UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

(Mark One)
☒ **QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended June 30, 2007

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

For the Transition Period from _____ to _____

Commission file number: 000-50590

REXAHN PHARMACEUTICALS, INC.

(Exact name of registrant as specified on its charter)

Delaware	**11-3516358**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

9620 Medical Center Drive
Rockville, Maryland 20850
(Address of principle executive offices)

(240) 268-5300
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

State the number of shares outstanding of each of the registrant's classes of common equity, as of the latest practicable date: 50,355,337 issued and 50,341,132 outstanding as of August 14, 2007

Transitional Small Business Disclosure Format (check one): Yes ☐ No ☒

REXAHN PHARMACEUTICALS, INC.

INDEX

PART I – FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

REXAHN PHARMACEUTICALS, INC.
(A Development Stage Company)
Condensed Balance Sheets

	June 30, 2007 (Unaudited)	December 31, 2006
ASSETS		
Current Assets:		
Cash and cash equivalents	**$ 2,193,239**	$ 4,034,060
Prepaid expenses and other	**532,637**	483,186
Total Current Assets	**2,725,876**	4,517,246
Equipment, Net (note 3)	**127,378**	149,993
Intangible Assets, Net (note 4)	**312,849**	321,971
Total Assets	**$ 3,166,103**	$ 4,989,210
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued expenses	**$ 571,070**	$ 575,363
Total Current Liabilities	**577,070**	575,363
Deferred Revenue (note 5)	**1,162,500**	1,200,000
Total Liabilities	**1,733,570**	1,775,363
Commitment and Contingencies (note 9)		
Stockholders' Equity (note 6):		
Preferred stock, par value $0.0001, 100,000,000 authorized shares, none issued and outstanding	**-**	-
Common stock, par value $0.0001, 500,000,000 authorized shares, 50,340,337 (2006- 50,322,337) issued and 50,326,132 (2006- 50,308,132) outstanding	**5,034**	5,032
Treasury stock, 14,205 shares, at cost	**(28,410)**	(28,410)
Additional paid-in capital	**24,513,974**	23,927,551
Accumulated deficit during the development stage	**(23,058,065)**	(20,690,326)
Total Stockholders' Equity	**1,432,533**	3,213,847
Total Liabilities and Stockholders' Equity	**$ 3,166,103**	$ 4,989,210

See the notes accompanying the condensed financial statements

REXAHN PHARMACEUTICALS, INC.
(A Development Stage Company)
Condensed Statements of Operations
(Unaudited)

	Cumulative from March 19, 2001 (Inception) to June 30, 2007	Three Months Ended June 30,		Six Months Ended June 30,	
		2007	2006	**2007**	2006
Revenue:					
Research	**$** 337,500	**$ 18,750**	$ 18,750	**$ 37,500**	$ 37,500
Expenses:					
General and administrative	11,026,848	**782,540**	855,044	**1,416,266**	1,610,227
Research and development	10,250,334	**401,509**	657,100	**975,291**	2,606,115
Patent fees	593,698	**41,000**	44,886	**74,838**	64,289
Depreciation and amortization	414,128	**15,415**	21,187	**31,737**	42,264
Total Expenses	22,288,008	**1,240,464**	1,578,217	**2,498,132**	4,322,895
Loss from Operations	(21,947,508)	**(1,221,714)**	(1,559,467)	**(2,460,632)**	(4,285,395)
Other (Income) Expense					
Interest income	(815,590)	**(38,302)**	(88,087)	**(92,893)**	(199,279)
Interest expense	301,147	**-**	30,569	**-**	91,021
Beneficial conversion feature	1,625,000	**-**	-	**-**	-
	1,110,557	**(38,302)**	(57,518)	**(92,893)**	(108,258)
Net Loss	$ (23,058,065)	**$ (1,183,412)**	$ (1,501,949)	**$ (2,367,739)**	$ (4,177,137)
Loss per weighted average number of shares outstanding, basic and diluted		**$ (0.02)**	$ (0.03)	**$ (0.05)**	$ (0.09)
Weighted average number of shares outstanding, basic and diluted		**50,322,769**	48,488,709	**50,315,491**	47,456,433

See the notes accompanying the condensed financial statements

REXAHN PHARMACEUTICALS, INC.
(A Development Stage Company)
Condensed Statements of Cash Flows
(Unaudited)

	Cumulative from March 19, 2001 (Inception) to June 30, 2007	Six Months Ended June 30, **2007**	Six Months Ended June 30, 2006
Cash Flows from Operating Activities:			
Net loss	$ (23,058,065)	**$ (2,367,739)**	$ (4,177,137)
Adjustments to reconcile net loss to net cash used in operating activities:			
Beneficial conversion feature	1,625,000	**-**	-
Compensatory stock	21,877	**-**	-
Depreciation and amortization	414,509	**31,737**	42,264
Stock option compensation expense	2,822,509	**572,025**	808,319
Amortization of deferred revenue	(337,500)	**(37,500)**	(37,500)
Changes in assets and liabilities:			
Prepaid expenses and other	(532,637)	**(49,451)**	(3,228)
Accounts payable and accrued expenses	571,070	**(4,293)**	(345,643)
Net Cash Used in Operating Activities	(18,473,237)	**(1,855,221)**	(3,712,925)
Cash Flows from Investing Activities:			
Purchase of equipment	(498,520)	**-**	-
Net Cash Used in Investing Activities	(498,520)	**-**	-
Cash Flows from Financing Activities:			
Issuance of common stock	14,899,622	**14,400**	4,609
Proceeds from long-term debt	5,150,000	**-**	-
Proceeds from research contribution	1,500,000	**-**	-
Payment of licensing fees	(356,216)	**-**	(87,693)
Principal payments on long-term debt	(28,410)	**-**	(28,410)
Net Cash Provided by (Used in) Financing Activities	21,164,996	**14,400**	(111,494)
Net Increase (Decrease) in Cash and Cash Equivalents	2,193,239	**(1,840,821)**	(3,824,419)
Cash and Cash Equivalents - beginning of period		**4,034,060**	10,116,625
Cash and Cash Equivalents - end of period	$ 2,193,239	**$ 2,193,239**	$ 6,292,206
Supplemental Cash Flow Information			
Interest paid	$ 292,912	**$ -**	$ 280,535

See the notes accompanying the condensed financial statements

REXAHN PHARMACEUTICALS, INC.
(A Development Stage Company)
Notes to Condensed Financial Statements
Three Months and Six Months Ended June 30, 2007 and 2006
(Unaudited)

1. Operations and Organization

Operations

Rexahn Pharmaceuticals, Inc. (the "Company" or "Rexahn Pharmaceuticals"), a Delaware corporation, is a development stage biopharmaceutical company dedicated to the discovery, development and commercialization of innovative treatments for cancer, central nervous system (CNS) disorders, sexual dysfunction and other medical needs.

The accompanying unaudited financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America for financial information and the requirements of item 310 (b) of Regulation S-B. Accordingly, certain information and disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. These condensed financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-KSB for the year ended December 31, 2006. The accompanying condensed financial statements reflect all adjustments (consisting only of normal recurring adjustments), which, in the opinion of management, are necessary for a fair presentation of the results for the periods presented. Except for the adoption of new accounting policies as disclosed in note 2, there have been no significant changes in our accounting policies since December 31, 2006. The results of operations for the three and six month period ended June 30, 2007 are not necessarily indicative of the results expected for the full fiscal year or any future period.

Although we currently believe that our cash and cash equivalents will be sufficient to meet our minimum planned operating needs for the next 6 months, including the amounts payable under the contractual commitments described above, as our drug candidates move into the clinical trials phase of development, we expect to enter into additional agreements of the same type, which may require additional contractual commitments. These additional commitments may have a negative impact on our future cash flows. For the foreseeable future, we will have to fund all of our operations and capital expenditures from the net proceeds of equity or debt offerings we may have, cash on hand, licensing fees and grants. Although we have plans to pursue additional financing, there can be no assurance that we will be able to secure financing when needed or obtain such financing on terms satisfactory to us, if at all, or that any additional funding we do obtain will be sufficient to meet our needs in the long term. If additional funding cannot be obtained, we will review alternative courses of action to conserve our cash flow.

2. Summary of Significant Accounting Policies

a) The accounting policies of the Company are in accordance with accounting principles generally accepted in the United States of America and their basis of application is consistent with that of the previous year.

REXAHN PHARMACEUTICALS, INC.
(A Development Stage Company)
Notes to Condensed Financial Statements
Three Months and Six Months Ended June 30, 2007 and 2006
(Unaudited)

2. Summary of Significant Accounting Policies (cont'd)

b) Recent Accounting Pronouncements Affecting the Company:
In June 2006, FASB issued FASB Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes". FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes". FIN 48 prescribes a recognition threshold and measurement attributable for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance related to, among other things, classification, accounting for interest and penalties associated with tax positions and disclosure requirements. The Company adopted FIN 48 effective January 1, 2007 and there is no impact of adopting FIN 48 on the Company's financial statements to date.

In February 2007, FASB issued Statement of Financial Accounting Standard ("SFAS") No. 159, The Fair Value Option for Financial Assets and Financial Liabilities — Including an Amendment of FASB Statement No. 115 ("SFAS 159"). The fair value option permits entities to choose to measure eligible financial instruments at fair value at specified election dates. The entity will report unrealized gains and losses on the items on which it has elected the fair value option in earnings. SFAS 159 is effective beginning in fiscal year 2008. The Company is currently evaluating the effect of adopting SFAS 159, but does not expect it to have a material impact on its results of operations or financial condition.

c) Earnings per share:
The following weighted average number of shares was used for the computation of basic and diluted loss per share:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	**2007**	2006
Basic:	50,322,769	48,488,709	50,315,491	47,456,433
Diluted:	50,322,769	48,488,709	50,315,491	47,456,433

Basic earnings per share is based upon the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed on the same basis, including if dilutive, common share equivalents, which include outstanding options and restricted shares. For purpose of computing diluted earnings per share, 3,283,800 and 2,980,729 common share equivalents were assumed to be outstanding for the three and six months period ended June 30, 2007 and 2,788,230 and 2,924,777 common share equivalents were assumed to be outstanding for the three and six months period ended June 30, 2006, respectively. For the three and six months ended June 30, 2007and 2006, all common share equivalents were excluded from the calculation of diluted earnings per share because their inclusion would have been anti-dilutive as a result of the net loss applicable to this period.

