

RESEARCH FRONTIERS INC  
Form 10-Q  
November 04, 2014

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 Quarter Ended September 30, 2014 Commission File No. 1-9399

RESEARCH FRONTIERS INCORPORATED  
(Exact name of registrant as specified in charter)

Delaware  
(State of incorporation or organization)

11-2103466  
(IRS Employer  
Identification No.)

240 Crossways Park Drive, Woodbury, N.Y.  
(Address of principal executive offices)

11797  
(Zip Code)

(516) 364-1902

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to 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, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the 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: As of November 4, 2014, there were outstanding 23,924,465 shares of Common Stock, par value \$0.0001 per share.

RESEARCH FRONTIERS INCORPORATED  
Consolidated Balance Sheets

Asset	September 30, 2014 (Unaudited)	December 31, 2013
<b>Current assets:</b>		
Cash and cash equivalents	\$ 3,637,975	\$ 5,866,123
Short-term investments	8,080,845	5,076,930
Royalty receivables, net of reserves of \$173,921 in 2014 and 2013	1,221,627	867,162
Prepaid expenses and other current assets	76,593	135,080
<b>Total current assets</b>	<b>13,017,040</b>	<b>11,945,295</b>
<b>Fixed assets, net</b>	<b>151,379</b>	<b>64,365</b>
Deposits and other assets	33,566	22,605
<b>Total assets</b>	<b>\$ 13,201,985</b>	<b>\$ 12,032,265</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 71,411	\$ 56,603
Accrued expenses and other	186,189	80,725
Deferred revenue	16,250	25,000
<b>Total current liabilities</b>	<b>273,850</b>	<b>162,328</b>
<b>Shareholders' equity:</b>		
Common stock, par value \$0.0001 per share; authorized 100,000,000 shares, issued and outstanding 23,124,465 and 23,109,665 shares for 2014 and 2013	2,392	2,311
Additional paid-in capital	109,594,372	105,584,606
Accumulated deficit	(96,668,629)	(93,716,980)
<b>Total shareholders' equity</b>	<b>12,928,135</b>	<b>11,869,937</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 13,201,985</b>	<b>\$ 12,032,265</b>

See accompanying notes to consolidated financial statements.

## RESEARCH FRONTIERS INCORPORATED

## Consolidated Statements of Operations

(Unaudited)

	Nine months ended		Three months ended	
	Sept 30, 2014	Sept 30, 2013	Sept 30, 2014	Sept 30, 2013
Fee income	\$ 1,156,904	\$ 1,735,767	\$ 452,937	\$ 506,692
Operating expenses	3,011,681	3,643,294	778,075	1,002,597
Research and development	1,123,746	1,455,490	324,306	424,765
Total Expenses	4,135,427	5,098,784	1,102,381	1,427,362
Operating loss	(2,978,523)	(3,363,017)	(649,444)	(920,670)
Net investment income	26,874	28,537	9,638	9,529
Net loss	\$ (2,951,649)	\$ (3,334,480)	\$ (639,806)	\$ (911,141)
Basic and diluted Net loss per common share	\$ (0.13)	\$ (0.15)	\$ (0.03)	\$ (0.04)
Basic and diluted weighted average number of common shares outstanding	23,535,083	22,916,095	23,924,465	22,916,095

See accompanying notes to consolidated financial statements.

## RESEARCH FRONTIERS INCORPORATED

## Consolidated Statements of Cash Flows

(Unaudited)

