Research Frontiers Inc.
Annual Report 2006

Research Frontiers Incorporated (Nasdaq: REFR) is the premier developer and licensor of smart glass technology and is at the forefront of this new industry. With intellectual property including over 450 patents and patent applications for its SPD-SmartGlass™ (suspended particle device) technology, Research Frontiers supports a network of 33 prominent licensees in North and South America, Europe and Asia capable of serving the world's demand for smart glass. SPD-SmartGlass meets the needs for instant light control and sleek, modern, innovative and environmentally-friendly designs in architecture, automotive, aerospace and marine applications. We hope that in reading our Annual Report and visiting SmartGlass.com, you will enjoy experiencing what's NEXT in the world of design, and learn why industry leaders are utilizing award-winning SPD-SmartGlass technology to improve your view of the world.

Architecture

Automotive

Aerospace

Marine

Letter to Shareholders

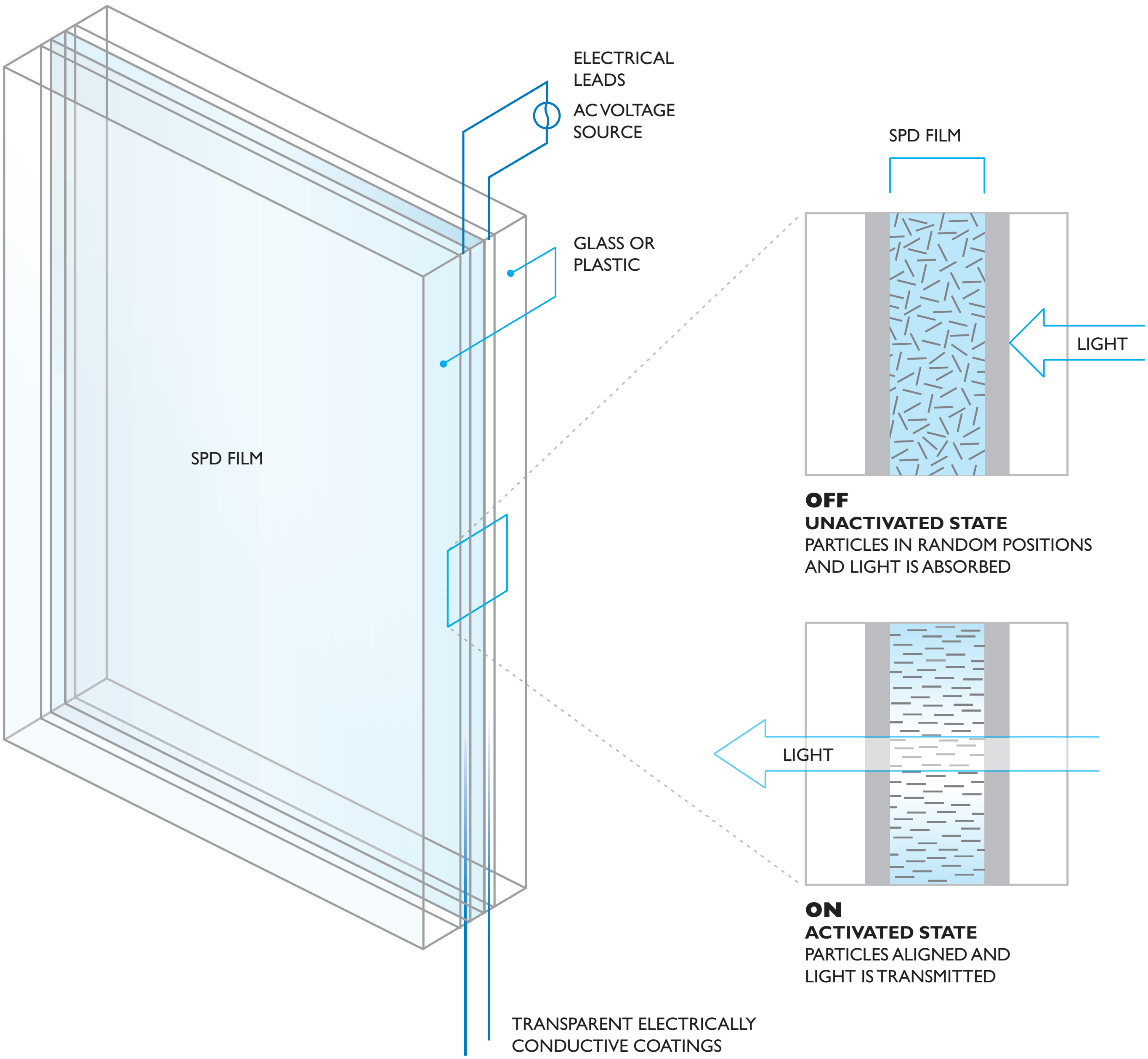
A wave of good news and major announcements, which began in early February, 2007 relating to sales of SPD light-control film and SPD-Smart™ products by several of our most active licensees, have gotten the year off to an excellent and exciting start. Of course, these major events did not just happen overnight, but are the result of determined and focused work by Research Frontiers, our licensees, and their customers over the past several years as SPD-Smart products using next-generation SPD light-control film were being developed, tested, and certified.

Research Frontiers has developed the most advanced technology for the smart glass industry. Industrial giants with global reach are now offering products using the technology.

On February 1 the **Hitachi Chemical Company** and **Innovative Glass Corporation** jointly announced that shipments of wide-width (greater than 1 meter) SPD-Smart film from Hitachi's newest coating line in Ibaraki, Japan had commenced. Innovative Glass has continuously purchased and received rolls of Hitachi's film which will be used by Innovative Glass to fill orders for its E^GLASS™ architectural SPD-Smart window product line.

SPD-SMARTGLASS™ TECHNOLOGY

How it Works



OFF
UNACTIVATED STATE
PARTICLES IN RANDOM POSITIONS AND LIGHT IS ABSORBED

ON
ACTIVATED STATE
PARTICLES ALIGNED AND LIGHT IS TRANSMITTED

SPD-Smart technology is widely considered the **state-of-the-art solution in the smart glass industry** and Research Frontiers possesses a fortress of intellectual property covering the technology with **over 450 patents and patent applications worldwide.**

In commenting about the new Hitachi film, Steve Abadi, Chairman and CEO of Innovative Glass said, “The new wide-width film has the widest range of light transmission and fastest switching speed when compared to other technologies we have evaluated. The clarity and dynamic range is outstanding, and our clients are eager to experience the power, control, and other benefits of SPD-SmartGlass. We are convinced that this is the glass of the future, and our customers agree.”

Shareholders have often asked when a large manufacturer would begin selling or using SPD-Smart windows or other products. This question was decisively answered on February 9, 2007 when the **Raytheon Aircraft Company** announced in its press release that it is now offering electronic aircraft window shades using Research Frontiers’ SPD-Smart light-control technology for retrofitting and upgrading all models of its Beechcraft® King Air aircraft. These electronically switchable window shades block more than 99% of ultraviolet radiation and allow passengers and the flight crew to instantly and dynamically control the amount of sunlight, glare and heat passing through the aircraft cabin windows. These e-Shade™ electronically dimmable window shades, which have one of the longest warranties in the industry, are being supplied to Raytheon by our licensee, **InspecTech Aero Service, Inc.** of Fort Lauderdale, Florida. After rigorous testing, InspecTech received a supplemental type certificate (STC) on January 16, 2007 from the Federal Aviation Administration for all models of King Air aircraft. This marks the first time that

WHAT THE WORLD IS SAYING ABOUT

SmartGlass...