REXAHN PHARMACEUTICALS, INC.
(A Development Stage Company)
Notes to Condensed Financial Statements
Three Months and Six Months Ended June 30, 2007 and 2006
(Unaudited)

3. Equipment, Net

	June 30, 2007	December 31, 2006
Furniture and fixtures	**$ 31,713**	$ 31,713
Office equipment	**43,648**	43,648
Lab equipment	**416,093**	416,093
Computer equipment	**5,066**	5,066
Cylinders and designs	**2,000**	2,000
	498,520	498,520
Less: Accumulated depreciation	**(371,142)**	(348,527)
Net carrying amount	**$ 127,378**	$ 149,993

Depreciation expense was $22,615 and $33,467 for the six months ended June 30, 2007 and 2006, respectively.

4. Intangible Assets, Net

On February 10, 2005, the Company entered into a licensing agreement with Revaax Pharmaceuticals LLC ("Revaax"), whereby the Company received an exclusive, worldwide, royalty bearing license, with the right to sub-license, of Revaax's licensed technology and products. The agreement calls for an initial licensing fee of $375,000 to be payable to Revaax in eight quarterly installments ending on November 10, 2006. Accordingly, the Revaax license has been measured at fair value at the date the licensing agreement was entered into. The fair value of the license component of $356,216 was determined by discounting the stream of future quarterly payments of $46,875 at 6%, the prevailing market rate for a debt instrument of comparable maturity and credit quality. The asset is amortized on a straight-line basis over the estimated useful life of 20 years. The discount was accreted over the term of the liability, calculated based on the Company's estimated effective market interest rate of 6%. As at December 31, 2006 the outstanding balance was paid. Amortization expense was $9,122 and $8,797 for the six months ended June 30, 2007 and 2006, respectively. The Company has determined that there was no impairment as of June 30, 2007 and December 31, 2006.

REXAHN PHARMACEUTICALS, INC.
(A Development Stage Company)
Notes to Condensed Financial Statements
Three Months and Six Months Ended June 30, 2007 and 2006
(Unaudited)

5. Deferred Revenue

In 2003, the Company entered into a collaborative research agreement with Rexgene Biotech Co., Ltd. ("Rexgene"), a minority shareholder. Rexgene is engaged in the development of pharmaceutical products in Asia and has agreed to assist the Company with the research, development and clinical trials necessary for registration of the Company's drug candidate, RX-0201, in Asia. This agreement provides Rexgene with exclusive rights to license, sublicense, make, have made, use, sell and import RX-0201 in Asia. A one-time contribution to the joint development and research of RX-0201 of $1,500,000 was paid to the Company in 2003 in accordance with the agreement. The amount of revenue from this contribution is being recognized as income over the term of the agreement which terminates at the later of 20 years or the term of the patent on the licensed product. The Company is using 20 years as its basis for recognition and accordingly $37,500 was included in revenues for the six months ended June 30, 2007 and 2006. The remaining $1,162,500 at June 30, 2007 (December 31, 2006- $1,200,000) is reflected as deferred revenue on the balance sheet. The Company adopted SAB No. 104, "Revenue Recognition Nonrefundable Up-front Fees" with respect to the accounting for this transaction. These fees are being used in the cooperative funding of the costs of development of RX-0201. Royalties of 3% of net sales of licensed products will become payable to the Company on a quarterly basis once commercial sales of RX-0201 begin. The product is still under development and commercial sales are not expected to begin until at least 2009.

6. Common Stock

The following transactions occurred during fiscal years 2001 through June 30, 2007:

a) On May 10, 2001 the Company issued 3,600,000 shares of common stock to the Company's founders for $1.

b) On August 10, 2001 the Company issued:

i) 1,208,332 shares of common stock to the directors of the Company for cash of $1,450,000.

ii) 958,334 shares of common stock to Rexgene for cash of $550,000.

iii) 360,000 shares of common stock in a private placement to individual investors for cash of $1,080,000.

These share purchases were negotiated by the parties at various dates prior to the August 10, 2001 share issuance date.

c) On October 10, 2001 the Company issued 400,000 shares of common stock to Chong Kun Dang Pharmaceutical Corp. ("CKD") for cash of $479,991 and 400,000 shares of common stock to an individual investor for cash of $479,991.

d) On October 10, 2001 the Company issued 200,000 shares of common stock to CKD for cash of $479,985.

e) Since inception, the Company's founders have transferred 800,000 shares of the common stock described in a) to officers and directors of the Company.

REXAHN PHARMACEUTICALS, INC.
(A Development Stage Company)
Notes to Condensed Financial Statements
Three Months and Six Months Ended June 30, 2007 and 2006
(Unaudited)

6. Common Stock (cont'd)

f) In July 2003, the shareholders described in b)(iii) and e) transferred an aggregate of 1,268,332 shares of common stock to a voting trust. The trust allows for the unified voting of the stock by the trustees. The appointed trustees are senior management of the Company who, together with their existing shares, control a majority of the voting power of the Company.

g) On August 20, 2003 the Company issued 500,000 shares of common stock to KT&G Corporation for cash of $2,000,000.

h) On October 29, 2004, an option holder exercised options to purchase shares of the Company's common stock for cash of $1,800 and the Company issued an aggregate of 1,500 shares.

i) Pursuant to the agreement and plan of merger as disclosed in Note 1, in the Acquisition Merger, (i) each share of the issued and outstanding common stock of Rexahn (other than dissenting shares) was converted into the right to receive five shares of Rexahn Pharmaceuticals common stock; (ii) each issued, outstanding and unexercised option to purchase a share of Rexahn common stock was converted into an option to purchase five shares of Rexahn Pharmaceuticals common stock and (iii) the par value of Rexahn's common stock was adjusted to reflect the par value of CRS common stock. In the Acquisition Merger, 289,780,000 CRS pre-reverse stock split shares were converted into 2,897,802 post-reverse stock split Rexahn Pharmaceuticals shares, and an additional 500,000 post-reverse stock split Rexahn Pharmaceuticals shares were issued to a former executive of CRS. For purposes of the Statement of Stockholders' Equity, the five-for-one stock split is reflected as a one-line adjustment. All shares and earnings per share information has been retroactively restated in these financial statements.

j) On August 8, 2005, the Company issued, in a transaction exempt from registration under the Securities Act, 4,175,000 shares of common stock at a purchase price of $2.00 per share.

k) On October 3, 2005, the Company issued 7,000 shares of common stock for $21,877 and $7,500 cash in exchange for services.

l) On December 2, 2005, the holders of a convertible note, representing $1,300,000 aggregate principal amount, exercised their option to convert the entire principal amount of the note into the Company's common stock. Based on a $2.00 per share conversion price, the holders received an aggregate of 650,000 shares.

m) On December 27, 2005, option holders exercised options to purchase shares of the Company's common stock for cash of $9,600 and the Company issued an aggregate of 40,000 shares.

n) On February 22, 2006, an option holder exercised options to purchase shares of the Company's common stock for cash of $1,200 and the Company issued an aggregate of 5,000 shares.

o) On April 12, 2006, an option holder exercised options to purchase shares of the Company's common stock for cash of $3,409 and the Company issued an aggregate of 14,205 shares. On the same date, the Company agreed to repurchase common stock from the option holder based on the then market price for treasury in exchange for the aggregate purchase price of $28,410 in cash.

REXAHN PHARMACEUTICALS, INC.
(A Development Stage Company)
Notes to Condensed Financial Statements
Three Months and Six Months Ended June 30, 2007 and 2006
(Unaudited)

6. Common Stock (cont'd)

p) On May 13, 2006, holders of the $3,850,000 convertible notes issued on February 28, 2005, exercised their rights to convert the entire principal amount of the notes into shares of the Company's common stock. Based on a $1.00 per share conversion price, the Company issued 3,850,000 shares of common stock in connection with the conversion.

q) On October 9, 2006, an option holder exercised options to purchase shares of the Company's common stock for cash of $2,400 and the Company issued an aggregate of 10,000 shares.

r) On November 19, 2006, an option holder exercised options to purchase shares of the Company's common stock for cash of $1,800 and the Company issued an aggregate of 7,500 shares.

s) On December 19, 2006, an option holder exercised options to purchase shares of the Company's common stock for cash of $6,000 and the Company issued an aggregate of 25,000 shares.

t) On April 18, 2007, an option holder exercised options to purchase shares of the Company's common stock for cash of $14,400 and the Company issued an aggregate of 18,000 shares .

7. Stock-Based Compensation

On August 5, 2003, the Company established a stock option plan. Under the plan, the Company grants stock options to key employees, directors and consultants of the Company. For all grants prior to September 12, 2005 and grants to employees of the Company after September 12, 2005, the vesting period is 30% on the first anniversary of the grant date, an additional 30% on the second anniversary and the remaining 40% on the third anniversary.