	Nine months ended	
	Sept 30, 2014	Sept 30, 2013
<b>Cash flows from operating activities:</b>		
Net loss	\$ (2,951,649)	\$ (3,334,480)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	22,803	33,459
Stock-based compensation	426,809	1,205,430
Changes in assets and liabilities:		
Royalty receivables	(354,465)	(275,800)
Prepaid expenses and other assets	47,526	127,014
Deferred revenue	(8,750)	38,749
Accounts payable and accrued expenses	120,272	(25,986)
<b>Net cash used in operating activities</b>	<b>(2,697,454)</b>	<b>(2,231,614)</b>
<b>Cash flows from investing activities:</b>		
Purchase of fixed assets	(109,817)	(44,539)
Change in short term investments	(3,003,915)	(6,535)
<b>Net cash used in investing activities</b>	<b>(3,113,732)</b>	<b>(51,074)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from sale of common stock	3,278,250	--
Net proceeds from exercise of options and warrants	304,788	--
<b>Net cash provided by financing activities</b>	<b>3,583,038</b>	<b>--</b>
Net decrease in cash and cash equivalents	(2,228,148)	(2,282,688)
Cash and cash equivalents at beginning of year	5,866,123	8,390,233
Cash and cash equivalents at end of period	\$ 3,637,975	\$ 6,107,545

See accompanying notes to consolidated financial statements.

RESEARCH FRONTIERS INCORPORATED  
Notes to Consolidated Financial Statements  
September 30, 2014  
(Unaudited)

Basis of Presentation

The accompanying unaudited consolidated condensed financial statements have been prepared in accordance with U.S. generally accepted accounting principles ( GAAP ) for interim financial information and with the instructions to Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. All such adjustments are of a normal recurring nature. Operating results for the three and nine months ended September 30, 2014 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2014. For further information, refer to the consolidated financial statements and footnotes thereto included in the Annual Report on Form 10-K relating to Research Frontiers Incorporated (the Company ) for the fiscal year ended December 31, 2013.

During the current quarter, it was noted that the Company was applying the expected term of warrants granted in 2009 to certain consultants, rather than the contractual term, which is currently required by GAAP. These warrants were required to be marked-to-market at the end of each reporting period through September 2014. The Company properly used the contractual life in valuing the warrants using the Black-Scholes valuation model for the current period and all prior periods impacted by the mark-to-market of these warrants. The change in the valuation assumption resulted in an increase to previously reported consultant compensation charges included in Operating Expenses in the Company s Consolidated Statement of Operations. The impact of this change to all prior periods is not considered material to each of the periods impacted. As reflecting a cumulative correction for this warrant valuation all in the current period would have been material to the current period, the Company is revising its prior financial presentation herein as follows: (i) for the three months and nine months ended September 30, 2013 consultant compensation charges have been increased by \$51,187 and \$105,862, respectively, (ii) there is an additional charge of \$145,669 through June 30, 2014 which has been included in the nine month operating expenses presented in this filing, and (iii) the Company s balance sheet as of December 31, 2013 has been revised by increasing Additional Paid in Capital and Accumulated Deficit each by \$400,006 to reflect the use of this contractual term valuation assumption. This change in valuation had no impact on the Company s use of cash or cash flow.

Business

Research Frontiers Incorporated ( Research Frontiers or the Company ) operates in a single business segment which is engaged in the development and marketing of technology and devices to control the flow of light. Such devices, often referred to as light valves or suspended particle devices (SPDs), use colloidal particles that are either incorporated within a liquid suspension or a film, which is usually enclosed between two sheets of glass or plastic having transparent, electrically conductive coatings on the facing surfaces thereof. At least one of the two sheets is transparent. SPD technology, made possible by a flexible light-control film invented by Research Frontiers, allows the user to instantly and precisely control the shading of glass/plastic manually or automatically. SPD technology has numerous product applications, including: SPD-Smart windows, sunshades, skylights and interior partitions for homes and buildings; automotive windows; sunroofs, sun-visors, sunshades, rear-view mirrors, instrument panels and navigation systems; aircraft windows; eyewear products; and flat panel displays for electronic products. SPD-Smart light control film is now being developed for, or used in, architectural, automotive, marine, aerospace and appliance applications.