"Hitachi Chemical Company sees great potential in the architectural, automotive, aircraft and marine glass industries for SPD-SmartGlass. The mass production level of SPD film has successfully launched from February 2007 and has been evaluated for various applications at glass companies. We look forward to helping to bring the many benefits of SPD light-control technology to make the world a more environmentally-friendly, comfortable, safer and more beautiful place."

Eiji Omori
Head and Department Manager
Advanced Performance Materials Business Sector

Hitachi Chemical Co., Ltd.
APRIL 2007

"We have seen a tremendous request for our SPD CromaLite product from our customers in the marketplace, and we are currently working to coat one meter wide film and to expand our SPD film production capacity."

Alberto Bertolini
General Director

Isoclima S.p.A.
APRIL 2007

electronically dimmable window shades are being offered for sale by an aircraft manufacturer after being proven durable and safe for use in a fleet of aircraft. Approximately 6,200 King Air aircraft are currently in operation, with an average of about 10 cabin windows per plane. If Raytheon and its customers are pleased with the new SPD windows, Raytheon may also begin installing them as original equipment. In the meantime, Raytheon and InspecTech have already announced that they are working to obtain FAA certification for other Raytheon aircraft including the Beechjet, Premier and Hawker lines. InspecTech also reports responding to numerous inquiries from other commercial and business aircraft manufacturers who are interested in offering SPD-Smart windows on their aircraft.

In May, 2006 we announced that the **Asahi Glass Company,** which is the world's largest manufacturer of automotive glass and flat glass in general, had been granted a non-exclusive worldwide license to use Research Frontiers' SPD technology for various automotive end-products including windows, sunroofs and other roof glass systems. The potential importance of this license agreement is hard to overstate. Asahi Glass is in a key position within the automotive industry, and has developed substantial expertise regarding SPD-Smart windows and sunroofs. Several of our other licensees are also currently working with automotive manufacturers to introduce SPD-Smart windows and/or sunroof products in various production vehicles. Worldwide automotive sunroof sales are expected to have reached almost 15 million units in 2006, and grow to more than 110 million square feet of usage by 2010. If SPD controllable glass

"We have been working with Hitachi Chemical and Research Frontiers collaboratively to meet the demanding needs of architects, developers and consumers for state-of-the-art light control. Hitachi Chemical's responsiveness and determination to increase their production capacity and supply a durable, high-quality film in wide widths and high volume addresses the recent increase in demand for energy-efficient, "green" building materials and innovative designs, along with the broad trend towards the use of more glass in homes, buildings and automobiles....The first rolls of SPD-Smart film from Hitachi Chemical's high-capacity coating line have now been delivered to us for use in various construction projects. This new wide-width film has the widest range of light transmission and fastest switching speed when compared to other technologies we have evaluated. The clarity and dynamic range is outstanding, and our clients are eager to experience the power, control, and other benefits of SPD-SmartGlass. We are convinced that this is the glass of the future, and our customers agree."

Steve Abadi
Chairman and Chief Executive Officer

Innovative Glass Corporation
FEBRUARY 2007

"We had been evaluating dimmable window shade technology for the past couple of years. The fast switching speed, wide range of light transmission, longevity, superior performance and lighter weight are features we were looking for to enhance our product line. This product is in line with our business strategy to provide world-class service, increase customer satisfaction with their aircraft and flying experience, as well as reducing customers' operating costs and aircraft downtime. To that end, we are offering a 5-year warranty on these electronic window shades, one of the best warranties in the business."

Randy Groom
President, Global Customer Service and Support

Raytheon Aircraft Company
FEBRUARY 2007

or plastic products are used in even a fraction of the world's 65 million new automobiles produced annually, very large royalties for Research Frontiers can reasonably be expected.

Dainippon Ink and Chemicals ("DIC") expanded its SPD business when it acquired a film license from Research Frontiers in March 2006 to supplement its earlier emulsion license. After successfully producing SPD film in sheets with excellent optical properties, DIC is now working with roll coating companies in order to assure that its emulsion will be satisfactorily coatable into films using a roll-to-roll process. DIC has also been systematically working with Research Frontiers to enhance its emulsion properties, and is also diligently working to expand its capacity to manufacture SPD emulsion. DIC has also publicly emphasized the strategic importance of SPD technology to DIC in a detailed presentation given by a senior executive of DIC at Research Frontiers' Annual Stockholders Meeting in June 2006. The executive concluded his presentation by noting that it was significant that the SPD development work within DIC had been escalated from being a "project" to being referred to as its "SPD business."

In October 2006, **Isoclima S.p.A.,** our licensee headquartered in Italy, exhibited two of its CromaLite™ SPD automotive glass products, a sunroof and an armored side glass window, at trade shows held in Germany. The armored security glass product, which was specially laminated to make it bullet-resistant, is the first such product incorporating second-generation SPD film. This film was made by Isoclima, which is licensed

WHAT THE WORLD IS SAYING ABOUT

SmartGlass...

"The use of intelligent glass provides added value and increased flexibility in new building design, improves working environments and buildings ergonomics, saves energy, and increases the well being of building occupants. As a company dedicated to bringing environmentally friendly "green" building products and unique design abilities to our customers…we can now offer SPD-Smart products over a wider geographic area, and we plan continued expansion of this very attractive line of our business."

John Browne
Managing Director

SmartGlass International Ltd.
MARCH 2007

"SPD technology offers exceptional benefits across multiple sectors. In architectural applications, key value drivers are SPD's energy efficiency and daylighting ability, while for aerospace applications where light levels are especially intense, weight-saving SPD glazings reduce maintenance and offer an unprecedented combination of dynamic control of light, glare and heat through windows. Likewise, in response to the trend in automotive towards larger panoramic sunroof systems in response to consumer demands for brighter and more open vehicle interiors, SPD glazings are able to instantly deliver desired shading levels automatically or at the touch of a button."

Archana Jayarajah
Technical Insights Research Analyst

In connection with presentation to Research Frontiers of
Frost & Sullivan's 2007 North American Award for Excellence in Technology
FEBRUARY 2007

to make various architectural, automotive and marine end-products, and which is also licensed by Research Frontiers to make and sell SPD film to our other licensees. Isoclima has reported that it expects to be selling SPD-Smart products under its CromaLite trademark later this year, and currently does substantial business involving windows and roof systems in the automotive, architectural and marine industries.

Even as our licensees were announcing significant technological and product accomplishments, Research Frontiers moved to greatly improve its financial position, resources, and strength. In August 2006, a group of accredited investors, led by the principals of a large international real estate group, invested $2 million in Research Frontiers, and in October three investors from that group invested an additional $700,000. As of December 31, 2006, we had cash equivalents of approximately $3 million. As a result of progress by Research Frontiers, our licensees, and their customers, our share price rose substantially in early February 2007, and Research Frontiers then raised $6,650,000 through the sale of common stock at $9.75 per share to a group of investors that included some of the same investors as in the earlier two rounds of financing. As of March 31, 2007, we continue to be debt-free, and cash and equivalents at Research Frontiers exceeded $8.5 million, putting your Company in its strongest financial position in many years.