For grants to non-employee directors and consultants of the Company after September 12, 2005, the vesting period is between 1 to 3 years, subject to the fulfillment of certain conditions in the individual stock option grant agreements, or 100% upon the occurrence of certain events specified in the individual stock option grant agreements, subject to the fulfillment of certain conditions in the individual stock option grant agreements. Options authorized for issuance under the plan total 17,000,000 after giving effect to an amendment to the Company's Stock Option Plan approved at the Annual Meeting of the Stockholders of the Company on June 2, 2006 and as of June 30, 2007, 10,620,000 options are available for issuance.

Prior to adoption of the plan, the Company made restricted stock grants. During 2003 all existing restricted stock grants were converted to stock options. The converted options maintained the same full vesting period as the original restricted stock grants.

REXAHN PHARMACEUTICALS, INC.
(A Development Stage Company)
Notes to Condensed Financial Statements
Three Months and Six Months Ended June 30, 2007 and 2006
(Unaudited)

7. Stock-Based Compensation (cont'd)

Accounting for Employee Awards

Effective January 1, 2006, the plan is accounted for in accordance with the recognition and measurement provisions of SFAS No. 123R, which replaces SFAS No. 123 and supersedes APB No. 25, and related interpretations. SFAS No. 123R requires compensation costs related to share-based payment transactions, including employee stock options, to be recognized in the financial statements. In addition, the Company adheres to the guidance set forth in SEC SAB No. 107, which provides the SEC staff's views regarding the interaction between SFAS No. 123R and certain SEC rules and regulations and provides interpretations with respect to the valuation of share-based payments for public companies.

In adopting SFAS No. 123R, the Company applied the modified prospective approach to transition. Under the modified prospective approach, the provisions of SFAS No. 123R are to be applied to new employee awards and to employee awards modified, repurchased, or cancelled after the required effective date. Additionally, compensation cost for the portion of employee awards for which the requisite service has not been rendered that are outstanding as of the required effective date will be recognized as the requisite service is rendered on or after the required effective date. The compensation cost for that portion of employee awards will be based on the grant-date fair value of those awards as calculated for either recognition or pro-forma disclosures under SFAS No. 123.

As a result of the adoption of SFAS No. 123R, the Company's results of operations for the three months and six months periods ended June 30, 2007 include share-based employee compensation expense totaling $146,030 and $303,113 respectively, and for the three months and six months periods ended June 30, 2006 include $178,313 and $329,794 respectively. Such amounts have been included in the Statements of Operations in general and administrative and research and development expenses. No income tax benefit has been recognized in the Statements of Operations for share-based compensation arrangements as the Company has provided for a 100% valuation allowance on its net deferred tax assets.

Employee stock option compensation expense in the first two quarters of 2007 is the estimated fair value of options granted amortized on a straight-line basis over the requisite service period for the entire portion of the award. The Company has not adjusted the expense by estimated forfeitures, as required by SFAS No. 123R for employee options, since the forfeiture rate based upon historical data was determined to be immaterial.

7. Stock-Based Compensation (cont'd)

Accounting for Non-Employee Awards

The Company previously accounted for options granted to its non-employee consultants and non-employee registered representatives using the fair value cost in accordance with SFAS No. 123 and EITF 96-18. The adoption of SFAS No. 123R and SAB No. 107, as of January 1, 2006, had no material impact on the accounting for non-employee awards. The Company continues to consider the additional guidance set forth in EITF Issue No. 96-18.

Stock compensation expense related to non-employee options were $137,075 and $268,912 for the three months and six months periods ended June 30, 2007, respectively, and $293,912 and $478,525 for the three months and six months periods ended June 30, 2006, respectively. Such amounts have been included in the Statements of Operations in general and administrative and research and development expenses.

There were 425,000 stock options granted during the six month period ended June 30, 2007. A total of 1,045,000 stock options were granted in the same period last year. The fair value of options at the date of grant was estimated using the Black-Scholes option pricing model. During the first two quarters of 2007, the Company took into consideration guidance under SFAS No. 123R and SAB No. 107 when reviewing and updating assumptions. The expected volatility is based upon historical volatility of the Company's stock and other contributing factors. The expected term is based upon the contract life with non-employees.

REXAHN PHARMACEUTICALS, INC.
(A Development Stage Company)
Notes to Condensed Financial Statements
Three Months and Six Months Ended June 30, 2007 and 2006
(Unaudited)

7. Stock-Based Compensation (cont'd)

The assumptions made in calculating the fair values of options are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	**2007**	2006
Black-Scholes Weighted Average Assumptions:				
Expected dividend yield	**0**	0	**0**	0
Expected volatility	**102%**	100%	**102%**	100%
Risk free interest rate	**4.28-4.93%**	4.99%	**4.28-4.93%**	4.99%
Expected term (in years)	**1- 5 years**	5 years	**1- 5 years**	5 years

	2007		**2006**	
	Shares Subject to Options	**Weighted Avg. Option Prices**	**Shares Subject to Options**	**Weighted Avg. Option Prices**
Outstanding at January 1	6,123,295	$ 0.94	5,770,000	$ 0.84
Granted	425,000	1.44	1,045,000	1.20
Exercised	(18,000)	.80	(19,205)	0.24
Cancelled	(277,500)	1.10	–	–
Outstanding at June 30	**6,252,795**	**$ 0.96**	6,795,795	$ 0.89

REXAHN PHARMACEUTICALS, INC.
(A Development Stage Company)
Notes to Condensed Financial Statements
Three Months and Six Months Ended June 30, 2007 and 2006
(Unaudited)

7. Stock-Based Compensation (cont'd)

	Shares Subject to Options		Weighted Avg. Option Prices	Weighted Average Remaining Contractual Term
Outstanding at June 30, 2007	**6,252,795**	**$**	**0.96**	**7.3 years**
Exercisable at June 30, 2007	**3,171,670**	**$**	**0.86**	**7.2 years**

	Shares Subject to Options		Weighted Avg. Option Prices	Weighted Average Remaining Contractual Term
Outstanding at June 30, 2006	6,795,795	$	0.89	8.5 years
Exercisable at June 30, 2006	2,515,337	$	0.76	7.8 years

As of June 30, 2007 and 2006, there was $1,818,334 and $4,153,045 of total unrecognized compensation cost, respectively, net of estimated forfeitures, related to all unvested stock options, which is expected to be recognized over a weighted average vesting period of 1.1 years and 2 years, respectively.

REXAHN PHARMACEUTICALS, INC.
(A Development Stage Company)
Notes to Condensed Financial Statements
Three Months and Six Months Ended June 30, 2007 and 2006
(Unaudited)

8. Commitments and Contingencies

a) The Company has contracted with various vendors to provide research and development services. The terms of these agreements usually require an initiation fee and monthly or periodic payments over the terms of the agreement, ranging from 6 months to 24 months. The costs to be incurred are estimated and are subject to revision. As of June 30, 2007, the total value of Research and Development agreements for our drug candidates was approximately $1,430,000 and the Company had made payments totaling $757,000 under the terms of the agreements as at June 30, 2007. All of these agreements may be terminated by either party upon appropriate notice as stipulated in the respective agreements.

b) On September 12, 2005 the Company and three of its key executives entered into employment agreements. One of the three agreements with an annual commitment of $200,000 expired in September 2006. Another one of the three agreements expires on September 12, 2007 and results in an annual commitment of $160,000. One agreement expires on September 12, 2010 and results in an annual commitment of $350,000.

c) In April 2004, the Company signed a 5 year lease for 8,030 square feet of office space in Rockville, Maryland commencing July 2004. The lease requires annual base rents of $200,750 subject to annual increases of 3% of the preceding years adjusted base rent. Under the leasing agreement, the Company also pays its allocable portion of real estate taxes and common area operating charges.

Minimum future rental payments under this lease as of June 30, 2007 are as follows:

Remainder of 2007	$	109,680
2008		222,655
2009		112,972
	$	445,307

d) Regulation by governmental authorities in the United States and in other countries constitutes a significant consideration in our product development, manufacturing and marketing strategies. The Company expects that all of its drug candidates will require regulatory approval by appropriate governmental agencies prior to commercialization and will be subjected to rigorous pre-clinical, clinical, and post-approval testing, as well as to other approval processes by the FDA and by similar health authorities in foreign countries. United States federal regulations control the ongoing safety, manufacture, storage, labeling, record keeping, and marketing of all biopharmaceutical products intended for therapeutic purposes. The Company believes that it is in compliance in all material respects with currently applicable rules and regulations.

e) On January 4, 2007, the Company signed a one year agreement with Interventure Co. Ltd ("Interventure") engaging Interventure to provide financial and business consulting services to the Company. The Company agreed to pay Interventure $20,000 upon closing of over $1,000,000 of financing secured by Interventure. In addition, in the event that additional financing is arranged by Interventure and successfully consummated by the Company, the Company agreed to pay Interventure a success fee of 3% of such financing.

REXAHN PHARMACEUTICALS, INC.
(A Development Stage Company)
Condensed Statements of Operations
(Unaudited)

8. Commitments and Contingencies (cont'd)

f) On March 5, 2007, the Company entered into an agreement with Rx Communications Group LLC ("Rx") for Rx to provide investor relations services to the Company. Under this agreement, the Company agreed to pay Rx a monthly fixed retainer amount of $10,000 commencing March 1, 2007. In accordance with the agreement, the contract may be terminated by either party upon thirty (30) days' prior written notice to the other party.

g) On May 30, 2007, the Company engaged Rodman and Renshaw, LLC ("Rodman") to serve as the placement agent in connection with the proposed offer and placement of securities of the Company. Pursuant to the agreement, the Company shall pay Rodman a cash placement fee equal to 7% of the aggregate proposed offering.