The Company has historically utilized its cash and the proceeds from the sale of its investments to fund its research and development of SPD light valves, for marketing initiatives, and for other working capital purposes. The Company s working capital and capital requirements depend upon numerous factors, including the results of research and development activities, competitive and technological developments, the timing and cost of patent filings, and the development of new licensees and changes in the Company s relationships with its existing licensees. The degree of dependence of the Company s working capital requirements on each of the forgoing factors cannot be quantified; increased research and development activities and related costs would increase such requirements; the addition of new licensees may provide additional working capital or working capital requirements, and changes in relationships with existing licensees would have a favorable or negative impact depending on the nature of such changes. There can be no assurance that expenditures will not exceed the anticipated amounts or that additional financing, if required, will be available when needed or, if available, that s its terms will be favorable or acceptable to the Company. Eventual success of the Company and generation of positive cash flow will be dependent upon the commercialization of products using the Company s technology by the Company s licensees and payments of continuing royalties on account thereof. To date, the Company has not generated sufficient revenue from its licensees to fund its operations.

Patent Costs

The Company expenses costs relating to the development, acquisition or enforcement of patents due to the uncertainty of the recoverability of these items.

Revenue Recognition

The Company has entered into a number of license agreements covering its light-control technology. The Company receives minimum annual royalties under certain license agreements and records fee income on a ratable basis each quarter. In instances when sales of licensed products by its licensees exceed minimum annual royalties, the Company recognizes fee income as the amounts have been earned. Certain of the fees are accrued by, or paid to, the Company in advance of the period in which they are earned resulting in deferred revenue. Such excess amounts are recorded as deferred revenue and recognized into income in future periods as earned.

Fee Income

Fee income represents amounts earned by the Company under various license and other agreements relating to technology developed by the Company. During the first nine months of 2014, one licensee accounted for 10% or more of fee income of the Company; this licensee accounted for approximately 38% of fee income recognized during this period. During the first nine months of 2013, two licensees accounted for 10% or more of fee income of the Company; these licensees accounted for approximately 42% and 13%, respectively of fee income recognized during such period.

Stock-Based Compensation

GAAP requires that all stock-based compensation be recognized as an expense in the financial statements and that such costs be measured at the fair value of the award.

The Company has granted options/warrants to consultants. These awards generally vest ratably over 12 to 60 months from the date of grant and the Company charges to operations quarterly the current market value of the options using the Black-Scholes method. During the nine months ended September 30, 2014 and 2013, a charge (benefit) of \$31,879 and \$114,931, respectively, and during the three months ended September 30, 2014 and 2013, \$(33,901) and \$42,746, respectively was recorded to operations reflecting the fair value of the options using the Black-Scholes method with the following weighted average assumptions:

	2014	2013
Risk free interest rate	1.7%	1.5%
Option Life	5.2 years	5.4 years
Volatility	55%	63%

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The Company granted 80,200 fully vested options during the nine months ended September 30, 2013 to employees and recorded share-based compensation of \$173,120. The Company valued these grants using the Black-Scholes option pricing model with the following assumptions:

Risk free interest rate	0.8%
Option Life	5 years
Volatility	71%

The Company did not grant any stock options to employees and directors during the nine months ended September 30, 2014.

In connection with the restricted stock grants to employees and directors, the Company charged \$131,643 and \$190,576 to operations during the three months ended September 30, 2014 and 2013, respectively and \$394,930 and \$922,864 was charged to operations during the nine months ended September 30, 2014 and 2013, respectively. As of September 30, 2014, remaining unamortized compensation costs in connection with these restricted stock grants was \$364,000 which will be recognized over the next 15 month period.

### Income Taxes

Since inception, the Company has incurred losses from operations and as a result has not recorded income tax expense. Benefits related to net operating loss carryforwards and deferred items have been fully reserved since it was not more likely than not that the Company would achieve profitable operations.

### Equity

In May 2014, under an existing shelf registration statement, the Company sold 750,000 shares of common stock to a current institutional shareholder, Kevin Douglas and his related parties. Net proceeds from the offering were \$3,278,250 which the Company intends to use for working capital and general corporate purposes. The Company did not sell any additional equity securities during the nine months ended September 30, 2014 and did not sell any equity securities during the nine months ended September 30, 2013.

The Company received proceeds of \$304,788 during the nine months ended September 30, 2014 in connection with stock issued by the exercise of options and warrants. No options or warrants were exercised during the first nine months of 2013.

