parties agree not to seek to avoid their indemnity and reimbursement obligations in any Court and that this Agreement shall be a complete defense to any such efforts. The Parties agree to limit their respective testimony at any arbitration hearing to three hours per side. This section provides the sole recourse for the settlement of any disputes arising out of, in connection with, or related to this Agreement.

18. **Miscellaneous**: This Agreement constitutes the entire understanding and agreement between the Company and WestPark with respect to the subject matter hereof and supersedes all prior understanding or agreements between the parties with respect thereto, whether oral or written, express or implied. Any amendments or modifications must be executed in writing by both parties. It is understood and agreed that WestPark's services hereunder will not include providing any tax, accounting, legal or regulatory advice or developing any tax strategies for the Company. This Agreement and all rights, liabilities and obligations hereunder shall be binding upon and inure to the benefit of each party's successors but may be assigned without prior written approval of the other party. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, but such counterparts shall, together, constitute only one instrument. The descriptive headings of the Paragraphs of this Agreement are inserted for convenience only, do not constitute a part of this Agreement and shall not affect in anyway the meaning or interpretation of this Agreement.

****

If all the foregoing is acceptable to you, please so indicate by signing in the space provided below and returning a signed copy of this letter to us for our records.

WestPark is delighted to accept this engagement and looks forward to working with you. Please confirm that the foregoing correctly sets forth our Agreement by returning one executed Agreement to our corporate office at 1900 Avenue of the Stars, Suite 310, Los Angeles, CA, 90067, and a facsimile of same to (310) 843-9304.

Very truly yours,

WESTPARK CAPITAL, INC.

BY: /s/ Richard Rappaport
Name: Richard Rappaport
Title: CEO

ACCEPTED AND AGREED TO
AS OF THE ABOVE DATE:

REAL GOODS SOLAR, INC.

BY: /s/ Dennis Lacey
Name: Dennis Lacey
Title: CEO

Exhibit 31.1

CERTIFICATION

I, Dennis Lacey, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Real Goods Solar, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 14, 2018

/s/ Dennis Lacey
Dennis Lacey
Chief Executive Officer and Director
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION

I, Alan Fine, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Real Goods Solar, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 14, 2018

/s/ Alan Fine
Alan Fine
Chief Financial Officer and Treasurer
(Principal Financial Officer)

Exhibit 32.1

CERTIFICATIONS 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 Real Goods Solar, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2018, as filed with the U.S. Securities and Exchange Commission on the date hereof (the "Report"), I, Dennis Lacey, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) The Report fully complies with the requirements of Sections 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 results of operations of the Company.

Date: August 14, 2018

/s/ Dennis Lacey
Dennis Lacey
Chief Executive Officer and Director
(Principal Executive Officer)

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the U.S. Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

CERTIFICATIONS PURSUANT TO 18 U.S.C. SECTION 1350

In connection with the Quarterly Report of Real Goods Solar, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2018, as filed with the U.S. Securities and Exchange Commission on the date hereof (the "Report"), I, Alan Fine, Principal Financial Officer and Treasurer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of Sections 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 results of operations of the Company.

Date: August 14, 2018

/s/ Alan Fine
Alan Fine
Chief Financial Officer and Treasurer
(Principal Financial Officer)

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the U.S. Securities and Exchange Commission or its staff upon request.