RESEARCH FRONTIERS INC
Form 10-Q
November 08, 2018

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 AND EXCHANGE ACT OF 1934

For the quarter ended September 30, 2018 Commission File Number 000-14893

RESEARCH FRONTIERS INCORPORATED

(Exact name of registrant as specified in its charter)

DELAWARE	11-2103466
(State or other jurisdiction of	(I.R.S. Employer
incorporation or organization)	Identification No.)

240 CROSSWAYS PARK DRIVE	
WOODBURY, NEW YORK	11797-2033
(Address of principal executive offices)	(Zip Code)

Registrant’s telephone number, including area code (516) 364-1902

Securities registered pursuant to Section 12(b) of the Act:	Name of Exchange
Title of Class	on Which Registered
Common Stock, $0.0001 Par Value	The NASDAQ Stock Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [ ] No [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes [ ] No [X]

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 [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically, 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 [X] No [ ]

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

Large accelerated filer [ ] Accelerated filer [ ] Non-accelerated filer [ ]

Smaller reporting company [X] Emerging growth company [ ]

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes [ ] No [X]

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 8, 2018, there were outstanding 27,662,211 shares of Common Stock, par value $0.0001 per share.

RESEARCH FRONTIERS INCORPORATED

Consolidated Balance Sheets

(Unaudited)

	September 30, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$3,400,842	$1,737,847
Royalties receivable, net of reserves of $1,051,424 in 2018 and 2017	709,811	597,441
Prepaid expenses and other current assets	96,790	29,697
Total current assets	4,207,443	2,364,985
Fixed assets, net	358,456	482,561
Deposits and other assets	33,567	33,567
Total assets	$4,599,466	$2,881,113
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$56,602	$58,090
Accrued expenses and other	263,420	254,833
Deferred revenue	38,966	824
Total current liabilities	358,988	313,747
Warrant liability	510,001	-
Shareholders' equity:		
Common stock, par value $0.0001 per share; authorized 100,000,000 shares, issued and outstanding 27,662,211 in 2018 and 24,043,846 in 2017	2,766	2,404
Additional paid-in capital	114,784,477	111,627,789
Accumulated deficit	(111,056,766)	(109,062,827)
Total shareholders' equity	3,730,477	2,567,366
Total liabilities and shareholders' equity	$4,599,466	$2,881,113

See accompanying notes to consolidated financial statements.

RESEARCH FRONTIERS INCORPORATED

Consolidated Statements of Operations

(Unaudited)

	Nine months ended September 30, 2018	2017	Three months ended September 30, 2018	2017
Fee income	$1,117,849	$1,229,631	$359,725	$488,336
Operating expenses	2,228,757	2,380,328	572,968	607,291
Research and development	660,086	598,638	190,647	185,296
Total Expenses	2,888,843	2,978,966	763,615	792,587
Operating loss	(1,770,994)	(1,749,335)	(403,890)	(304,251)
Net investment income	5,665	3,830	2,220	1,113
Warrant market adjustment	(286,631)	-	(286,631)	-
Net loss	(2,051,960)	(1,745,505)	(688,301)	(303,138)
Basic and diluted net loss per common share	$(0.08)	$(0.07)	$(0.03)	$(0.01)
Weighted average number of common shares outstanding	25,380,466	24,043,846	26,002,263	24,043,846

See accompanying notes to consolidated financial statements.

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RESEARCH FRONTIERS INCORPORATED

Consolidated Statements of Cash Flows

(Unaudited)

	Nine months ended September 30, 2018	2017
Cash flows from operating activities:		
Net loss	$(2,051,960)	$(1,745,505)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	135,400	131,725
Warrant market adjustment	286,631	-
Stock based compensation	69,309	-
Bad debts	-	(1,785)
Change in assets and liabilities:		
Royalty receivables	(54,350)	336,739
Prepaid expenses and other current assets	(67,093)	205,825
Accounts payable and accrued expenses	7,099	46,666
Deferred revenue	38,142	5,815
Net cash used in operating activities	(1,636,821)	(1,020,520)
Cash flows from investing activities:		
Purchases of fixed assets	(11,295)	(6,362)
Proceeds from sale of investment	-	1,523,333
Net cash provided by (used in) investing activities	(11,295)	1,516,971
Cash flows from financing activities:		
Proceeds for issuance of common stock and warrants	3,026,630	-
Proceeds for issuance of common stock and warrants	223,370	-
Proceeds from exercise of warrants	61,111	-
Net cash provided by financing activities	3,311,111	-
Net increase in cash and cash equivalents	1,662,995	496,451
Cash and cash equivalents at beginning of period	1,737,847	1,691,603
Cash and cash equivalents at end of period	$3,400,842	$2,188,054

Supplemental disclosure of non-cash financing activity:

Fair value of warrant liability relating to stock issuance.