### Treasury Stock

The Company did not repurchase any of its stock during the nine months ended September 30, 2014 and 2013.

Investments

The Company classifies investments in marketable securities as trading, available-for-sale or held-to-maturity at the time of purchase and periodically re-evaluates such classifications. Trading securities are carried at fair value, with unrealized holding gains and losses included in earnings. Held-to-maturity securities are recorded at cost and are adjusted for the amortization or accretion of premiums or discounts over the life of the related security. Unrealized holding gains and losses on available-for-sale securities are excluded from earnings and are reported as a separate component of accumulated other comprehensive income (loss) until realized. In determining realized gains and losses, the cost of securities sold is based on the specific identification method. Interest and dividends on the investments are accrued at the balance sheet date. At September 30, 2014 and December 31, 2013 all investments were classified as held to maturity and consisted of the following:

Certificates of		September 30, 2014	December 31, 2013
Deposit	Maturity	Value of Held to	Value of Held to
Investment	Date	Maturity Investment	Maturity Investment
		(based on cost)	(based on cost)
\$ 2,007,997	October 16, 2014	\$ 2,007,997	\$ 2,007,997
2,011,967	October 16, 2014	2,011,967	2,011,967
1,500,000	August 27, 2015	1,500,419	--
1,500,000	August 25, 2016	1,500,951	--
503,761	December 29, 2014	503,761	502,821
302,256	October 6, 2014	302,256	301,692
253,494	December 29, 2014	253,494	252,453
		\$ 8,080,845	\$ 5,076,930

Fair Value Measurements

We value financial instruments using a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets for identical assets or liabilities; Level 2, defined as inputs other than quoted prices for similar assets or liabilities in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

Financial assets accounted for at fair value on a recurring basis at September 30, 2014 include cash, cash equivalents and short term investments of approximately \$11.7 million. These assets are carried at fair value based on quoted market prices for identical securities (Level 1 inputs).

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

Critical Accounting Policies

The following accounting policies are important to understanding our financial condition and results of operations and should be read as an integral part of the discussion and analysis of the results of our operations and financial position. For additional accounting policies, see note 2 to our consolidated financial statements, Summary of Significant Accounting Policies in our Form 10-K report for the period ending December 31, 2013.



The Company has entered into a number of license agreements covering products using the Company's SPD technology. The Company receives fees and minimum annual royalties under certain license agreements and records fee income on a ratable basis each quarter. In instances when sales of licensed products by its licensees exceed minimum annual royalties, the Company recognizes fee income as the amounts have been earned. Certain of the fees are accrued by, or paid to, the Company in advance of the period in which they are earned resulting in deferred revenue.

The Company expenses costs relating to the development or acquisition of patents due to the uncertainty of the recoverability of these items. All of our research and development costs are charged to operations as incurred. Our research and development expenses consist of costs incurred for internal and external research and development. These costs include direct and indirect overhead expenses.

The Company has historically used the Black-Scholes option-pricing model to determine the estimated fair value of each option grant. The Black-Scholes model includes assumptions regarding dividend yields, expected volatility, expected lives, and risk-free interest rates. These assumptions reflect our best estimates, but these items involve uncertainties based on market conditions generally outside of our control. As a result, if other assumptions had been used in the current period, stock-based compensation expense could have been materially impacted. Furthermore, if management uses different assumptions in future periods, stock-based compensation expense could be materially impacted in future years.

On occasion, the Company may issue consultants either options or warrants to purchase shares of common stock of the Company at specified share prices. These options or warrants may vest based upon specific services being performed or performance criteria being met. In accounting for equity instruments that are issued to other than employees for acquiring, or in conjunction with selling, goods or services, the Company would be required to record consulting expenses based upon the fair value of such options or warrants on the earlier of the service period or the period that such options or warrants vest as determined using a Black-Scholes option pricing model.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates. An example of a critical estimate is the full valuation allowance for deferred taxes that was recorded based on the uncertainty that such tax benefits would be realized in future periods.