9. Reclassifications

Certain amounts for prior periods, as well as cumulative amounts during the development stage, have been reclassified to conform with the current period's financial statement presentation.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

OVERVIEW

Our efforts and resources have been focused primarily on acquiring and developing our pharmaceutical technologies, raising capital and recruiting personnel. We are a development stage company and have no product sales to date and we will not generate any product sales until we receive approval from the FDA or equivalent foreign regulatory bodies to begin selling our pharmaceutical candidates. Our major sources of working capital have been proceeds from various private financings, primarily private sales of common stock and debt securities, and collaboration agreements with our strategic investors.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

The following discussion should be read in conjunction with the unaudited consolidated financial statements and notes thereto set forth in Item 1 of this Quarterly Report. This Quarterly Report contains statements accompanied by such phrases as "believe", "estimate", "expect", "anticipate", "may", "intend" and other similar expressions, that are "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those projected as a result of certain risks and uncertainties, including but not limited to the following:

- our lack of profitability and the need to raise additional capital to operate our business;
- our ability to obtain the necessary U.S. and worldwide regulatory approvals for our drug candidates;
- successful and timely completion of clinical trials for our drug candidates;
- demand for and market acceptance of our drug candidates;
- the availability of qualified third-party researchers and manufacturers for our drug development programs;
- our ability to develop and obtain protection of our intellectual property; and
- other risks and uncertainties, including those detailed from time to time in our filings with the Securities and Exchange Commission.

These forward-looking statements are made only as of the date hereof, and we undertake no obligation to update or revise the forward-looking statements, whether as a result of new information, future events or otherwise. The safe harbors for forward-looking statements provided by the Private Securities Litigation Reform Act are unavailable to issuers of "penny stock". Our shares may be considered a penny stock and, as a result, the safe harbors may not be available to us.

CRITICAL ACCOUNTING POLICIES

A "critical accounting policy" is one which is both important to the portrayal of our financial condition and results and requires our management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Our accounting policies are in accordance with United States generally accepted accounting principles, or GAAP, and their basis of application is consistent with that of the previous year.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management 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 the reported amounts of revenues and expenses during the reporting period. These estimates are based on management's best knowledge of current events and actions the Company may undertake in the future. Actual results may ultimately differ from those estimates. These estimates are reviewed periodically and as adjustments become necessary, they are reported in earnings in the period in which they become available.

Stock-Based Compensation

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 123 (Revised 2004), "Share-Based Payment" ("SFAS No. 123R"). This pronouncement amends SFAS No. 123, "Accounting for Stock-Based Compensation" and supersedes Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees". SFAS No. 123R requires that companies account for awards of equity instruments issued to employees under the fair value method of accounting and recognize such amount in the statement of operations. The implementation of this statement was effective January 1, 2006 and has been adopted by the Company using the modified prospective method.

For all non-employee stock-based compensation the Company uses the fair value method in accordance with SFAS No. 123 and EITF 96-18.

In management's opinion, existing stock option valuation models do not provide a reliable single measure of the fair value of employee stock options that have vesting provisions and are not transferable. As option valuation models require the input of highly subjective assumptions, changes in such subjective assumptions can materially affect the fair value estimate of employee stock options.

Prior to the adoption of SFAS No. 123R, the Company used the intrinsic value method to account for stock-based compensation in accordance with APB Opinion No. 25 and, as permitted by SFAS No. 123, provided pro forma disclosures of net loss and loss per common share as if the fair value methods had been applied in measuring compensation expense. Under the intrinsic value method, compensation cost for employee stock awards is recognized as the excess, if any, of the deemed fair value for financial reporting purposes of our common stock on the date of grant over the amount an employee must pay to acquire the stock. Compensation cost is amortized over the vesting period using an accelerated graded method in accordance with FASB Interpretation No. 28, "Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans".

Our results include non-cash compensation expense as a result of stock option grants. For stock-based awards prior to January 1, 2006, we accounted for stock-based employee compensation arrangements in accordance with the provisions of APB Opinion No. 25, "Accounting for Stock Issued to Employees" and comply with the disclosure provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"). Compensation expense for options granted to employees represents the difference between the fair market value of our common stock and the exercise price of the options at the date of grant. This amount is being recorded over the respective vesting periods of the individual stock options. We expect to record additional non-cash compensation expense in the future, which may be significant. Compensation for options granted to non-employees has been determined in accordance with SFAS No. 123 and EITF 96-18, "Accounting for Equity Instruments that are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services," as the fair value of the equity instruments issued.

On August 5, 2003, the Company established a stock option plan. The plan grants stock options to key employees, directors and consultants of the Company. For grants prior to September 12, 2005 and grants to employees of the Company after September 12, 2005, the vesting period is 30% after the first year, an additional 30% after the second year and the remaining 40% after the third year. For grants to non-employee directors and consultants of the Company after September 12, 2005, the vesting period is 100% after the first year, subject to the fulfillment of certain conditions in the individual stock option grant agreements, or 100% upon the occurrence of certain events specified in the individual stock option grant agreements, subject to the fulfillment of certain conditions in the individual stock option grant agreements.

The exercise prices of the options granted to employees were below the fair market value of the common stock on the date of the grant. In December 2005, employees holding stock options that were not vested as of December 31, 2004 and stock options that were granted on or after January 1, 2005 agreed to amend the exercise prices of those options from $0.24 per share to $0.80 per share, the fair market value of the common stock (as determined by the board of directors), in order to comply with the requirements of Internal Revenue Code Section 409A. The repricing of the options issued to employees was accounted as a cancellation of existing options and issuance of new options. The effective date of this repricing was January 1, 2005. The amendment was accounted for prospectively and resulted in a reversal of stock option compensation expense of $306,896 related to employee options recorded in the period from January 1, 2005 to September 30, 2005. There was no impact on the Company's results of operations for the year ended December 31, 2004. Using the intrinsic value method, the total compensation cost for the year ended December 31, 2005 amounted to $0 (2004-$658,000) and is being amortized over the vesting period.

The options issued to certain non-employees accounted under the fair value method were similarly repriced as of January 1, 2005. As a result, Stock Compensation expense of $158,531 recorded in the period from January 1, 2005 to September 30, 2005, related to non-employee options was reversed. The stock compensation expense related to non-employees during 2005 was $436,748, after accounting for the repricing adjustment.

RECENTLY ISSUED ACCOUNTING STANDARDS

In June 2006, FASB issued FASB Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes". FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes". FIN 48 prescribes a recognition threshold and measurement attributable for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance related to, among other things, classification, accounting for interest and penalties associated with tax positions and disclosure requirements. The Company adopted FIN 48 effective January 1, 2007 and there is no impact of adopting FIN 48 on the Company's financial statements to date.

In February 2007, FASB issued Statement of Financial Accounting Standard (“SFAS”) No. 159, The Fair Value Option for Financial Assets and Financial Liabilities — Including an Amendment of FASB Statement No. 115 (“SFAS 159”). The fair value option permits entities to choose to measure eligible financial instruments at fair value at specified election dates. The entity will report unrealized gains and losses on the items on which it has elected the fair value option in earnings. SFAS 159 is effective beginning in fiscal year 2008. The Company is currently evaluating the effect of adopting SFAS 159, but does not expect it to have a material impact on its results of operations or financial condition.

RESULTS OF OPERATIONS

Comparison of the Three Months and Six Months Ended June 30, 2007 and 2006:

Total Revenues

For the three months and six months ended June 30, 2007, we recorded revenue of $18,750 and $37,500, respectively, compared to $18,750 and $37,500, respectively, in the same period last year. Revenues include the amortization of deferred revenue from a $1,500,000 contribution made in 2003 to us under a collaborative research agreement with Rexgene Biotech Co., Ltd., a minority shareholder in the three months and six months ended June 30, 2007, respectively, and the same periods last year.

General and Administrative Expenses

General and administrative expenses consist primarily of salaries and related personnel and stock option compensation expenses for executive, finance and other administrative personnel, recruitment expenses, professional fees and other corporate expenses, including business development and general legal activities.

General and administrative expenses decreased $72,504 and $193,961, respectively, or 8% and 12%, respectively, from $855,044 and $1,610,227, respectively, for the three months and six months ended June 30, 2006 to $782,540 and $1,416,266, respectively, for the three months and six months ended June 30, 2007. The decreases were primarily due to professional fees and expenses related to the Company's proposed transaction with Future Systems, Inc. in 2006 which did not recur in the first half of 2007. Higher general and administrative expenses during the 2006 periods were also attributable to stock option compensation expense of $264,445 and $452,659 respectively, for the three months and six months ended June 30, 2006 compared to $148,390 and $305,923, respectively, for the three months and six months ended June 30, 2007.

Research and Development Expenses

Research and development expenses consist primarily of salaries and related personnel costs, fees paid to consultants and outside service providers for laboratory development and other expenses relating to the design, development, testing, and enhancement of our drug candidates. We expense our research and development costs as they are incurred.

Research and development expenses decreased $255,591 and $1,630,824, respectively, or 39% and 63%, respectively, from $657,100 and $2,606,115, respectively, for the three months and six months ended June 30, 2006 to $401,509 and $975,291, respectively, for the three months and six months ended June 30, 2007. The decreases were due primarily to the fact that several of our drug candidates underwent clinical trials in 2006 and we had taken preliminary steps to prepare other drug candidates for clinical trials during that time. Dependent upon the Company raising sufficient capital, we expect that research and development expenses will increase as additional drug candidates move into the clinical trials phases of development. Higher research and development expenses during the 2006 periods were also attributable to stock option compensation expense of $207,780 and $355,660, respectively, for the three months and six months ended June 30, 2006 compared to $134,713 and $266,100, respectively, for the three months and six months ended June 30, 2007.