See accompanying notes to consolidated financial statements.

RESEARCH FRONTIERS INCORPORATED

Notes to Consolidated Financial Statements

September 30, 2018

(Unaudited)

Note 1. 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 8-03 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, 2018 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2018. 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, 2017.

Note 2. 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; train 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 cash equivalents 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. 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. As of September 30, 2018, the Company had cash and cash equivalents of $3,400,842, working capital (total current assets less total current liabilities) of $3,848,455 and total shareholders' equity of $3,730,477. During the first nine months of 2018, the Company received approximately $3.3 million in proceeds from the sale of common stock, warrants and the exercise of outstanding warrants to purchase the Company's common stock (please see Note 8 for additional details of this transaction). The Company expects as of this filing to have sufficient working capital for at least the next 18-24 months of operations.

Note 3. 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.

Note 4. Revenue Recognition

In May 2014, the FASB issued guidance on revenue recognition (ASC 606). The standard provides a single comprehensive revenue recognition model for all contracts with customers and supersedes existing revenue recognition guidance. The revenue standard contains principles that an entity will apply to determine the measurement of revenue and timing of when it is recognized. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services.

This new ASC 606 guidance was adopted by the Company beginning January 1, 2018. ASC 606 was applied using the modified retrospective method, with the cumulative effect of the initial adoption being recognized as an adjustment to opening retained earnings at January 1, 2018. The comparative prior periods have not been adjusted and continue to be reported under FASB ASC Topic 605, Revenue Recognition ("ASC 605"). The Company's policy relating to revenue under ASC 605 is described in Note 2(e) of the Company's Form 10-K for the year ended December 31, 2017. The policies described herein refer to those in effect as of January 1, 2018.

ASC 606 follows a five-step approach to determining revenue recognition including: 1) Identification of the contract; 2) Identification of the performance obligations; 3) Determination of the transaction price; 4) Allocation of the transaction price and 5) Recognition of revenue.

The Company determined that its license agreements provide for three performance obligations which include: (i) the Grant of Use to its Patent Portfolio "Grant of Use", (ii) Stand-Ready Technical Support ("Technical Support") including the transfer of trade secrets and other know-how, production of materials, scale-up support, analytical testing, etc., and (iii) access to new Intellectual Property ("IP") that may be developed sometime during the course of the contract period ("New Improvements"). Given the nature of IP development, such New Improvements are on an unspecified basis and can occur and be made available to licensees at any time during the contract period.

When a contract includes more than one performance obligation, the Company needs to allocate the total consideration to each performance obligation based on its relative standalone selling price or estimate the standalone selling price if it is not observable. A standalone selling price is not available for our performance obligations since we do not sell any of the services separately and there is no competitor pricing that is available. As a consequence, the best method for determining standalone selling price of our Grant of Use performance obligation is through a comparison of the average royalty rate for comparable license agreements as compared to our license agreements. Comparable license agreements must consider several factors including: (i) the materials that are being licensed, (ii) the market application for the licensed materials, and (iii) the financial terms in the license agreements that can increase or decrease the risk/reward nature of the agreement.

Based on the royalty rate comparison referred to above, any pricing above and beyond the average royalty rate would relate to the Technical Support and New Improvements performance obligations. The Company focuses a significant portion of its time and resources to provide the Technical Support and New Improvements services to its licensees which further supports the conclusions reached using the royalty rate analysis.

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The Technical Support and New Improvements performance obligations are co-terminus over the term of the license agreement. For purposes of determining the transaction price, and recognizing revenue, the Company combined the Technical Support and New Improvements performance obligations because they have the same pattern of transfer and the same term. We maintain a staff of scientists and other professionals whose primary job responsibilities throughout the year are: (i) being available to respond to Technical Support needs of our licensees, and (ii) developing improvements to our technology which are offered to our licensees as New Improvements. Since the costs incurred to satisfy the Technical Support and New Improvements performance obligations are incurred evenly throughout the year, the value of the Technical Support and New Improvements services are recognized throughout the initial contract period as these performance obligations are satisfied. If the agreement is not terminated at the end of the initial contract period, it will renew on the same terms as the initial contract for a one-year period. Consequently, any fees or minimum annual royalty obligations relating to this renewal contract will be allocated similarly to the initial contract over the additional one-year period.