ADVANTAGES OF SPD TECHNOLOGY

Instant Light Control
Energy Savings
Environmentally Smart
State-of-the-Art Technology
A Design Statement

Now that SPD light-control film is available from Hitachi Chemical's production facilities in Japan, and additional sources of SPD film are expected to enter production, and with customer adoption now gaining traction and becoming known worldwide, we expect that the SPD industry will begin to grow and flourish. SPD-Smart technology also continues to receive worldwide attention at major trade shows, conferences and as the recipient of prestigious awards. Our success is due in large part to the hard work that our employees, and those at our licensees, have done, and to the expanded resources that Research Frontiers and some very large companies licensed by us have devoted to developing the SPD industry. We believe that the future now looks very bright for Research Frontiers and we expect our licensees to achieve substantial business with SPD-Smart products for many applications. We also want to thank our licensees, employees and shareholders for their continuing loyalty and dedication. We feel fortunate to have such a fine group of people to inspire and support our efforts.

Sincerely,

Robert L. Saxe
Chairman and Chief Executive Officer

Joseph M. Harary
President and Chief Operating Officer

Common Stock Information

Market Information
The Company's common stock is traded on the NASDAQ Capital Market. As of March 22, 2007, there were 15,318,601 shares of common stock outstanding.

The following table sets forth the range of the high and low selling prices (as provided by the National Association of Securities Dealers) of the Company's common stock for each quarterly period within the past two fiscal years:

Quarter Ended	Low	High
March 31, 2005	5.00	6.59
June 30, 2005	2.76	5.75
September 30, 2005	2.55	3.50
December 31, 2005	3.18	7.00
March 31, 2006	3.59	6.32
June 30, 2006	3.71	6.49
September 30, 2006	4.00	5.25
December 31, 2006	4.05	6.82

These quotations may reflect inter-dealer prices, without retail mark-up, mark-down, or commission, and may not necessarily represent actual transactions.

Approximate Number of Security Holders
As of March 22, 2007, there were 566 holders of record of the Company's common stock. The Company estimates that there are approximately 6,000 beneficial holders of the Company's common stock.

Dividends
The Company did not pay dividends on its common stock in 2006 and does not expect to pay any cash dividends in the foreseeable future. There are no restrictions on the payment of dividends.

Issuer Purchases of Equity Securities
None.

Selected Financial Data

The following table sets forth selected data regarding the Company's operating results and financial position. The data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and notes thereto, all of which are contained in this Annual Report.

Year ended December 31,	2006	2005	2004	2003	2002
Statement of Operations Data					
Fee income	$ 162,639	$ 138,742	$ 201,321	$ 258,187	$ 217,519
Operating expenses	2,383,856	2,624,379	2,633,534	2,537,317	2,631,139
Research and development	1,170,503	1,391,657	1,682,624	1,908,753	1,859,030
Charge for reduction in value of investment in SPD Inc. (1)	–	–	165,501	615,200	–
	3,554,359	4,016,036	4,481,659	5,061,270	4,490,169
Operating loss	(3,391,720)	(3,877,294)	(4,280,338)	(4,803,083)	(4,272,650)
Net investment income (2)	88,087	129,762	17,597	30,775	321,534
Net loss	(3,303,633)	(3,747,532)	(4,262,741)	(4,772,308)	(3,951,116)
Basic and diluted net loss per common share	(.24)	(.27)	(.33)	(.38)	(.33)
Dividends per share	–	–	–	–	–

As of December 31,	2006	2005	2004	2003	2002
Balance Sheet Data:					
Total current assets	$ 3,126,381	$3,823,093	$ 2,716,964	$5,322,083	$5,293,629
Total assets	3,251,637	3,957,205	2,860,673	5,690,270	6,267,051
Long-term debt, including accrued interest	–	–	–	–	–
Total shareholders' equity	2,992,621	3,646,254	2,392,303	5,469,427	5,974,466

(1) Reflects a non-cash charge against income of $615,200 recorded by the Company in the first quarter of 2003 to reflect a reduction in the value of its investment in SPD Inc. determined based upon recent financing activity of SPD Inc. The Company also recorded a further non-cash charge against income of $209,704 during the first quarter of 2004. During the fourth quarter of 2004, the Company received a payment of $44,203 as part of a liquidation distribution made by SPD Inc. to its shareholders, resulting in a total net non-cash charge against income of $165,501 in 2004.

(2) Net investment income for 2002 includes $64,608 of interest income received from officers of the Company upon payment of notes receivable.

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."

The Company has entered into a number of license agreements covering potential 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 to 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 accordance with Emerging Issues Task Force Issue 96-18, *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 date that such options or warrants vest as determined using a Black-Scholes option pricing model. Depending upon the difference between the exercise price and the market price of the Company's common stock on the date that such options or warrants vest, the amount of non-cash expenses that could be recorded as a result of the vesting of such options or warrants can be material.

The Company applied the cost method of accounting for its minority equity interest in SPD Inc., a subsidiary of Hankuk Glass Industries, Inc. Because no public market existed for the common stock of SPD Inc., the Company reviewed the operating performance, financing and forecasts for such entity in assessing the net realizable value of this investment. During 2003, the Company recorded total non-cash accounting charges of $615,200 against income to reflect a reduction in the value of its investment in SPD Inc. These non-cash charges were determined as follows: During the first quarter of 2003, the Company recorded a non-cash charge against income of $255,200 to reflect a reduction in the value of its investment in SPD Inc. determined based upon recent financing activity of SPD Inc. The Company also recorded a further non-cash charge against income of $360,000 as of the end of 2003 to reflect a reduction in the value of its investment in SPD Inc. determined based upon its review of the financial position and results of operations of SPD Inc. as of and for the year ended December 31, 2003. On April 28, 2004, SPD Inc. informed the Company that it was planning to sell its equipment and other assets and cease its business activities. As a result, the Company wrote off its entire remaining investment in SPD Inc. of $209,704 in the first quarter of 2004. During the fourth quarter of 2004, the Company received a payment of $44,203 as part of a liquidation distribution made by SPD Inc. to its shareholders, resulting in a total net non-cash charge against income of $165,501 in 2004.

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 will be realized in future periods.

Results of Operations

Year ended December 31, 2006 Compared to the Year ended December 31, 2005

The Company's fee income from licensing activities for 2006 was $162,639, as compared to $138,742 for 2005. This difference in fee income was primarily the result of the timing and amount of minimum annual royalties paid, and the date of receipt of such payment on certain license agreements, by end-product licensees. 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, 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.

Operating expenses decreased by $240,523 for 2006 to $2,383,856 from $2,624,379 for 2005. This decrease was primarily the result of lower insurance (lower by approximately $71,500 primarily the result of a change in medical insurance carriers), consulting (decreased by approximately $96,500, patent (lower by approximately $39,000) and depreciation expenses, and lower stock listing fees (reduced by approximately $61,000 as a result of the movement of the Company's listing from the Nasdaq National Market to the Nasdaq Capital Market).

Research and development expenditures decreased by $221,154 to $1,170,503 for 2006 from $1,391,657 for 2005. This decrease was primarily the result of decreased payroll (lower by approximately $81,000 primarily the result of the net reduction in technical staff size by one employee), depreciation, materials (lower by approximately $87,500), consulting (decreased by approximately $12,000) and insurance expenses (lower by approximately $67,500 primarily the result of a change in medical insurance carriers).