Patent Fees

Our patent fees decreased $3,886 and increased $10,549, respectively, or 9% and 16%, respectively, from $44,886 and $64,289, respectively, for the three months and six months ended June 30, 2006 to $41,000 and $74,838, respectively, for the three months and six months ended June 30, 2007. The decrease during the three months and increase during the six months ended June 30, 2007 were due primarily to an increase in the number of patent filings made during first quarter ended March 31, 2007 and a decrease in the number of patent filings made during the second quarter ended June 30, 2007 compared to the same periods last year.

Interest Expense

Interest expense decreased $30,569, and $91,021, respectively, or 100% and 100%, respectively, from $30,569 and $91,021, respectively, for the three months and six months ended June 30, 2006 to $0, for the three months and six months ended June 30, 2007. The decreases during the three months and six months ended June 30, 2007 were primarily due to conversion of $3,850,000 principal amount of the Company's convertible notes into common stock in May 2006.

Interest Income

Interest income decreased $49,785 and $106,386, respectively, or 57% and 53%, respectively, from $88,087 and $199,279, respectively, for the six months ended June 30, 2006 to $38,302 and $92,893, respectively, for the three months and six months ended June 30, 2007. The decreases during the three month and six month periods ended June 30, 2007 were primarily due to higher cash and cash equivalent balances in the same periods last year.

Depreciation and Amortization

Depreciation and amortization expenses decreased $5,772 and $10,527, respectively, or 27% and 25%, respectively, from $21,187 and $42,264, respectively, for the three months and six months ended June 30, 2006 to $15,415 and $31,737, respectively, for the three months and six months ended June 30, 2007. The decreases were due primarily to amortization of fixed assets.

Net Loss

As a result of the above, the net loss for the three months and six months ended June 30, 2007 was $1,183,412 and $2,367,739, respectively, or $0.02 and $0.05, per share, respectively, compared to a net loss of $1,501,949 and $4,177,137, or $0.03 and $0.09 per share, respectively, for the three months and six months ended June 30, 2006.

Research and Development Projects

Research and development costs are expensed as incurred. Research and development expenses consist primarily of salaries and related personnel costs, costs to acquire pharmaceutical products and product rights for development and amounts paid to contract research organizations, hospitals and laboratories for the provision of services and materials for drug development and clinical trials. Costs incurred in obtaining the license rights to technology in the research and development stage and that have no alternative future uses are expensed as incurred. Our research and development programs are related to our five lead drug candidates, Archexin (which was previously referred to as RX-0201), RX-0047, RX-5902, Serdaxin and Zoraxel (Serdaxin and Zoraxel were previously referred to as RX-10100).

We have allocated direct and indirect costs to each program based on certain assumptions and our review of the status of each program, payroll-related expenses and other overhead costs based on estimated usage by each program. Each of our lead drug candidates is in various stages of completion as described below. As we expand our clinical studies, we will enter into additional development agreements. Significant additional expenditures will be required if we complete our clinical trials, start new trials, apply for regulatory approvals, continue development of our technologies, expand our operations and bring our products to market. The eventual total cost of each clinical trial is dependent on a number of uncertainties such as trial design, the length of the trial, the number of clinical sites and the number of patients. The process of obtaining and maintaining regulatory approvals for new therapeutic products is lengthy, expensive and uncertain. Because the successful development of our most advanced drug candidates, Archexin, Serdaxin and Zoraxel, is uncertain, and because RX-0047 and RX-5902 are in early-stage development, we are unable to estimate the costs of completing our research and development programs, the timing of bringing such programs to market and, therefore, when material cash inflows could commence from the sale of these drug candidates.

Archexin

In October 2006, we announced the conclusion of the Phase I clinical trial of Archexin, our leading drug candidate. In May 2007, we received approval from the U.S. Food & Drug Administration (FDA) to initiate a Phase II clinical trial for our lead oncology compound, Archexin, in patients with renal cell carcinoma (RCC). Enrollment is expected to begin in the third quarter of 2007. The costs incurred for the clinical trial was approximately $1,500,000.

The Phase I clinical trial of Archexin, which took place at Georgetown University's Lombardi Cancer Center beginning in September 2004 and at the University of Alabama at Birmingham beginning in August 2005, was primarily to determine the safety and tolerability of the drug in patients with advanced cancer. We expect to file a complete final report of Phase I results with the Food and Drug Administration this year.

As the main purpose of the clinical trial was to establish the safety of Archexin, the parameters that determined the completion of this project were a direct function of the safety profile of this compound in humans. As this was the first time that Archexin had been administered to humans, the safety profile in humans was unknown and therefore, the number of doses required to determine the dosage at which the FDA safety endpoints would be met was estimated.

The Phase II clinical trial of Archexin is expected to begin in the third quarter of this year in patients with advanced renal cell carcinoma who have failed previous treatments. The trial is the first of multiple trials planned for Archexin. We estimate that the Phase II trials will be completed in 2009 and will require approximately $5,000,000. In January 2005, we received "orphan drug designation" from the FDA for Archexin for five cancer indications, including renal cell carcinoma, ovarian cancer, glioblastoma, stomach cancer, and pancreatic cancer. The orphan drug program is intended to provide patients with faster access to drug therapies for diseases and conditions that affect fewer than 200,000 people. Companies that receive orphan drug designation are provided an accelerated review process, tax advantages, and seven years of market exclusivity in the United States. In the future, we plan to apply Archexin to the treatment of other orphan indications and other cancers.

Serdaxin and Zoraxel

Serdaxin and Zoraxel are scheduled to enter Phase II trials in 2007, subject to obtaining sufficient additional financing. We currently estimate that these studies will require approximately $4,000,000 and $3,000,000, respectively.

RX-0047 and RX-5902

RX-0047 and RX-5902 are both in a pre-clinical stage of development and the next scheduled program for each compound is a pre-clinical toxicology study required prior to submission of an Investigational New Drug ("IND") application to the FDA. Through June 30, 2007, the costs incurred for development of these compounds to date have been approximately $800,000 for RX-0047, and $300,000 for RX-5902. The estimated cost to complete pre-clinical toxicology and Phase I clinical trials is estimated to be approximately $1,500,000 per compound for a total of $3,000,000. In June of 2007, we were granted a U.S. patent for our RX-0047 compound, which is scheduled to enter Phase I Clinical trials in 2008. RX-5902 may be entered into these Phase I clinical trials in 2008.

The conduct of the clinical trial and toxicology studies described above are being accomplished in conjunction with third-party clinical research organizations, or CROs, at external locations. This business practice is typical for the pharmaceutical industry and companies like us. As a result, the risk of completion or delay of these studies is not within our direct control and a program delay may occur due to circumstances outside our control. A delay in any of these programs may not necessarily have a direct impact on our daily operations. However, to the extent that a delay results in additional cost to us, a higher than expected expense may result.

LIQUIDITY AND CAPITAL RESOURCES

Cash used in operating activities was $1,855,221 for the six months ended June 30, 2007 compared to cash used in operating activities of $3,712,925 for the same period ended June 30, 2006. The operating cash flows during the six months ended June 30, 2007 reflect our loss from operations of $2,367,739, offset by non-cash charges of $566,262 and a net decrease in cash components of working capital of $53,744. Non-cash charges consist of depreciation and amortization of $31,737, stock option compensation expense of $572,025 and amortization of deferred revenue of $(37,500). The decrease in working capital primarily consists of a $4,293 decrease in accounts payable and accrued expenses and an increase of $49,591 of prepaid and other assets.

There was no cash provided by or used in investing activities during the six months ended June 30, 2007 and 2006.

Cash provided by financing activities was $14,400 for the six months ended June 30, 2007 compared to cash used in financing activities of $111,494 for the same period ended June 30, 2006. The cash provided by financing activities during the six months ended June 30, 2007 consists of issuance of common stock. The increase in cash flows from financing activities is mainly due to principal payments on long-term debt of $28,410 and payment of licensing fees of $87,693 in the six month period ended June 30, 2006. There were no such costs incurred in the current period.

For the six months ended June 30, 2007, and the year ended December 31, 2006, we experienced net losses of $2,367,739 and $6,486,003, respectively. Our accumulated deficit as of June 30, 2007, and December 31, 2006 and 2005 was $23,058,065, $20,690,326 and $14,204,323, respectively.

We have financed our operations since inception primarily through equity and convertible debt financings and interest income from investments of cash and cash equivalents. During the six months ended June 30, 2007, we had a net decrease in cash and cash equivalents of $1,855,221 resulting from the cash used in operating activities. Total cash and cash equivalents as of June 30, 2007 were $2,193,239 compared to $4,034,060 as of December 31, 2006.

For the foreseeable future, we will have to fund all of our operations and capital expenditures from the net proceeds of equity or debt offerings we may have, cash on hand, licensing fees and grants. Although we have plans to pursue additional financing, there can be no assurance that we will be able to secure financing when needed or obtain such financing on terms satisfactory to us, if at all, or that any additional funding we do obtain will be sufficient to meet our needs in the long term. If additional funding cannot be obtained, we will review alternative courses of action to conserve our cash flow.

CONTRACTUAL OBLIGATIONS

In April 2004, we signed a 5-year lease for 8,030 square feet of office space in Rockville, Maryland commencing July 2004. The lease requires annual base rents of $200,750 subject to annual increases of 3% of the preceding years adjusted base rent. Under the leasing agreement, we also pay our allocable portion of real estate taxes and common area operating charges.

Minimum future rental payments under this lease as of June 30, 2007 are as follows:

Remainder of 2007	$ 109,680
2008	222,655
2009	112,972
	$ 445,307

On September 12, 2005 the Company and three of its key executives entered into employment agreements. One of the three agreements with an annual commitment of $200,000 expired in September 2006. Another one of the three agreements expires on September 12, 2007 and results in an annual commitment of $160,000. One agreement expires on September 12, 2010 and results in an annual commitment of $350,000.