We recognize revenue when or as the performance obligations in the contract are satisfied. For performance obligations that are fulfilled at a point in time, revenue is recognized at the fulfillment of the performance obligation. Since the IP is determined to be a functional license, the value of the Grant of Use is recognized in the first period of the contract term in which the license agreement is in force. The value of the Technical Support and New Improvements obligations is allocated throughout the contract period based on the satisfaction of its performance obligations. If the agreement is not terminated at the end of the contract period, it will renew on the same terms as the original agreement for a one-year period. Consequently, any fees or minimum annual royalties (“MAR”) relating to this renewal contract will be allocated similarly over that additional year.

The Company’s license agreements have a variable royalty fee structure (meaning that royalties are a fixed percentage of sales that vary from period to period) and frequently include a minimum annual royalty commitment. In instances when sales of licensed products by its licensees exceed the MAR, the Company recognizes fee income as the amounts have been earned. Typically, the royalty rate for such sales is 10-15% of the selling price. While this is variable consideration, it is subject to the sales/usage royalty exception to recognition of variable consideration in ASC 606 10-55-65 and therefore is not recognized until the subsequent sales or usage occurs or the MAR period commences.

Because of the immediate recognition of the Grant of Use performance obligation: (i) the first period of the contract term will generally have a higher percent allocation of the transaction price under ASC 606 than under the accounting guidance used prior to the adoption of ASC 606, and (ii) the remaining periods in the year will have less of the transaction price recognized under ASC 606 than under the accounting guidance used prior to the adoption of ASC 606. After the initial period in the contract term, the revenue for the remaining periods will be based on the satisfaction of the technical support and New Improvements obligations. Since most of our license agreements start as of January 1st, the revenue recognized for the contract under ASC 606 in our first quarter will tend to be higher than the accounting guidance used prior to the adoption of ASC 606. In the third quarter of 2018, the Company reported $74,352 lower revenue under ASC 606 as compared to the accounting guidance used prior to the adoption of ASC 606. In the first nine months of 2018, the Company reported $69,900 lower revenue under ASC 606 as compared to the accounting guidance used prior to the adoption of ASC 606 due to the impact of: (i) the Grant of Use portion of multiyear license agreements being recognized only in the first year of the agreement, and (ii) the initial fee of license agreements being amortized over the entire contract period instead of being recognized completely during the period when the agreement was executed.

ASC 606 was applied using the modified retrospective method to all contracts that were not completed contracts as of the implementation date, with the cumulative effect of the initial adoption being recognized as an adjustment to opening retained earnings at January 1, 2018. As of January 1, 2018, we had four license agreements that were still under their multi-year initial term. The Company elected to use the Modified Retrospective approach when adopting the provisions of ASC 606. Using the Modified Retrospective Approach, with the adoption of ASC 606 as of January 1, 2018, the Company will not recognize $58,021 of revenue in future periods from these four license agreements that it would have recognized under ASC 605. The non-recognition of future revenues associated with the adoption of ASC 606 is solely from a financial reporting standpoint and does not impact the Company’s licensees’ obligations to pay royalties to the Company under their license agreements. The Company recorded a cumulative adjustment to decrease opening accumulated deficit and increase accounts receivable balance as of January 1, 2018 by $58,021.

Royalties receivable balance, net - December 31, 2017	$597,441
Cumulative effect of adoption of ASC 606	58,021
Opening royalties receivable balance, net - January 1, 2018	$655,462

As of September 30, 2018, the net closing royalties receivable balance is $709,811. Had ASC 606 not been adopted, the Company’s net closing accounts receivable balance as of September 30, 2018 would have been $777,985. The Company does not have any contract assets under ASC 606 as of January 1, 2018 and September 30, 2018. There was $824 of revenue recognized during the nine months ended September 30, 2018 that was included in contract liability (deferred revenue) as of the beginning of the period and the balance of this account as of September 30, 2018 is $38,966. Had ASC 606 not been adopted, the Company’s deferred revenue balance as of September 30, 2018 would have been $46,267.

Certain of the contract 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 are recognized into income in future periods as earned.

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. Our revenue source comes from the licensing of this technology and all of these license agreements have similar terms and provisions. The majority of the Company’s licensing 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 on 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 each model produced with SPD-SmartGlass, and changes in pricing or exchange rates.