### **Results of Operations**

#### ***Nine months ended September 30, 2014 Compared to the Nine months ended September 30, 2013***

The majority of the Company's fee income comes from the activities of several licensees participating in the automotive market. The Company currently believes that the automotive market will be the largest source of its royalty income over the next several years. The Company's royalty income from this market may be influenced by numerous factors including various trends affecting demand in the automotive industry and the rate of introduction of new technology in OEM product lines. In addition to these macro factors, the Company's royalty income from the automotive market could also be influenced by specific factors such as whether the Company's SPD SmartGlass technology appears as standard equipment or as an option of a particular vehicle, the number of additional vehicle models that SPD-SmartGlass appears on, the size of each window on a vehicle and the number of windows on a vehicle that use SPD-SmartGlass, fluctuations in the total number of vehicles produced by a manufacturer, and in the percentage of cars within model like produced with SPD-SmartGlass, and changes in pricing or exchange rates. Certain license fees, which are paid to the Company in advance of the accounting period in which they are earned resulting in the recognition of deferred revenue for the current accounting period, which will be recognized as fee income in future periods. Also, licensees may offset some or all of their royalty payments on sales of licensed products for a given period by applying these advance payments towards such earned royalty payments. Because the Company's license agreements typically provide for the payment of royalties by a licensee on product sales within 45 days after the end of the quarter in which a sale of a licensed product occurs (with some of the Company's more recent license agreements providing for payments on a monthly basis), and because of the time period which typically will elapse between a customer order and the sale of the licensed product and installation in a home, office building, automobile, aircraft, boat or any other product, there could be a delay between when economic activity between a licensee and its customer occurs and when the Company gets paid its royalty resulting from such activity.

The Company's fee income from licensing activities for the nine months ended September 30, 2014 decreased to \$1,156,904 from \$1,735,767 for the nine months ended September 30, 2013. Most of the decrease in fee income during this period was a result of (1) non-recurring revenue recorded in the first quarter of 2013 such as one-time payments by several licensees that did not recur in 2014, and (2) a reduction in automotive fee income resulting from (A) a pre-scheduled shut down for maintenance and other modifications of the factory lines producing the Mercedes-Benz SLK and SL roadsters, (B) lower production levels of these roadsters which are typical for cars several years after their redesign, and (C) cost reductions in the price of SPD-SmartGlass due to production efficiencies and higher production volumes. These production efficiencies are expected to continue and accelerate with the introduction of the higher vehicle production volumes for the Mercedes-Benz S Class models going forward, and the Company expects that lower pricing per square foot of the Company's technology could expand the market opportunities, adoption rates, and revenues for its technology in automotive and non-automotive applications.

Production of the new Mercedes-Benz S-Class Coupe, which offers the Magic Sky Control panoramic roof option using the Company's SPD-SmartGlass technology, began in June 2014. Beginning in the third quarter of 2014, the Company began receiving royalty revenues from the S-Class in excess of minimum annual royalty levels which therefore will be accretive to the Company's royalty revenue. Royalty revenue levels attributable to sales of the S-Class are expected to accelerate after the third quarter of 2014 from the introduction of the S-Class Coupe which will be available in dealer showrooms early in the fourth quarter of 2014. In addition, the acceleration of royalty revenue will be aided from the introduction of the Extra-Long Wheel Base (X222) with the Magic Sky Control panoramic roof option expected in dealer showrooms in the first quarter of 2015. By mid-2015, several higher unit volume S-Class Sedan variants with the Magic Sky Control panoramic roof option, such as the Long Wheel Base (V222) and Standard Wheel Base (W222), are expected to be available in dealer showrooms.

Operating expenses decreased by \$631,613 for the nine months ended September 30, 2014 to \$3,011,681 from \$3,643,294 for the nine months ended September 30, 2013. This decrease was principally the result of lower non-cash compensation charges related to common stock, option and warrant grants to consultants, directors and employees (\$578,000) primarily due to timing of the Company's annual grant, as well as lower cash directors fees and expenses (\$70,000) and lower investor relations/marketing costs (\$67,000) partially offset by higher patent (\$109,000).