Investment income for 2006 was $88,087 as compared to a net gain from its investing activities of $129,762 for 2005. This difference was primarily due to lower cash balances available to invest, partially offset by higher interest rates during 2006.

As a consequence of the factors discussed above, the Company's net loss was $3,303,633 ($0.24 per share) for 2006 as compared to $3,747,532 ($0.27 per share) for 2005.

Year ended December 31, 2005 Compared to the Year ended December 31, 2004

The Company's fee income from licensing activities for 2005 was $138,742, as compared to $201,321 for 2004. This difference in fee income was primarily the result of the timing and amount of minimum annual royalties paid, and the date of receipt of such payment on certain license agreements, by end-product licensees. 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, 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.

Operating expenses decreased by $9,155 for 2005 to $2,624,379 from $2,633,534 for 2004. This decrease was primarily the result of lower marketing, accounting, depreciation and insurance expenses, partially offset by higher payroll, consulting, and patent expenses, and higher stock listing fees and reserves for bad debts.

Research and development expenditures decreased by $290,967 to $1,391,657 for 2005 from $1,682,624 for 2004. This decrease was primarily the result of decreased payroll (reduced by approximately $107,000 primarily the result of a reduction in salary of one employee and the net reduction in technical staff size by one employee), depreciation, and other allocated office expenses partially offset by higher materials expense (increased by approximately $66,000).

Investment income for 2005 was $129,762 as compared to a net gain from its investing activities of $17,597 for 2004. This difference was primarily due to higher interest rates during 2005 and higher cash balances due to the receipt of proceeds from the sale of common stock and warrants in February 2005. Investment income for 2004 was $30,097 prior to a write-down of $12,500 in the Company's investment in common stock of ThermoView Industries.

During 2004, the Company recorded total non-cash accounting charges of $165,501 against income to reflect a reduction in the value of its investment in SPD Inc.

As a consequence of the factors discussed above, the Company's net loss was $3,747,532 ($0.27 per share) for 2005 as compared to $4,262,741 ($0.33 per share) for 2004.

Financial Condition, Liquidity and Capital Resources

During 2006, the Company's cash and cash equivalent balance decreased by $644,164 principally as a result of cash used to fund the Company's operating activities of $3,265,358, partially offset by $2,650,000 of net proceeds received from the issuance of common stock. At December 31, 2006, the Company had working capital of $2,867,365 and its shareholders' equity was $2,992,621.

During 2005, the Company's cash and cash equivalent balance increased by $1,042,622 principally as a result of $5,000,000 of net proceeds received from the issuance of common stock and warrants, offset by cash used to fund the Company's operating activities of $3,920,835. At December 31, 2005, the Company had working capital of $3,512,142 and its shareholders' equity was $3,646,254.

The Company occupies premises under an operating lease agreement which expires on January 31, 2014 and requires minimum annual rent which rises over the term of the lease to approximately $176,669, plus tenant's share of applicable taxes. These lease obligations are summarized over time as of December 31, 2006:

	Payments due by period				
	<1 year	1-3 years	4-5 years	>5 years	Total
Operating lease obligations	162,000	500,000	344,000	192,000	1,198,000

In February 2007, the Company raised $6,650,000 in net proceeds in connection with the registered sale to accredited investors of 682,102 shares of its common stock. In August 2006, the Company raised $2 million in capital ($1,950,000 in net proceeds after deducting expenses related to the offering) in connection with the registered sale to accredited investors of 515,462 shares of its common stock. In October

2006, the Company raised an additional $700,000 in net proceeds in connection with the registered sales to accredited investors of 179,487 shares of its common stock. In February 2005, the Company raised $5 million in net proceeds in connection with the registered sale to institutional investors of one million shares of its common stock and the issuance of five-year warrants to purchase 200,000 shares of common stock at an exercise price of $7.50 per share.

The Company expects to use its cash to fund its research and development of SPD light valves 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 until towards the end of 2009. 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 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.

Inflation

The Company does not believe that inflation has a significant impact on its business.

New Accounting Standards

In July 2006, FASB issued FAS Interpretation No. 48, "Accounting for Uncertainty in Income Taxes — an interpretation of FAS No. 109" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with FAS No. 109, "Accounting for Income Taxes." FIN 48 prescribes a recognition threshold and measurement attribute for a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on future changes, classification, interest and penalties, accounting in interim periods, disclosures and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company has completed its initial evaluation of the impact of the adoption of FIN 48 and determined that such adoption is not expected to have a material impact on the Company's financial position or results from operations.

Related Party Transactions

None.

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.

Quantitative and Qualitative Disclosure About Market Risk

At times, the Company invests available cash and cash equivalents in money market funds or in short-term U.S. treasury securities with maturities that are generally two years or less. Although the rate of interest paid on such investments may fluctuate over time, each of the Company's investments, other than in money market funds whose interest yield varies, is made at a fixed interest rate over the duration of the investment. Accordingly, the Company does not believe it is materially exposed to changes in interest rates as it generally holds these treasury securities until maturity.

The Company does not have any sales, purchases, assets or liabilities determined in currencies other than the U.S. dollar, and as such, is not subject to foreign currency exchange risk.

Financial Statements and Supplementary Data

The consolidated financial statements are included in this Annual Report beginning on page 12.

Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Controls and Procedures

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

As of the end of the period covered by this Annual Report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the CEO and CFO, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, the Company's CEO and CFO concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information relating to the Company (including its consolidated subsidiary) required to be included in the Company's periodic SEC filings. There were no changes in the Company's internal control over financial reporting during the quarterly period ended December 31, 2006 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Balance Statements

December 31,	2006	2005
Assets		
Current assets:		
Cash and cash equivalents	$ 3,000,521	3,644,685
Royalty receivables, net of reserves of $103,674 in 2006 and $78,674 in 2005	65,000	40,000
Prepaid expenses and other current assets	60,860	138,408
Total current assets	3,126,381	3,823,093
Fixed assets, net	102,651	111,507
Deposits	22,605	22,605
Total assets	$ 3,251,637	3,957,205
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 120,345	132,584
Deferred revenue	5,000	5,000
Accrued expenses and other	133,671	173,367
Total current liabilities	259,016	310,951
Commitments (note 9)		
Shareholders' equity:		
Common stock, par value $0.0001 per share; authorized 100,000,000 shares, issued and outstanding 14,507,507 and 13,812,559 shares for 2006 and 2005	1,451	1,381
Additional paid-in capital	65,227,701	62,577,771
Accumulated deficit	(62,236,531)	(58,932,898)
Total shareholders' equity	2,992,621	3,646,254
Total liabilities and shareholders' equity	$ 3,251,637	3,957,205

See accompanying notes to consolidated financial statements

Statements of Operations

Years ended December 31	2006	2005	2004
Fee income	$ 162,639	138,742	201,321
Operating expenses	2,383,856	2,624,379	2,633,534
Research and development	1,170,503	1,391,657	1,682,624
Charge for reduction in value of investment in SPD Inc.	–	–	165,501
	3,554,359	4,016,036	4,481,659
Operating loss	(3,391,720)	(3,877,294)	(4,280,338)
Net investment income	88,087	129,762	17,597
Net loss	$(3,303,633)	(3,747,532)	(4,262,741)
Basic and diluted net loss per common share	$ (0.24)	(0.27)	(0.33)
Weighted average number of common shares outstanding	14,028,509	13,692,011	12,792,091

See accompanying notes to consolidated financial statements.