As of September 30, 2018, the Company has six license agreements that are in their initial multiyear term ("Initial Term") with continuing performance obligations going forward. The Initial Term of three of these agreements will end as of December 31, 2019, one will end as of December 31, 2020, one will end as of December 31, 2021, and one will end as of December 31, 2022. The Company currently expects that all six of these agreements will renew annually at the end of the Initial Term although no assurance can be provided that these contracts will renew at the end of the initial term. As of September 30, 2018, the aggregate amount of the revenue to be recognized upon the satisfaction of the remaining performance obligations for the six license agreements is $386,113. The revenue for these remaining performance obligations for each of the six license agreements is expected to be recognize evenly throughout their remaining period of the Initial Term.

Note 5. 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 2018, four licensees accounted for 10% or more of fee income of the Company; these licensees accounted for approximately 33%, 14%, 13% and 10%, respectively of fee income recognized during such period. During the first nine months of 2017, four licensees accounted for 10% or more of fee income of the Company; these licensees accounted for approximately 31%, 15%, 12% and 11%, respectively of fee income recognized during this period.

Note 6. Stock-Based Compensation

The Company has granted options/warrants to consultants. 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 at the date of grant. 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 three and nine months ended September 30, 2018 and 2017 there were no charges related to options granted to consultants.

During the nine months ended September 30, 2018, the Company granted 150,182 fully vested options to employees and recorded share-based compensation of $69,309. The Company did not grant any stock options to employees and directors during the three months ended September 30, 2018. The Company valued these grants using the Black-Scholes option pricing model with the following assumptions:

	September 30, 2018	
Fair value on grant date	$ 0.462	
Expected Dividend yield	-	
Expected volatility	51	%
Risk free interest rate	2.77	%
Expected term of the option	5 years	

The Company did not grant any stock options to employees and directors during the three and nine months ended September 30, 2017.

There was no compensation expense recorded relating to restricted stock grants to employees and directors during the three and nine months ended September 30, 2018 and 2017.

Note 7. 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 other deferred tax items have been fully reserved since it was not more likely than not that the Company would achieve profitable operations and be able to utilize the benefit of the net operating loss carryforwards.

Note 8. Equity

On or around February 16, 2018, a small group of long-time shareholders of the Company who are accredited investors made an interest-free five-year convertible loan of $1.25 million to the Company which, upon the occurrence of certain conditions which have already occurred, automatically converted into 1,388,893 shares of common stock at a price equal to the market price of the Company's common stock when the loan was made, plus warrants expiring February 28, 2023 to purchase 1,388,893 shares of common stock at an exercise price of $1.10, $1.20 or $1.35 per share depending on the exercise date. No payments are due on this note during its five-year term or after conversion into equity. On April 23, 2018, Research Frontiers Incorporated filed a prospectus supplement relating to the issuance and sale of the above common stock and warrant securities with the Securities and Exchange Commission. The Company has recorded this transaction as an equity transaction whereby the proceeds were accounted for as the issuance of the Company's common stock on the date that the proceeds were received.

On September 7, 2018, the Company announced that it had sold common stock to a group of investors led by Gauzy Ltd., a licensee of the Company's SPD technology. The aggregate proceeds from these stock offerings was $2,000,000. The Company expects as of this filing to have sufficient working capital for at least the next 18-24 months of operations. At the closing, the investors received 2,173,916 shares of Research Frontiers common stock at a price of $0.92 per share, as well as five-year warrants to purchase 1,086,957 shares of Research Frontiers common stock at an exercise price of $1.10, $1.20 or $1.38 per share depending on the exercise date. In connection with the issuance of certain of these warrants during the third quarter of 2018, the Company allocated $223,370 as a warrant liability upon the issuance of these warrants on August 13, 2018 and recorded a non-cash accounting expense of $286,631 to mark these to their market value as of September 30, 2018. This resulted in a liability of $510,001 recorded on the Company's September 30, 2018 balance sheet.

In September 2018, the Company received proceeds of $61,111 and issued 55,556 shares of common stock in connection with the exercise of outstanding warrants.

The Company did not sell any equity securities during the three and nine months ended September 30, 2017.

Note 9. Treasury Stock

The Company did not repurchase any of its stock during the three and nine-month periods ended June 30, 2018 and 2017.

Note 10. 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. The fair value of the warrant liability recorded in the current report is a Level 3 measurement.