On January 6, 2006, we contracted with Amarex, LLC to conduct Phase II clinical studies for Archexin. In accordance with the agreement, the estimated contract duration is 24 months for a total cost of $596,244 plus pass through expenses. The service costs are payable in 24 monthly payments of $18,633 plus an initiation fee of $149,061 due upon signing. We paid $76,801 and $361,973 towards the cost of the study in the six months ended June 30, 2007 and in the year ended December 31, 2006, respectively.

On April 3, 2006, we contracted with UPM Pharmaceuticals, Inc. to develop a short-acting extended release formulation for Serdaxin and Zoraxel. In accordance with the agreement, the estimated contract duration is seven months for an estimated cost of $443,975 plus pass through expenses, of which $2,773 and $112,124 was paid during the six months ended June 30, 2007 and the year ended December 31, 2006, respectively. The service costs are payable based upon a payment schedule related to certain milestones.

On January 4, 2007, the Company signed a one year agreement with Interventure Co. Ltd ("Interventure") engaging Interventure to provide financial and business consulting services to the Company. The Company agreed to pay Interventure $20,000 upon closing of over $1,000,000 of financing secured by Interventure. In addition, in the event that additional financing is arranged by Interventure and successfully consummated by the Company, the Company agreed to pay Interventure a success fee of 3% of such financing.

On February 1, 2007, we contracted with the University of Maryland Baltimore to develop polymer conjugates for cancer therapy. In accordance with the agreement, the contract duration is 12 months for a total cost of $55,000, all of which was paid in April 2007.

On March 5, 2007, the Company entered into an agreement with Rx Communications Group LLC ("Rx") for Rx to provide investor relations services to the Company. Under this agreement, the Company agreed to pay Rx a monthly fixed retainer amount of $10,000 commencing March 1, 2007. In accordance with the agreement, the contract may be terminated by either party upon thirty (30) days' prior written notice to the other party.

On May 18, 2007, we contracted with LabConnect to conduct Phase II clinical trials laboratory testing services for Archexin. In accordance with the agreement, the estimated contract duration is until the end of 2009 for a total cost of $197,220. We paid $54,444 towards the cost of the study in the six months ended June 30, 2007.

On May 30, 2007, the Company engaged Rodman and Renshaw, LLC ("Rodman") to serve as the placement agent in connection with the proposed offer and placement of our securities. Pursuant to the agreement, we will pay Rodman a cash placement fee equal to 7% of the aggregate proposed offering.

The Company also has agreements with other companies to perform clinical studies with various remaining terms from two months to three years. The total cost for these agreements is approximately $103,000, of which $85,000 has been expended. These agreements may be terminated upon written notice to the other party.

Although we currently believe that our cash and cash equivalents will be sufficient to meet our minimum planned operating needs for the next 6 months, including the amounts payable under the contractual commitments described above, as our drug candidates move into the clinical trials phase of development, we expect to enter into additional agreements of the same type, which may require additional contractual commitments. These additional commitments may have a negative impact on our future cash flows. For the foreseeable future, we will have to fund all of our operations and capital expenditures from the net proceeds of equity or debt offerings we may have, cash on hand, licensing fees and grants. Although we have plans to pursue additional financing, there can be no assurance that we will be able to secure financing when needed or obtain such financing on terms satisfactory to us, if at all, or that any additional funding we do obtain will be sufficient to meet our needs in the long term. If additional funding cannot be obtained, we will review alternative courses of action to conserve our cash flow.

CURRENT AND FUTURE FINANCING NEEDS

We have incurred negative cash flow from operations since we started our business. We have spent, and expect to continue to spend, substantial amounts in connection with implementing our business strategy, including our planned product development efforts, our clinical trials, and our research and development efforts. Based on our current plans and our capital resources, we believe that our cash and cash equivalents will be sufficient to enable us to meet our minimum planned operating needs for at least the next 6 months, which would entail focusing our resources on Phase II clinical trials of Archexin. Over the next 12 months we expect to spend a minimum of approximately $500,000 on clinical development for Phase II clinical trials of Archexin, $2.0 million on general corporate expenses, and

approximately $219,000 on facilities rent. We plan to initiate, subject to obtaining sufficient additional financing, Phase II clinical trials of Serdaxin and Zoraxel beginning in the winter of 2007 at an additional cost of up to approximately $3 million. We may seek additional financing to implement and fund other drug candidate development, clinical trial and research and development efforts to the maximum extent of our operating plan, including in-vivo animal and pre-clinical studies and Phase I clinical trials for RX-0047 and RX-5902, Phase II clinical trials for new product candidates, as well as other research and development projects, which together with the minimum operating plan for the next 12 months, could aggregate up to $7 million through the third quarter of 2008.

However, the actual amount of funds we will need to operate is subject to many factors, some of which are beyond our control. These factors include the following:

- the progress of our product development activities;
- the number and scope of our product development programs;
- the progress of our pre-clinical and clinical trial activities;
- additional contractual commitments which may be required as our drug candidates move into the clinical trials phase of development;
- the progress of the development efforts of parties with whom we have entered into collaboration agreements;
- our ability to maintain current collaboration programs and to establish new collaboration arrangements;
- the costs involved in prosecuting and enforcing patent claims and other intellectual property rights; and
- the costs and timing of regulatory approvals.

IMPACT OF INFLATION

To date inflationary factors have not had a significant effect on our operations.

OFF-BALANCE SHEET ARRANGEMENTS

We do not have any off-balance sheet arrangements.

CERTAIN BUSINESS RISKS

We currently have no product revenues and will need to raise additional capital to operate our business.

To date, we have generated no product revenues. Until we receive approval from the FDA and other regulatory authorities for our drug candidates, we cannot sell our drugs and will not have product revenues. Therefore, for the foreseeable future, we will have to fund all of our operations and capital expenditures from the net proceeds of equity or debt offerings we may make, cash on hand, licensing fees and grants. Based on our current plans and our capital resources, we believe that our cash and cash equivalents will be sufficient to enable us to meet our planned operating needs for at least the next six months, including the clinical trials of Archexin. We plan to initiate, subject to obtaining sufficient additional financing, Phase II clinical trials of Serdaxin and Zoraxel beginning in the winter of 2007 at an additional cost of up to approximately $3 million.

However, changes may occur that would consume our existing capital at a faster rate than projected, including but not limited to, the progress of our research and development efforts, the cost and timing of regulatory approvals and the costs of protecting our intellectual property rights. We may seek additional financing to implement and fund other drug candidate development, clinical trial and research and development efforts, including Phase I clinical trials for other new drug candidates, as well as other research and development projects, which togeth
er with the current operating plan for the next year, could aggregate up to $7 million through the third quarter of 2008.

We will need additional financing to continue to develop our drug candidates, which may not be available on favorable terms, if at all. If we are unable to secure additional financing in the future on acceptable terms, or at all, we may be unable to complete our planned pre-clinical and clinical trials or obtain approval of our drug candidates from the FDA and other regulatory authorities. In addition, we may be forced to reduce or discontinue product development or product licensing, reduce or forego sales and marketing efforts and forego attractive business opportunities in order to improve our liquidity to enable us to continue operations. Any additional sources of financing will likely involve the sale of our equity securities or securities convertible into our equity securities, which may have a dilutive effect on our stockholders.

We are not currently profitable and may never become profitable.

We have generated no revenues to date from product sales. Our accumulated deficit as of June 30, 2007 and December 31, 2006 was $23,058,065 and $20,690,326, respectively. For the six months ended June 30, 2007 and the year ended December 31, 2006, we had net losses of $2,367,739 and $6,486,003, respectively, primarily as a result of expenses incurred through a combination of research and development activities related to the various technologies under our control and expenses supporting those activities. Even if we succeed in developing and commercializing one or more of our drug candidates, we expect to incur substantial losses for the foreseeable future and may never become profitable. We also expect to continue to incur significant operating and capital expenditures and anticipate that our expenses will increase substantially in the foreseeable future, based on the following considerations:

- continued pre-clinical development and clinical trials for our current and new drug candidates;
- efforts to seek regulatory approvals for our drug candidates;
- implementing additional internal systems and infrastructure;
- licensing in additional technologies to develop; and
- hiring additional personnel.

We also expect to continue to experience negative cash flow for the foreseeable future as we fund our operating losses and capital expenditures. As a result, we will need to generate significant revenues in order to achieve profitability.

We have a limited operating history.

We are a development-stage company with a limited number of drug candidates. To date, we have not demonstrated an ability to perform the functions necessary for the successful commercialization of any of our drug candidates. The successful commercialization of our drug candidates will require us to perform a variety of functions, including, but not limited to:

- conducting pre-clinical and clinical trials;
- participating in regulatory approval processes;
- formulating and manufacturing products; and

- conducting sales and marketing activities.

To date, our operations have been limited to organizing and staffing our company, acquiring, developing and securing our proprietary technology and undertaking, through third parties, pre-clinical trials and clinical trials of our principal drug candidates. These operations provide a limited basis for assessment of our ability to commercialize drug candidates.

We may not obtain the necessary U.S. or worldwide regulatory approvals to commercialize our drug candidates.

We will need FDA approval to commercialize our drug candidates in the U.S. and approvals from the FDA-equivalent regulatory authorities in foreign jurisdictions to commercialize our drug candidates in those jurisdictions. In order to obtain FDA approval of our drug candidates, we must submit to the FDA a New Drug Application ("NDA") demonstrating that the drug candidate is safe for humans and effective for its intended use. This demonstration requires significant research and animal tests, which are referred to as pre-clinical studies, as well as human tests, which are referred to as clinical trials. Satisfaction of the FDA's regulatory requirements typically takes many years, and depends upon the type, complexity and novelty of the drug candidate and requires substantial resources for research, development and testing. We cannot predict whether our research and clinical approaches will result in drugs that the FDA considers safe for humans and effective for indicated uses. Two of our drug candidates, Archexin and RX-0047, are ASO compounds. To date, the FDA has not approved any NDAs for any ASO compounds, except one eye care medicine, Vitravene (fomivirsen sodium injectable). In addition, both Archexin and RX-0047 are of a drug class (Akt inhibitor, in the case of Archexin, and HIF inhibitor, in the case of RX-0047) that has not been approved by the FDA to date. After the clinical trials are completed, the FDA has substantial discretion in the drug approval process and may require us to conduct additional pre-clinical and clinical testing or to perform post-marketing studies.