Research and development expenditures decreased by \$331,744 to \$1,123,746 for the nine months ended September 30, 2014 from \$1,455,490 for the nine months ended September 30, 2013. This decrease was principally the result of lower non-cash compensation charges related to common stock and options granted to employees (\$199,000) primarily due to timing of the Company's annual grant, as well as lower materials costs (\$84,000).

The Company's net investment income for the nine months ended September 30, 2014 was \$26,874 compared to \$28,537 earned for the nine months ended September 30, 2013.

As a consequence of the factors discussed above, the Company's net loss was \$2,951,649 (\$0.13 per common share) for the nine months ended September 30, 2014 as compared to \$3,334,480 (\$0.15 per common share) for the nine months ended September 30, 2013.

***Three months ended September 30, 2014 Compared to the Three months ended September 30, 2013***

The Company's fee income from licensing activities for the three months ended September 30, 2014 decreased to \$452,937 from \$506,692 for the three months ended September 30, 2013. Most of the decrease in fee income during this period was a result of a reduction in automotive fee income resulting from lower production levels of the Mercedes-Benz SLK and SL roadsters which are typical for cars several years after their redesign, and cost reductions in the price of SPD-SmartGlass due to production efficiencies and higher production volumes. These production efficiencies are expected to continue and accelerate with the introduction of the higher vehicle production volumes for the Mercedes-Benz S Class models going forward, and the Company expects that lower pricing per square foot of the Company's technology could expand the market opportunities, adoption rates, and revenues for its technology in automotive and non-automotive applications.

In the third quarter of 2014 the Company began receiving royalty revenues from the new Mercedes-Benz S-Class Coupe, which offer the Magic Sky Control panoramic roof option using the Company's SPD-SmartGlass technology, in excess of minimum annual royalty levels which therefore will be accretive to the Company's royalty revenue. Royalty revenue levels attributable to sales of the S-Class are expected to accelerate after the third quarter of 2014 from the introduction of the S-Class Coupe which will be available in dealer showrooms early in the fourth quarter of 2014. In addition, the acceleration of royalty revenue will be aided from the introduction of the Extra-Long Wheel Base (X222) with the Magic Sky Control panoramic roof option expected in dealer showrooms in the first quarter of 2015. By mid-2015, several higher unit volume S-Class Sedan variants with the Magic Sky Control panoramic roof option, such as the Long Wheel Base (V222) and Standard Wheel Base (W222), are expected to be available in dealer showrooms.

Operating expenses decreased by \$224,522 for the three months ended September 30, 2014 to \$778,075 from \$1,022,597 for the three months ended September 30, 2013. This decrease was principally the result of lower payroll (\$118,000) as well as lower non-cash compensation charges related to common stock, option and warrant grants to consultants, directors and employees (\$110,000) partially offset by higher patent costs (\$33,000).

Research and development expenditures decreased by \$100,459 to \$324,306 for the three months ended September 30, 2014 from \$424,765 for the three months ended September 30, 2013. This decrease was principally the result of lower non-cash compensation charges related to common stock and options granted to employees (\$20,000) primarily due to timing of the Company's annual grant, as well as lower materials costs (\$24,000) and lower building rent and occupancy costs (\$33,000).

The Company's net investment income for the three months ended September 30, 2014 was \$9,638 compared to \$9,529 earned for the three months ended September 30, 2013.

As a consequence of the factors discussed above, the Company's net loss was \$639,806 (\$0.03 per common share) for the three months ended September 30, 2014 as compared to \$911,141 (\$0.04 per common share) for the three months ended September 30, 2013.