Statements of Shareholders' Equity

Years ended December 31, 2006, 2005, 2004

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Comprehensive Income (Loss)	Total
Balance, December 31, 2003	12,683,413	$ 1,268	56,395,409	(50,922,625)	(4,625)	5,469,427
Issuance of common stock	127,417	13	1,162,589	–	–	1,162,602
Comprehensive loss:						
Net loss	–	–	–	(4,262,741)	–	(4,262,741)
Unrealized loss on available for sale securities	–	–	–	–	4,625	4,625
Total Comprehensive Loss						(4,258,116)
Issuance of stock, options and warrants for services performed	1,729	–	18,390	–	–	18,390
Balance, December 31, 2004	12,812,559	$ 1,281	57,576,388	(55,185,366)	–	2,392,303
Issuance of common stock	1,000,000	100	4,999,900	–	–	5,000,000
Net loss	–	–	–	(3,747,532)	–	(3,747,532)
Issuance of Options for services performed	–	–	1,483	–	–	1,483
Balance, December 31, 2005	13,812,559	$ 1,381	62,577,771	(58,932,898)	–	3,646,254
Issuance of common stock	694,948	70	2,649,930	–	–	2,650,000
Net loss	–	–	–	(3,303,633)	–	(3,303,633)
Balance, December 31, 2006	14,507,507	$ 1,451	65,227,701	(62,236,531)	–	2,992,621

See accompanying notes to consolidated financial statements.

Statements of Cash Flows

Years ended December 31,	2006	2005	2004
Cash flows from operating activities:			
Net loss	$(3,303,633)	(3,747,532)	(4,262,741)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	37,662	46,140	82,736
Provision for uncollectible royalty receivables	25,000	(3,848)	32,522
Charge for reduction in value of investment in SPD Inc.	–	–	165,501
Expense relating to cashless exercise of stock options	–	–	15,707
Expense relating to issuance of stock, options and warrants for services performed	–	1,483	2,683
Impairment loss on marketable securities	–	–	12,500
Changes in assets and liabilities:			
Royalty receivables	(50,000)	18,392	72,825
Prepaid expenses and other current assets	77,548	(78,051)	21,670
Deferred revenue	–	(5,000)	(13,683)
Accounts payable and accrued expenses	(51,935)	(152,419)	261,210
Net cash used in operating activities	(3,265,358)	(3,920,835)	(3,609,070)
Cash flows from investing activities:			
Purchases of fixed assets	(28,806)	(36,543)	(67,962)
Proceeds from liquidation of SPD Inc.	–	–	44,203
Net cash used in investing activities	(28,806)	(36,543)	(23,759)
Cash flows from financing activities:			
Proceeds from issuances of common stock and warrants	2,650,000	5,000,000	1,162,602
Net cash provided by financing activities	2,650,000	5,000,000	1,162,602
Net increase (decrease) in cash and cash equivalents	(644,164)	1,042,622	(2,470,227)
Cash and cash equivalents at beginning of year	3,644,685	2,602,063	5,072,290
Cash and cash equivalents at end of year	$ 3,000,521	3,644,685	2,602,063

See accompanying notes to consolidated financial statements.

December 31, 2006, 2005 and 2004

(1) 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 used in architectural, automotive, marine, aerospace and appliance applications.

The Company has historically utilized its cash and the proceeds from maturities of its investments to fund its research and development of SPD light valves 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 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. 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 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.

(2) Summary of Significant Accounting Policies

Cash and Cash Equivalents

The Company considers securities purchased with original maturities of three months or less to be cash equivalents. Cash equivalents consist of short-term investments in money market accounts at December 31, 2006 and 2005.

Royalties Receivable

Royalties receivable are recorded at the amounts specified within the license agreements when the collectibility of the receivable is reasonably assured. The receivables do not bear interest. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing royalties receivable. The Company determines the allowance based on historical write off experience. The Company reviews its allowance for doubtful accounts periodically. Past due accounts are reviewed individually for collectibility. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

Fixed Assets

Fixed assets are carried at cost. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets.

Fee Income

Fee income represents amounts earned by the Company under various license and other agreements (note 8) relating to technology developed by the Company. During fiscal 2006, four licensees of the Company accounted for 34%, 31%, 12% and 12%, respectively of fee income recognized during the year. During fiscal 2005, four licensees of the Company accounted for 36%, 14%, 13% and 11%, respectively of fee income recognized during the year. During fiscal 2004, four licensees of the Company accounted for 25%, 19%, 13% and 12%, respectively of fee income recognized during the year.

Basic and Diluted Loss Per Common Share

Basic earnings (loss) per share excludes any dilution. It is based upon the weighted average number of common shares outstanding during the period. Dilutive earnings (loss) per share reflects the potential dilution that would occur if securities or other contracts to issue common stock were exercised or converted into common stock. The Company's dilutive earnings (loss) per share equals basic earnings (loss) per share for each of the years in the three-year period ended December 31, 2006 because all common stock equivalents (i.e., options and warrants) were antidilutive in those periods. The number of options and warrants that were not included because their effect is antidilutive was 2,785,093, 3,075,593, and 2,628,400, for 2006, 2005, and 2004, respectively.

Research and Development Costs

Research and development costs are charged to expense as incurred.

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

Use of Estimates
The preparation of the Company's consolidated financial statements requires management of the Company to make a number of estimates and assumptions relating to the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during this period. Significant items subject to such estimates and assumptions include the valuation of deferred income tax assets. Actual results could differ from those estimates.

Income Taxes
Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Fair Value of Financial Instruments
The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties. The carrying amounts of all financial instruments classified as a current asset or current liability are deemed to approximate fair value because of the short maturity of those instruments.

Stock-Based Compensation
Prior to January 1, 2006, the Company accounted for stock-based employee compensation under the intrinsic value method as outlined in the provisions of APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations while disclosing pro-forma net income and net income per share as if the fair value method had been applied in accordance with Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation." Under the intrinsic value method, no compensation expense was recognized if the exercise price of the Company's employee stock options equaled or exceeded the market price of the underlying stock on the date of grant. Since the Company had issued all stock option grants with exercise prices equal to, or greater than, the market value of the common stock on the date of grant, through December 31, 2005 no compensation cost was recognized in the consolidated statements of the operations.