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, 2017.

The Company adopted ASC 606, the new revenue recognition standard, beginning January 1, 2018. The comparative prior periods have not been adjusted and continue to be reported under ASC 605. The Company determined that its license agreements provide for three performance obligations: (i) Grant of Use, (ii) Technical Support, and (iii) New Improvements.

The best method for determining standalone selling price of our Grant of Use performance obligation is through a comparison of the average royalty rate for comparable license agreements as compared to our license agreements. Based on the royalty rate comparison referred to above, any pricing above and beyond the average royalty rate would relate to the Technical Support and New Improvements performance obligations.

We recognize revenue when or as the performance obligations in the contract are satisfied. For performance obligations that are fulfilled at a point in time, revenue is recognized at the fulfillment of the performance obligation. Since the IP is determined to be a functional license, the value of the Grant of Use is recognized in the first period of the contract term in which the license agreement is in force. Since the costs incurred to satisfy the Technical Support and New Improvements performance obligations are incurred evenly throughout the year, the value of the Technical Support and New Improvements services are recognized throughout the contract period as these performance obligations are satisfied.

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. Our revenue source comes from the licensing of this technology and all of these license agreements have similar terms and provisions.

The Company has entered into license agreements covering products using the Company's SPD technology. When royalties from the sales of licensed products by a licensee exceed its contractual minimum annual royalties, the excess amount is recognized by the Company as fee income in the period that it was 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 are used, stock-based compensation expense could be 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 Company issues warrants in connection with equity offerings of common stock. For warrant issuances that are required to be accounted for as liabilities, the Company accounts for these warrants in accordance with ASC 815, *Derivative and Hedging* as freestanding liability instruments that are measured at fair value at each reporting date, based on their fair value, with changes in the fair value being recognized in the Company’s condensed consolidated statements of operations as warrant market adjustment.

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. Examples of our critical estimates include: (i) the full valuation allowance for deferred taxes that was recorded based on the uncertainty that such tax benefits would be realized in future periods, (ii) royalty receivable reserves, and (iii) the allocation of revenue recognition of fee income from license agreements between Grant of Use, Technical Support and New Improvements.

Results of Operations

The Company adopted the new ASC 606 guidance beginning January 1, 2018. The comparative prior periods have not been adjusted and continue to be reported under ASC 605. Certain license fees, which are paid to the Company in advance of the accounting period in which they are earned result 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 its 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.

In the first quarter of 2018, the Company received royalty revenues from sales of the Magic Sky Control option on the S-Class sedans and coupe in excess of allocated minimum annual royalty levels in its license agreement with our licensee who supplies this glass to Daimler. In the third quarter of 2018, the Company received royalty revenues from sales of the Magic Sky Control option on the SLC and SL roadsters in excess of allocated minimum annual royalty levels in its license agreement with our licensee who supplies this glass to Daimler. As a consequence, all subsequent royalties earned by these licensees during the remainder of the year will be recognized in the period in which they are earned. Fluctuations in exchange rates, total vehicle production levels, and take rates for the Magic Sky Control option are expected to continue. Production efficiencies are also expected to continue with the introduction of the higher vehicle production volumes for various car 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. As noted previously, the Company is working with all levels of licensees in the supply chain to further reduce the cost of final products using the Company's technology.

Three months ended September 30, 2018 Compared to the Three months ended September 30, 2017

The Company's fee income from licensing activities for the three months ended September 30, 2018 was $359,725 as compared to $488,336 for the three months ended September 30, 2017 representing a $128,611 decrease between these two periods. This decrease in revenues was in part the result of the adoption of ASC 606 which, as described above is a different revenue recognition standard. In 2018, the Company adopted the new ASC 606 revenue recognition guidance which applies to revenues reported beginning with the first quarter of 2018. We would have reported $434,050 of fee income, representing a $74,352 increase in the reported fee income for the period ending September 30, 2018 had we continued to use the accounting guidance used prior to the adoption of ASC 606.

Operating expenses decreased by $34,323 for the three months ended September 30, 2018 to $572,968 from $607,291 for the three months ended September 30, 2017. This decrease was the result of lower patent costs ($57,000) partially offset by higher material costs ($10,000), professional costs ($9,000), and payroll ($7,000) costs.

Research and development expenditures increased by $5,351 to $190,647 for the three months ended September 30, 2018 from $185,296 for the three months ended September 30, 2017.