In foreign jurisdictions, we must receive approval from the appropriate regulatory authorities before we can commercialize our drugs. Foreign regulatory approval processes generally include all of the risks associated with the FDA approval procedures described above. We cannot assure you that we will receive the approvals necessary to commercialize our drug candidates for sale outside the United States.

Our drug candidates are in early stages of clinical trials.

Our drug candidates are in an early stage of development and require extensive clinical testing, which are very expensive, time-consuming and difficult to design. In 2007, we expect Archexin, an oncology drug candidate, to enter Phase II clinical trials. We plan to initiate, subject to obtaining sufficient additional financing, Phase II clinical trials of Serdaxin and Zoraxel, neuroscience and sexual dysfunction drug candidates, beginning in the winter of 2007.

Clinical trials are very expensive, time-consuming and difficult to design and implement.

Human clinical trials are very expensive and difficult to design and implement, in part because they are subject to rigorous regulatory requirements. The clinical trial process is also time consuming. We estimate that clinical trials of our current drug candidates will take at least three years to complete. Furthermore, failure can occur at any stage of the trials, and we could encounter problems that cause us to abandon or repeat clinical trials. The commencement and completion of clinical trials may be delayed by several factors, including, but not limited to:

- unforeseen safety issues;
- determination of dosing issues;
- lack of effectiveness during clinical trials;
- reliance on third party suppliers for the supply of drug candidate samples;

- slower than expected rates of patient recruitment;
- inability to monitor patients adequately during or after treatment;
- inability or unwillingness of medical investigators and institutional review boards to follow our clinical protocols; and
- lack of sufficient funding to finance the clinical trials.

In addition, we or the FDA may suspend clinical trials at any time if it appears that we are exposing participants to unacceptable health risks or if the FDA finds deficiencies in our IND submissions or the conduct of these trials.

If the results of our clinical trials fail to support our drug candidate claims, the completion of development of such drug candidate may be significantly delayed or we may be forced to abandon development altogether, which will significantly impair our ability to generate product revenues.

Even if our clinical trials are completed as planned, we cannot be certain that our results will support our drug candidate claims. Success in pre-clinical testing and early clinical trials does not ensure that later clinical trials will be successful, and we cannot be sure that the results of later clinical trials will replicate the results of prior clinical trials and pre-clinical testing. The clinical trial process may fail to demonstrate that our drug candidates are safe for humans and effective for indicated uses. This failure would cause us to abandon a drug candidate and may delay development of other drug candidates. Any delay in, or termination of, our clinical trials will delay the filing of our NDAs with the FDA and, ultimately, delay our ability to commercialize our drug candidates and generate product revenues. In addition, our trial designs may involve a small patient population. Because of the small sample size, the results of early clinical trials may not be indicative of future results.

If physicians and patients do not accept and use our drugs, our ability to generate revenue from sales of our products will be materially impaired.

Even if the FDA approves our drug candidates, physicians and patients may not accept and use them. Future acceptance and use of our products will depend upon a number of factors including:

- awareness of the drug's availability and benefits;
- perceptions by members of the health care community, including physicians, about the safety and effectiveness of our drugs;
- pharmacological benefit and cost-effectiveness of our product relative to competing products;
- availability of reimbursement for our products from government or other healthcare payers;
- effectiveness of marketing and distribution efforts by us and our licensees and distributors, if any; and
- the price at which we sell our products.

Because we expect sales of our current drug candidates, if approved, to generate substantially all of our product revenues for the foreseeable future, the failure of any of these drugs to find market acceptance would harm our business and could require us to seek additional financing.

Much of our drug development program depends upon third-party researchers, and the results of our clinical trials and such research activities are, to a limited extent, beyond our control.

We depend upon independent investigators and collaborators, such as universities and medical institutions, to conduct our pre-clinical and clinical trials and toxicology studies. This business practice is typical for the pharmaceutical industry and companies like us. For example, the Phase I clinical trials of Archexin were conducted at the Lombardi Comprehensive Cancer Center of Georgetown Medical Center and the University of Alabama at Birmingham, with the assistance of Amarex, LLC, a pharmaceutical clinical research service provider who is responsible for creating the reports that will be submitted to the FDA. We also relied on TherImmune Research Corporation (now named Bridge Global Pharmaceutical Services, Inc.), a discovery and pre-clinical service provider, to summarize Archexin 's pre-clinical data. While we make every effort internally to oversee their work, these collaborators are not our employees and we cannot control the amount or timing of resources that they devote to our programs. These investigators may not assign priority to our programs or pursue them as diligently as we would if we were undertaking such programs ourselves. If outside collaborators fail to devote sufficient time and resources to our drug-development programs, or if their performance is substandard, the approval of our FDA applications, if any, and our introduction of new drugs, if any, may be delayed. The risk of completion or delay of these studies is not within our direct control and a program delay may occur due to circumstances outside our control. A delay in any of these programs may not necessarily have a direct impact on our daily operations. However, to the extent that a delay results in additional cost to us, a higher than expected expense may result. These collaborators may also have relationships with other commercial entities, some of whom may compete with us. If our collaborators assist our competitors at our expense, our competitive position would be harmed.

We rely exclusively on third parties to formulate and manufacture our drug candidates, which expose us to a number of risks that may delay development, regulatory approval and commercialization of our products or result in higher product costs.

We have no experience in drug formulation or manufacturing. Internally, we lack the resources and expertise to formulate or manufacture our own drug candidates. Therefore, we rely on third party expertise to support us in this area. For example, we have entered into contracts with third-party manufacturers such as Raylo Chemicals Inc., Formatech, Inc., Avecia Biotechnology Inc. and UPM Pharmaceuticals, Inc. to manufacture, supply, store and distribute supplies of our drug candidates for our clinical trials. If any of our drug candidates receive FDA approval, we will rely on these or other third-party contractors to manufacture our drugs. Our reliance on third-party manufacturers exposes us to the following potential risks:

- We may be unable to identify manufacturers on acceptable terms or at all because the number of potential manufacturers is limited and the FDA must approve any replacement contractor. This approval would require new testing and compliance inspections. In addition, a new manufacturer would have to be educated in, or develop substantially equivalent processes for, the production of our products after receipt of FDA approval, if any.

- Our third-party manufacturers might be unable to formulate and manufacture our drugs in the volume and of the quality required to meet our clinical needs and commercial needs.

- Our contract manufacturers may not perform as agreed or may not remain in the contract manufacturing business for the time required to supply our clinical trials or to successfully produce, store and distribute our products.

- Drug manufacturers are subject to ongoing periodic unannounced inspection by the FDA, the Drug Enforcement Agency ("DEA"), and corresponding state agencies to ensure strict compliance with good manufacturing practice and other government regulations and corresponding foreign standards. We do not have control over third-party manufacturers' compliance with these regulations and standards, but we may be ultimately responsible for any of their failures.

- If any third-party manufacturer makes improvements in the manufacturing process for our products, we may not own, or may have to share, the intellectual property rights to the innovation.

Each of these risks could delay our clinical trials, drug approval and commercialization and potentially result in higher costs and/or reduced revenues.

We have no experience selling, marketing or distributing products and currently no internal capability to do so.

We currently have no sales, marketing or distribution capabilities. While we intend to have a role in the commercialization of our products, we do not anticipate having the resources in the foreseeable future to globally develop sales and marketing capabilities for all of our proposed products. Our future success depends, in part, on our ability to enter into and maintain collaborative relationships with other companies having sales, marketing and distribution capabilities, the collaborator's strategic interest in the products under development and such collaborator's ability to successfully market and sell any such products. To the extent that we decide not to, or are unable to, enter into collaborative arrangements with respect to the sales and marketing of our proposed products, significant capital expenditures, management resources and time will be required to establish and develop an in-house marketing and sales force with technical expertise. We cannot assure you that we will be able to establish or maintain relationships with third party collaborators or develop in-house sales and distribution capabilities. To the extent that we depend on third parties for marketing and distribution, any revenues we receive will depend upon the efforts of such third parties, as well as the terms of its agreements with such third parties, which cannot be predicted at this early stage of our development. We cannot assure you that such efforts will be successful. In addition, we cannot assure you that we will be able to market and sell our products in the United States or overseas.

Developments by competitors may render our products or technologies obsolete or non-competitive.

We will compete against fully integrated pharmaceutical companies and smaller companies that are collaborating with larger pharmaceutical companies, academic institutions, government agencies and other public and private research organizations, such as Keryx Biopharmaceuticals Genta Incorporated and Imclone Systems Incorporated. In addition, many of these competitors, either alone or together with their collaborative partners, operate larger research and development programs or have substantially greater financial resources than we do, as well as more experience in:

- developing drugs;
- undertaking pre-clinical testing and human clinical trials;
- obtaining FDA and other regulatory approvals of drugs;
- formulating and manufacturing drugs; and
- launching, marketing and selling drugs.

Large pharmaceutical companies such as Bristol-Myers, Squibb, Eli-Lilly, Novartis and Glaxo-SmithKline currently sell both generic and proprietary compounds for the treatment of cancer. In addition, companies pursuing different but related fields represent substantial competition. Many of these organizations have substantially greater capital resources, larger research and development staffs and facilities, longer drug development history in obtaining regulatory approvals and greater manufacturing and marketing capabilities than we do. These organizations also compete with us to attract qualified personnel, parties for acquisitions, joint ventures or other collaborations.