Effective January 1, 2006, the Company adopted SFAS No. 123(R), "Share-based Payment." SFAS No. 123(R) replaces SFAS No. 123 and supersedes APB Opinion No. 25, SFAS 123(R) 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. This statement was adopted using the modified prospective method, which requires the Company to recognize compensation expense on a prospective basis. Therefore, prior period financial statements have not been restated. Under this method, in addition to reflecting compensation expense for new share-based payment awards, expense is also recognized to reflect the remaining vesting period of awards that had been included in pro-forma disclosures in prior periods. Since all options outstanding as of December 31, 2005 were fully vested, and no new options were granted during 2006, there was no compensation expense recognized for those options in the consolidated statement of operations for 2006. In February 2007, the Company granted fully vested options to purchase 96,000 shares of common stock, resulting in an estimated non-cash compensation charge during the first quarter of 2007 of $690,950. SFAS 123(R) also requires that tax benefits related to stock option exercises be reflected as financing cash inflows instead of operating cash inflows. For the year ended December 31, 2006, this new treatment resulted in no change in cash flows from financing activities or cash flows from operating activities. Because there were no options granted during 2006, there was no impact on net loss for the year regardless of whether the Company had consistently measured the compensation cost of the Company's stock option grants under the fair value method adopted in fiscal 2006. The Company expects that the adoption of SFAS No. 123(R) could have a material effect on the Company's consolidated financial statements, depending upon the number and terms of stock options issued by the Company in the future. The adoption of SFAS No. 123(R) had no impact on previously granted options, since all options granted prior to January 1, 2006 are fully vested.

The exercise price for stock options granted are generally set at the average for the high and low trading prices of the Company's common stock on the trading date immediately prior to the date of grant, and the related number of shares granted are fixed at the date of grant. Prior to January 1, 2006, under the principles of APB Opinion No. 25, the Company did not recognize compensation expense associated with the grant of stock options. SFAS No. 123 requires the use of option valuation models to determine the fair value of options granted after 1995. Pro forma information regarding net loss and net loss per share shown below was determined as if the Company had accounted for its employee stock options and shares sold under its stock purchase plan under the fair value method set forth in SFAS No. 123.

In order to determine the fair value of stock options on the date of grant, the Company uses the Black-Scholes option-pricing model. Inherent in this model are assumptions related to expected stock-price volatility, option term, risk-free interest rate and dividend yield. While the risk-free interest rate and dividend yield are less subjective assumptions that are based on factual data derived from public sources, the expected stock-price volatility and option term assumptions require a greater level of judgment.

The per share weighted average fair value of stock options granted during 2005 and 2004, was approximately $2.22, and $4.37, respectively, on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions (no options were granted in 2006):

Grant Date	Expected Dividend Yield	Risk-Free Interest Rate	Expected Stock Volatility	Expected Life in Years
December 2005	0%	4.251%	68.910%	5.00
July 2005	0%	3.788%	70.800%	5.00
January 2004	0%	3.225%	79.580%	4.53
December 2004	0%	3.521%	70.650%	4.53

The following table illustrates the effect on net loss and earnings per share as if the fair value method had been applied:

		2005	2004
Net loss, as reported		$(3,747,532)	$(4,262,741)
Add: Stock-based employee compensation expense included in reported net loss		1,483	18,390
Deduct: Total stock-based employee compensation determined under fair-value based method for all awards		(955,584)	(693,943)
	Pro forma	$(4,701,633)	$(4,938,294)
Basic and diluted net loss per common share	As reported	$ (0.27)	$ (0.33)
	Pro forma	$ (0.34)	$ (0.38)

Accumulated Other Comprehensive Income (loss)

The change in accumulated other comprehensive income (loss) was a reclassification adjustment of $4,625 for the year-ended December 31, 2004 reflecting the write off of an equity investment for an other than temporary impairment.

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.

Impairment of Long-Lived Assets

In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the Company reviews long-lived assets to determine whether an event or change in circumstances indicates the carrying value of the asset may not be recoverable. The Company bases its evaluation on such impairment indicators as the nature of the assets, the future economic benefit of the assets and any historical or future profitability measurements, as well as other external market conditions or factors that may be present. If such impairment indicators are present or other factors exist that indicate that the carrying amount of the asset may not be recoverable, the Company determines whether an impairment has occurred through the use of an undiscounted cash flows analysis at the lowest level for which identifiable cash flows exist. If impairment has occurred, the Company recognizes a loss for the difference between the carrying amount and the fair value of the asset. Fair value is the amount at which the asset could be bought or sold in a current transaction between a willing buyer and seller other than in a forced or liquidation sale and can be measured as the asset's quoted market price in an active market or, where an active market for the asset does not exist, the Company's best estimate of fair value based on discounted cash flow analysis. Assets to be disposed of by sale are measured at the lower of carrying amount or fair value less estimated costs to sell. The implementation of SFAS No. 144 had no impact on the Company's financial position or results of operations.

(3) Investment in SPD Inc.

During the second quarter of 2001, the Company, through its wholly-owned subsidiary, SPD Enterprises, Inc., invested approximately $750,000 for a minority equity interest in SPD Inc., a subsidiary of Hankuk Glass Industries Inc., Korea's largest glass manufacturer, which was dedicated exclusively to the production of suspended particle device (SPD) light-control film and a wide variety of end-products using SPD film. In April 2003, the Company's wholly-owned subsidiary, SPD Enterprises, Inc., invested $74,902 in SPD Inc., raising its equity ownership from 6.67% to 6.91%. SPD Inc.'s parent company invested at the same time and at the same price, $748,931, raising its equity ownership in SPD Inc. from 66.67% to 69.09%. During 2003, the Company recorded total non-cash accounting charges of $615,200 against income to reflect a reduction in the value of its investment in SPD Inc. These non-cash charges were determined as follows: During the first quarter of 2003, the Company recorded a non-cash charge against income of $255,200 to reflect a reduction in the value of its investment in SPD Inc. determined based upon the April 2003 financing, and the Company recorded a further non-cash charge against income of $360,000 as of the end of 2003 to reflect a reduction in the value of its investment in SPD Inc. determined based upon its review of the financial position and results of operations of SPD Inc. as of and for the year ended December 31, 2003. On April 28, 2004, SPD Inc. informed the Company that it was planning to sell its equipment and other assets and cease its business activities. As a result, the Company wrote off its entire remaining investment in SPD Inc. of $209,704 in the first quarter of 2004. During the fourth quarter of 2004, the Company received a payment of $44,203 as part of a liquidation distribution made by SPD Inc. to its shareholders, resulting in a total net non-cash charge against income of $165,501 in 2004. The Company's license agreement with Hankuk Glass Industries provided for the payment of minimum annual royalties to the Company in 2002 and 2003. These amounts were all paid in full in 2004.

(4) Fixed Assets

Fixed assets and their estimated useful lives, are as follows:

	2006	2005	Estimated useful life
Equipment and furniture	$1,206,492	1,181,824	5 years
Leasehold improvements	335,827	331,689	Life of lease or estimated Life if shorter
	1,542,319	1,513,513	
Less accumulated depreciation and amortization	1,439,668	1,402,006	
	$ 102,651	111,507	

(5) Accrued Expenses and Other

Accrued expenses consist of the following at December 31, 2006 and 2005:

	2006	2005
Payroll, bonuses and related benefits	$ 64,505	83,253
Professional services	21,522	47,777
Deferred rent	24,946	19,006
Other	22,698	23,331
	$133,671	173,367

(6) Income Taxes

There was no income tax expense in 2006, 2005 and 2004 due to losses incurred by the Company.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets at December 31, 2006 and 2005 are presented below.