In connection with the issuance of certain warrants during the third quarter of 2018, the Company recorded a non-cash accounting expense of $286,631 (included in warrant market adjustment) to mark these warrants to their fair value as of September 30, 2018.

The Company's net investment income for the three months ended September 30, 2018 was $2,220 compared to $1,113 earned for the three months ended September 30, 2017 with higher earnings due to higher cash balances available for investment in addition to higher interest rates.

As a consequence of the factors discussed above, the Company's net loss was $688,301 ($0.03 per common share) for the three months ended September 30, 2018 as compared to $303,138 ($0.01 per common share) for the three months ended September 30, 2017. Had the prior ASC revenue recognition accounting standard been in effect for 2018, Company's net loss would have been as $613,977 ($0.02 per common share) for the three months ended September 30, 2018 as compared to $303,138 ($0.01 per common share) for the three months ended September 30, 2017.

Nine months ended September 30, 2018 Compared to the Nine months ended September 30, 2017

The Company's fee income from licensing activities for the nine months ended September 30, 2018 was $1,117,849 as compared to $1,229,631 for the nine months ended September 30, 2017 representing a decrease in fee income of $111,782 between these two periods. This decrease in revenues was in part the result of the adoption of ASC 606 which, as described above is a different revenue recognition standard. In 2018, the Company adopted the new ASC 606 revenue recognition guidance which applies to revenues reported beginning with the first quarter of 2018. We would have reported $1,187,749 of fee income, representing a $69,900 increase in the reported fee income for the period ending September 30, 2018 had we continued to use the accounting guidance used prior to the adoption of ASC 606.

Operating expenses decreased by $151,571 for the nine months ended September 30, 2018 to $2,228,757 from $2,380,328 for the nine months ended September 30, 2017. This decrease was the result of lower payroll and related costs ($138,000), lower professional fees ($56,000), lower patent costs ($34,000), as well as lower allocated insurance costs ($9,000), partially offset by higher non-cash option compensation expenses ($60,000).

Research and development expenditures increased by $61,448 to $660,086 for the nine months ended September 30, 2018 from $598,638 for the nine months ended September 30, 2017. This increase was the result of higher payroll costs ($46,000) as well as higher non-cash stock option compensation expenses ($9,000) and higher materials costs ($15,000) partially offset by lower allocated insurance costs ($9,000).

In connection with the issuance of certain warrants during the third quarter of 2018, the Company recorded a non-cash accounting expense of $286,631 (included in warrant market adjustment) to mark these warrants to their fair value as of September 30, 2018.

The Company's net investment income for the nine months ended September 30, 2018 was $5,665 compared to $3,830 earned for the nine months ended September 30, 2017 with higher earnings due to higher cash balances available for investment in the current period in addition to higher interest rates.

As a consequence of the factors discussed above, the Company's net loss was $2,051,960 ($0.08 per common share) for the nine months ended September 30, 2018 as compared to $1,745,505 ($0.07 per common share) for the nine months ended September 30, 2017. Had the prior ASC revenue recognition accounting standard been in effect for 2018, Company's net loss would have been as $1,982,060 ($0.08 per common share) for the nine months ended September 30, 2018 as compared to $1,745,505 ($0.07 per common share) for the nine months ended September 30, 2017.

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, 2018, the Company's cash and cash equivalents balance increased by $1,662,995. The increase was due to the equity infusion from the investments described in Note 8 of $3,250,000 and $61,111 in proceeds from the exercise of outstanding warrants, partially offset by $1,636,821 cash used for operations and $11,295 cash used to purchase fixed assets. As of September 30, 2018, the Company had cash and cash equivalents of $3,400,842, working capital (total current assets less total current liabilities) of $3,848,455 and total shareholders' equity of $3,730,477.

Our quarterly projected cash flow shortfall, based on our current operations adjusted for any non-recurring cash expenses for the next 12 months, is approximately $350,000 to $550,000 per quarter depending in part on the Company's current plan to hire new employees. We may eliminate some operating expenses in the future, which will further reduce our cash flow shortfall if needed.

With the addition of proceeds from the investments described above, the Company expects as of this filing to have sufficient working capital for at least the next 18-24 months of operations.

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. 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, 2017. 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, 2018. In completing our reporting with respect to the consolidated financial statements presented in this report, we evaluated our internal controls over financial reporting and determined that our internal control over financial reporting was not effective due to a material weakness in our controls over the method for accounting for warrants issued in connection with a registered offering of common stock.

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, 2018 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.

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 8, 2018