#### **Financial Condition, Liquidity and Capital Resources**

The Company has primarily utilized its cash, cash equivalents, short-term investments, and the proceeds from its investments to fund its research and development, for marketing initiatives, and for other working capital purposes. The Company's working capital and capital requirements depend upon numerous factors, including, but not limited to, the results of research and development activities, competitive and technological developments, the timing and costs of patent filings, and the development of new licensees and changes in the Company's relationship with existing licensees. The degree of dependence of the Company's working capital requirements on each of the foregoing factors cannot be quantified; increased research and development activities and related costs would increase such requirements; the addition of new licensees may provide additional working capital or working capital requirements, and changes in relationships with existing licensees would have a favorable or negative impact depending upon the nature of such changes.

During the nine months ended September 30, 2014, the Company's cash and cash equivalents balance decreased by \$2,228,148. The decrease was mainly due to cash used for operations of \$2,697,454, cash invested in short term investments of \$3,003,915 and the purchase of fixed assets of \$109,817 partially offset by cash proceeds from the sale of common stock and the exercise of options and warrants of \$3,583,038. As of September 30, 2014 the Company had working capital (total current assets less total current liabilities) of \$12,743,190 and total shareholder's equity of \$12,928,135.

The Company expects to use its cash to fund its research and development of SPD light valves, its expanded marketing initiatives, and for other working capital purposes. The Company's working capital and capital requirements depend upon numerous factors, including the results of research and development activities, competitive and technological developments, the timing and cost of patent filings, the development of new licensees and changes in the Company's relationships with its existing licensees. The degree of dependence of the Company's working capital requirements on each of the foregoing factors cannot be quantified; increased research and development activities and related costs would increase such requirements; the addition of new licensees may provide additional working capital or working capital requirements, and changes in relationships with existing licensees would have a favorable or negative impact depending upon the nature of such changes. Based upon existing levels of cash expenditures, existing cash reserves and budgeted revenues, the Company believes that it would not require additional funding for the foreseeable future. There can be no assurances that expenditures will not exceed the anticipated amounts or that additional financing, if required, will be available when needed or, if available, that its terms will be favorable or acceptable to the Company. Eventual success of the Company and generation of positive cash flow will be dependent upon the extent of commercialization of products using the Company's technology by the Company's licensees and payments of continuing royalties on account thereof. To date the Company has not generated sufficient revenue from licensees to fund its operations.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The information required by Item 3 has been disclosed in Item 7A of the Company's Annual Report on Form 10-K for the year ended December 31, 2013. There has been no material change in the disclosure regarding market risk.

Item 4. Controls and Procedures

**Evaluation of Disclosure Controls and Procedures**

Our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act, are designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. We designed our disclosure controls and procedures to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officer, to allow timely decisions regarding required disclosure. Our chief executive officer and chief financial officer, with assistance from other members of our management, have reviewed the effectiveness of our disclosure controls and procedures as of September 30, 2014, and, based on their evaluation, have concluded that our disclosure controls and procedures were effective.

**Changes in Internal Control Over Financial Reporting**

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during the nine months ended September 30, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Forward-Looking Statements

The information set forth in this Report and in all publicly disseminated information about the Company, including the narrative contained in Management's Discussion and Analysis of Financial Condition and Results of Operations above, includes forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and is subject to the safe harbor created by that section. Readers are cautioned not to place undue reliance on these forward-looking statements as they speak only as of the date hereof and are not guaranteed.

PART II. OTHER INFORMATION

Item 6. Exhibits

31.1	Rule 13a-14(a)/15d-14(a) Certification of Joseph M. Harary - Filed herewith.
31.2	Rule 13a-14(a)/15d-14(a) Certification of Seth L. Van Voorhees - Filed herewith.
32.1	Section 1350 Certification of Joseph M. Harary - Filed herewith.
32.2	Section 1350 Certification of Seth L. Van Voorhees - Filed herewith.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.PRE	XBRL Taxonomy Extension Presentation Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase

**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 thereunder duly authorized.

RESEARCH FRONTIERS INCORPORATED  
(Registrant)

/s/ Joseph M. Harary  
Joseph M. Harary, President, CEO and Treasurer  
(Principal Executive)

/s/ Seth L. Van Voorhees  
Seth L. Van Voorhees, Vice President, CFO and Treasurer  
(Principal Financial and Accounting Officer)

Date: November 4, 2014