	2006	2005
Deferred tax assets:		
Depreciation	$ 78,000	$ 93,000
Capital loss carryforward	312,000	66,000
Allowance for bad debts	42,000	32,000
Net operating loss carryforwards	19,233,000	18,307,000
Research and other credits	939,000	979,000
Other temporary differences	15,000	15,000
Total gross deferred tax assets	20,619,000	19,492,000
Less valuation allowance	20,619,000	19,492,000
	$ –	$ –

In assessing the realizability of deferred tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon future taxable income during the period in which those temporary differences become deductible. The Company considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon its historical operating losses, the Company believes that it is more likely than not that deferred tax assets will not be realized. Accordingly, the Company has recorded a full valuation allowance against the deferred tax assets, as they will not be realized unless the Company achieves profitable operations in the future.

At December 31, 2006, the Company had a net operating loss carryforward for federal income tax purposes of $48,100,000, varying amounts of which will expire in each year from 2007 through 2026. Research and other credit carryforwards of $939,000 are available to the Company to reduce income taxes payable in future years principally through 2026. Net operating loss carryforwards of $1,397,000 and research and other credit carryforwards of $69,000 are scheduled to expire during fiscal 2007, if not utilized.

(7) Shareholders' Equity

During 2004, the Company received $1,162,602 of net cash proceeds from the issuance of (i) 104,917 shares of common stock issued upon the exercise of warrants resulting in net proceeds of $987,037; and (ii) 22,500 shares of common stock issued upon the exercise of options resulting in net proceeds of $175,565. In addition, 1,729 shares were issued through the cashless exercise of an option to purchase 17,500 shares. In connection therewith, the Company recorded a non-cash compensation expense of $15,707 in 2004.

In February 2005, the Company raised $5 million in net proceeds in connection with the registered sale to institutional investors of one million shares of its common stock and the issuance of five-year warrants to purchase 200,000 shares of common stock at an exercise price of $7.50 per share.

During 2006, the Company received $2,650,000 of net cash proceeds from the issuance of two accredited investors of 694,948 shares of common stock.

Options and Warrants

Options

In 1992, the shareholders approved a stock option plan (1992 Stock Option Plan) which provides for the granting of both incentive stock options at the fair market value at the date of grant and nonqualified stock options at or below the fair market value at the date of grant to employees or non-employees who, in the determination of the Board of Directors, have made or may make significant contributions to the Company in the future. The Company initially reserved 468,750 shares of its common stock for issuance under this plan. In 1994 and 1996, the Company's shareholders approved an additional 300,000 shares and 450,000 shares, respectively, for issuance under this plan. As of December 31, 2001, no options were available for issuance under this Plan and this Plan expired during 2002.

In 1998, the shareholders approved a stock option plan (1998 Stock Option Plan) which provides for the granting of both incentive stock options at the fair market value at the date of grant and nonqualified stock options at or below the fair market value at the date of grant to employees or non-employees who, in the determination of the Board of Directors, have made or may make significant contributions to the Company in the future. The Company may also award stock appreciation rights or restricted stock under this plan. The Company initially reserved 540,000 shares of its common stock for issuance under this plan. In 1999, the Company's shareholders approved an additional 545,000 shares for issuance under this Plan, and in each of 2000 and 2002, the Company's shareholders approved an additional 600,000 shares for issuance under this Plan. As of December 31, 2006, awards for 816,779 shares of common stock were available for issuance under this Plan.

At the discretion of the Board of Directors, options expire in ten years or less from the date of grant and are generally fully exercisable upon grant but in some cases may be subject to vesting in the future. Full payment of the exercise price may be made in cash or in shares of common stock valued at the fair market value thereof on the date of exercise, or by agreeing with the Company to cancel a portion of the exercised options. When an employee exercises a stock option through the surrender of options held, rather than of cash for the option exercise price, compensation expense is recorded in accordance with APB Opinion No. 25. Accordingly, compensation expense is recorded for the difference between the quoted market value of the Company's common stock at the date of exchange and the exercise price of the option. During 2004, the Company recorded non-cash expenses of $15,707 related to the cashless exercises of options.

Activity in stock options is summarized below:

	Number Of Shares Subject to Option	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Instrinsic Value
Balance at				
December 31, 2003	2,434,775	$12.22		
Granted	148,750	$ 7.34		
Cancelled	(134,325)	$ 9.16		
Exercised	(40,000)	$ 7.97		
Balance at				
December 31, 2004	2,409,200	$12.16		
Granted	430,193	$ 7.42		
Cancelled	(148,400)	$11.27		
Balance at				
December 31, 2005	2,690,993	$11.45		
Granted	–	–		
Cancelled	(254,900)	$ 8.80		
Balance at				
December 31, 2006	2,436,093	$11.73	4.4	$ –
Exercisable at				
December 31, 2006	2,431,093	$11.72	4.4	$ –

Options covering 5,000 shares are not vested at December 31, 2006. The total intrinsic value of options exercised during the year ended December 31, 2004 was $41,000. No options were exercised during the years ended December 31, 2006 and 2005.

During 2005 and 2004, the Company issued options to a consultant to purchase 500 and 750 shares of common stock at an exercise price of $5.60 and $6.175 per share, respectively. The Company recorded $1,483 and $2,683, of non-cash expense in connection with the issuance of these options.

Warrants

Activity in warrants is summarized below, excluding the effect of the warrants discussed in the last paragraph of this note 7:

	Number of Shares Underlying Warrants Granted	Exercise Price
Balance at December 31, 2003	252,200	$5.88-13.50
Exercised	(5,500)	5.88
Terminated	(27,500)	5.88-9.35
Issued	–	–
Balance at December 31, 2004	219,200	5.88-13.50
Exercised	–	–
Terminated	(34,600)	7.31-13.50
Issued	200,000	7.50
Balance at December 31, 2005	384,600	5.88-9.63
Exercised	–	–
Terminated	(35,600)	7.73
Issued	–	–
Balance at December 31, 2006	349,000	$ 6.00-8.98

Warrants generally expire from five to ten years from the date of issuance. At December 31, 2006, the number of warrants exercisable was 344,000 at a weighted average exercise price of $7.63 per share.

Class A and Class B Warrants

In connection with a financing in 1998, the Company issued Ailouros Ltd. a Class A Warrant (which was exercised in full as of February 2004), as well as a Class B Warrant which expires on September 30, 2008. The Class B Warrant is exercisable into 65,500 shares at an exercise price of $8.25 per share which represents 120% of average of the closing bid and ask price of the Company's common stock on the date of the Class B Warrant's issuance. The Class B Warrant has not been exercised to date. Ailouros paid the Company $10,000 upon issuance of the Class A Warrant and the Class B Warrant.

(8) License and Other Agreements

The Company has entered into a number of license agreements covering various products using the Company's SPD technology. Licensees of Research Frontiers who incorporate SPD technology into end-products will pay Research Frontiers an earned royalty of 5-15% of net sales of licensed products under license agreements currently in effect, and may also be required to pay Research Frontiers fees and minimum annual royalties. To the extent that products have been sold resulting in earned royalties under these license agreements in excess of these minimum advance royalty payments, the Company has recorded additional royalty income. Licensees who sell products or components to other licensees of Research Frontiers do not pay a royalty on such sale and Research Frontiers will collect such royalty from the licensee incorporating such products or components into their own end-products. Research Frontiers' license agreements typically allow the licensee to terminate the license after some period of time, and give Research Frontiers only limited rights to terminate before the license expires. Most licenses are non-exclusive and generally last as long as our patents remain in effect. To date, revenues from license agreements have not been sufficient to fund the Company's costs of operation.

(9) Commitments

The Company has an employment agreement with one of its officers which provides for an annual base salary of $393,091 through December 31, 2007.

The Company has a defined contribution profit sharing (401K) plan covering employees who have completed one year of service. Contributions are made at the discretion of the Company. The Company did not make any contributions to this plan for 2006, 2005 or 2004.

The Company occupies premises under an operating lease agreement which expires on January 31, 2014. At December 31, 2006, the approximate minimum annual future rental commitment under this lease for the next five years are as follows:

2007:	$162,000
2008:	$164,000
2009:	$167,000
2010:	$169,000
2011:	$171,000
Thereafter:	$365,000

Rent expense, including other occupancy related expenses, amounted to approximately $169,000, $175,000, and $168,000, for 2006, 2005, and 2004, respectively.

(10) Rights Plan

In February 2003, the Company's Board of Directors adopted a Stockholders' Rights Plan and declared a dividend distribution of one Right for each outstanding share of Company common stock to stockholders of record at the close of business on March 3, 2003. Subject to certain exceptions listed in the Rights Plan, if a person or group has acquired beneficial ownership of, or commences a tender or exchange offer for, 15% or more of the Company's common stock, unless redeemed by the Company's Board of Directors, each Right entitles the holder (other than the acquiring person) to purchase from the Company $120 worth of common stock for $60. If the Company is merged into, or 50% or more of its assets or earning power is sold to, the acquiring company, the Rights will also enable the holder (other than the acquiring person) to purchase $120 worth of common stock of the acquiring company for $60. The Rights will expire at the close of business on February 18, 2013, unless the Rights Plan is extended by the Company's Board of Directors or unless the Rights are earlier redeemed by the Company at a price of $.0001 per Right. The Rights are not exercisable during the time when they are redeemable by the Company.

(11) Selected Quarterly Financial Data (Unaudited)

2006 by Quarter	First	Second	Third	Fourth
Fee income	$26,250	$63,889	$36,250	$36,250
Operating loss	(941,312)	(856,973)	(780,592)	(812,843)
Net loss	(918,106)	(831,699)	(764,912)	(788,916)
Bassic and diluted net loss per common share (1)	(.07)	(.06)	(.05)	(.06)

2005 by Quarter	First	Second	Third	Fourth
Fee income	$41,250	$36,992	$ 26,750	$33,750
Operating loss	(962,734)	(999,180)	(951,098)	(964,282)
Net loss	(940,498)	(962,104)	(914,867)	(930,063)
Basic and diluted net loss per common share (1)	(.07)	(.07)	(.07)	(.07)

(1) Since per share information is computed independently for each quarter and the full year, based on the respective average number of common shares outstanding, the sum of the quarterly per share amounts does not necessarily equal the per share amounts for the year.

(12) Subsequent Event

In February 2007, the Company raised $6,650,000 in net proceeds in connection with the registered sale to accredited investors of 682,102 shares of its common stock. In connection with this offering, a bonus equal to $133,000 was paid to management of the Company, and a fee of $10,500 was paid to a third party, and the Company will record these expenses in the first quarter of 2007.

The Shareholders and Board of Directors
Research Frontiers Incorporated:
We have audited the accompanying consolidated balance sheets of Research Frontiers Incorporated as of December 31, 2006 and 2005, and the related consolidated statements of operations, shareholders' equity and cash flows for the years then ended. Our audits also included the financial statement schedule for the years ended December 31, 2006 and 2005, as listed in Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements and financial statement schedule are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial statement schedule, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements and schedule. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Research Frontiers Incorporated at December 31, 2006 and 2005, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the financial statement schedule presents fairly, in all material respects, the information set forth therein.

BDO Seidman, LLP

BDO Seidman, LLP

Melville, New York
March 13, 2007

The Shareholders and Board of Directors
Research Frontiers Incorporated:
We have audited the accompanying consolidated statements of operations, shareholders' equity and cash flows of Research Frontiers Incorporated and subsidiary for the year ended December 31, 2004. In connection with our audit of the consolidated financial statements, we also have audited the information included in the financial statement schedule as listed in Item 15(a) for the year ended December 31, 2004. These consolidated financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and the financial statement schedule based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the results of operations and cash flows of Research Frontiers Incorporated and subsidiary for the year ended December 31, 2004, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein for the year ended December 31, 2004.

KPMG LLP

KPMG LLP

Melville, New York
March 15, 2005

CORPORATE DIRECTORY

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SMART GLASS

Facts

Annual worldwide demand (unit sales) for automotive sunroofs is projected to increase from 14.9 million units in 2006 to 22.4 million units in 2010, for a compound annual growth rate of 10.7%.

Annual worldwide demand (glazing volume) for automotive sunroofs is projected to increase from 64.6 million square feet in 2006 to 111.5 million square feet in 2010, for a compound annual growth rate of 14.6%.

92% of architects who are LEED Accredited Professionals surveyed by RFI in 2007 claim they would be highly likely or somewhat likely to recommend or specify smart glass (assuming the price of smart glass is reasonable and that it meets the desired specifications for a particular project).

Consumer and business inquiries to RFI were up more than 30% from 2005 to 2006 and are at all-time record levels during Q1 2007.

The quality of inquiries is on the rise. During the first quarter of 2007, more than 90% of consumers who contacted RFI claimed to have a project. Likewise, more than 90% of architects/specifiers/installers are doing the same. Both of these metrics are on pace to establish all-time high levels during 2007.

RESEARCH FRONTIERS INC.

Research Analysis: Market Trends in the Automotive Glazing Industry
Source: Just-Auto.com

"According to JD Power and Associates, laminated side glass and solar performance glass tied in a recent study as the 'most desirable' automotive technologies behind run-flat tyres...As glazing plays an increasing role in the overall design, automakers are looking for other ways to use glass on other areas of the body. This has led to increased research into how sunroofs can be used more effectively as a design feature. The sunroof has subsequently emerged as a key styling feature and can in some cases replace the majority of the roof panel.... Although we are seeing more and more panoramic roofs on vehicles, this presents a challenge for vehicle designers to provide adequate shading from the sun for the driver and vehicle occupants. On the flipside, however, this presents opportunities for switchable glazing specialists. Since the mid-1960s, Research Frontiers Inc. has been developing suspended particle control technology for controlling light in vehicles and other applications such as aerospace, architecture, marine, eyewear, and displays. A thin film is sandwiched inside the glass that conducts a low voltage of electricity....It means that you can simply turn a dial to block out the light, eliminating the need for a sliding shade panel altogether."

"SmartGlass International believes with the recent announcement of stringent legislation on the reduction of CO_2 emissions, and the availability of wide-width SPD-Smart film, the architectural smart glass market is set to grow at a significant rate over the next five years."

John Browne
Managing Director
SMARTGLASS INTERNATIONAL

"SPD glass technology 'holds excellent long term potential.'"

THE FREEDONIA GROUP

Based on a survey of NAHB home builders conducted last year by McGraw-Hill Construction, between 40% and 50% of the homes built in 2010 are expected to be green, containing at least three of five green building elements. That represents a major upsurge of activity in the green market. Last year, according to McGraw-Hill estimates, an estimated 2% – or $7.4 billion – of the residential construction market was green.

MCGRAW-HILL CONSTRUCTION
As cited by Nation's Building News