If we fail to adequately protect or enforce our intellectual property rights or secure rights to patents of others, the value of our intellectual property rights would diminish and our business and competitive position would suffer.

Our success, competitive position and future revenues will depend in part on our ability and the abilities of our licensors to obtain and maintain patent protection for our products, methods, processes and other technologies, to preserve our trade secrets, to prevent third parties from infringing on our proprietary rights and to operate without infringing the proprietary rights of third parties. We have filed U.S. and PCT patent applications for anti-Akt compounds, including Archexin, and for anti-HIF compounds, including RX-0047. In November 2006, we were granted a U.S. patent for our anti-Akt compounds, including Archexin. The patent covers the nucleotide sequences of the anti-sense compounds that target and inhibit the expression of Akt in human tissues or cells. The patent also covers the method of using the compounds to induce cytotoxicity in cancer cells. In June of 2007, we were granted a U.S. patent for our RX-0047 compound, which is scheduled to enter Phase I Clinical trials in 2008. We have also filed three U.S. provisional patent applications for new anti-cancer quinazoline compounds, new anti-cancer nucleoside products and a drug target, cenexin, a polo-box binding protein. In December 2004, we also filed two Korean patent applications for new anti-cancer piperazine compounds. Through our licensing agreement with Revaax, we hold exclusive rights to five patents and 14 patent applications, with respect to certain chemical structures related to antibiotics, but without antibiotic efficacy. However, we cannot predict:

- the degree and range of protection any patents will afford us against competitors, including whether third parties will find ways to invalidate or otherwise circumvent our licensed patents;

- if and when patents will be issued;

- whether or not others will obtain patents claiming aspects similar to those covered by our licensed patents and patent applications; or

- whether we will need to initiate litigation or administrative proceedings which may be costly whether we win or lose.

Our success also depends upon the skills, knowledge and experience of our scientific and technical personnel, our consultants and advisors as well as our licensors and contractors. To help protect our proprietary know-how and our inventions for which patents may be unobtainable or difficult to obtain, we rely on trade secret protection and confidentiality agreements. To this end, we require all employees to enter into agreements that prohibit the disclosure of confidential information and, where applicable, require disclosure and assignment to us of the ideas, developments, discoveries and inventions important to our business. These agreements may not provide adequate protection for our trade secrets, know-how or other proprietary information in the event of any unauthorized use or disclosure or the lawful development by others of such information. If any of our trade secrets, know-how or other proprietary information is disclosed, the value of our trade secrets, know-how and other proprietary rights would be significantly impaired and our business and competitive position would suffer.

If we infringe the rights of third parties we could be prevented from selling products and be forced to pay damages and defend against litigation.

If our products, methods, processes and other technologies infringe the proprietary rights of other parties, we could incur substantial costs and may have to:

- obtain licenses, which may not be available on commercially reasonable terms, if at all;

- redesign our products or processes to avoid infringement;

- stop using the subject matter claimed in the patents held by others, which could cause us to lose the use of one or more of our drug candidates;

- pay damages; or

- defend litigation or administrative proceedings which may be costly whether we win or lose, and which could result in a substantial diversion of our management resources.

Although to date, we have not received any claims of infringement by any third parties, as our drug candidates move into clinical trials and commercialization, our public profile and that of our drug candidates may be raised and generate such claims.

Our license agreement with Revaax may be terminated in the event we commit a material breach, the result of which would significantly harm our business prospects.

Our license agreement with Revaax is subject to termination by Revaax if we materially breach our obligations under the agreement, including breaches with respect to certain installment payments and royalty payments, if such breaches are not cured within a 60-day period. The agreement also provides that it may be terminated if we become involved in a bankruptcy, insolvency or similar proceeding. If this license agreement is terminated, we will lose all of our rights to develop and commercialize the licensed compounds, including Serdaxin and Zoraxel, which would significantly harm our business and future prospects.

If we are unable to successfully manage our growth, our business may be harmed.

In addition to our own internally developed drug candidates, we proactively seek opportunities to license in and advance compounds in oncology and other therapeutic areas that are strategic and have value creating potential to take advantage of our development know-how. We are actively pursuing additional drug candidates to acquire for development. Such additional drug candidates could significantly increase our capital requirements and place further strain on the time of our existing personnel, which may delay or otherwise adversely affect the development of our existing drug candidates. Alternatively, we may be required to hire more employees, further increasing the size of our organization and related expenses. If we are unable to manage our growth effectively, we may not efficiently use our resources, which may delay the development of our drug candidates and negatively impact our business, results of operations and financial condition.

We may not be able to attract and retain qualified personnel necessary for the development and commercialization of our drug candidates. Our success may be negatively impacted if key personnel leave.

Attracting and retaining qualified personnel will be critical to our future success. We compete for qualified individuals with numerous biopharmaceutical companies, universities and other research institutions. Competition for such individuals is intense, and we cannot assure you that we will be successful.

The loss of the technical knowledge and management and industry expertise of any of our key personnel, especially Dr. Chang H. Ahn, our Chairman and Chief Executive Officer and regulatory expert, could result in delays in product development and diversion of management resources, which could adversely affect our operating results. We do not have "key person" life insurance policies for any of our officers.

We may incur substantial liabilities and may be required to limit commercialization of our products in response to product liability lawsuits.

The testing and marketing of medical products entail an inherent risk of product liability. If we cannot successfully defend ourselves against product liability claims, we may incur substantial liabilities or be required to limit commercialization of our products. Our inability to obtain sufficient product liability insurance at an acceptable cost to protect against potential product liability claims could prevent or inhibit the commercialization of pharmaceutical products we develop, alone or with collaborators. Although we currently carry clinical trial insurance and product liability insurance we, or any collaborators, may not be able to maintain such insurance at a reasonable cost. Even if our agreements with any future collaborators entitles us to indemnification against losses, such indemnification may not be available or adequate should any claim arise.

An investment in shares of our common stock is very speculative and involves a very high degree of risk.

To date, we have generated no revenues from product sales and only minimal revenues from a research agreement with a minority shareholder, and interest on bank account balances and short-term investments. Our accumulated deficit as of June 30, 2007 and December 31, 2006 was $23,058,065 and $20,690,326, respectively. For six months ended June 30, 2007 and the year ended December 31, 2006, we had net losses of $2,367,739 and $6,486,003, respectively, primarily as a result of expenses incurred through a combination of research and development activities related to the various technologies under our control and expenses supporting those activities. Until we receive approval from the FDA and other regulatory authorities for our drug candidates, we cannot sell our drugs and will not have product revenues.

The market price of our common stock may fluctuate significantly.

The market price of our common stock may fluctuate significantly in response to factors, some of which are beyond our control, such as:

- the announcement of new products or product enhancements by us or our competitors;
- developments concerning intellectual property rights and regulatory approvals;
- variations in our and our competitors' results of operations;
- changes in earnings estimates or recommendations by securities analysts; and
- developments in the biotechnology industry.

Further, the stock market, in general, and the market for biotechnology companies, in particular, have experienced extreme price and volume fluctuations. Continued market fluctuations could result in extreme volatility in the price of our common stock, which could cause a decline in the value of our common stock. You should also be aware that price volatility might be worse if the trading volume of our common stock is low, which has been the case historically. We have not paid, and do not expect to pay, any cash dividends because we anticipate that any earnings generated from future operations will be used to finance our operations and as a result, you will not realize any income from an investment in our common stock until and unless you sell your shares at a profit.

Some or all of the "restricted" shares of our common stock issued in the merger of CPRD and Rexahn, Corp in May 2007 or held by other stockholders may be offered from time to time in the open market pursuant to Rule 144, and these sales may have a depressive effect on the market for our common stock. In general, a person who has held restricted shares for a period of one year may, upon filing with the SEC a notification on Form 144, sell into the market common stock in an amount equal to 1 percent of the outstanding shares (approximately 500,000 shares) during a three-month period. Any of the restricted shares may be freely sold by a non-affiliate after they have been held two years.

Trading of our common stock is limited.

Trading of our common stock is currently conducted on the National Association of Securities Dealers' Over-the-Counter Bulletin Board ("OTC-BB"). The liquidity of our securities has been limited, not only in terms of the number of securities that can be bought and sold at a given price, but also through delays in the timing of transactions and reduction in security analysts' and the media's coverage of us.

These factors may result in lower prices for our common stock than might otherwise be obtained and could also result in a larger spread between the bid and asked prices for our common stock. Currently, there are approximately 510 holders of record of our common stock.

Because our common stock may be a "penny stock," it may be more difficult for you to sell shares of our common stock, and the market price of our common stock may be adversely affected.

Our common stock may be a "penny stock" if, among other things, the stock price is below $5.00 per share, we are not listed on a national securities exchange or approved for quotation on the Nasdaq Stock Market, or we have not met certain net tangible asset or average revenue requirements. Broker-dealers who sell penny stocks must provide purchasers of these stocks with a standardized risk-disclosure document prepared by the SEC. This document provides information about penny stocks and the nature and level of risks involved in investing in the penny-stock market. A broker must also give a purchaser, orally or in writing, bid and offer quotations and information regarding broker and salesperson compensation, make a written determination that the penny stock is a suitable investment for the purchaser, and obtain the purchaser's written agreement to the purchase. Broker-dealers must also provide customers that hold penny stock in their accounts with such broker-dealer a monthly statement containing price and market information relating to the penny stock. If a penny stock is sold in violation of the penny stock rules, purchasers may be able to cancel their purchase and get their money back. If applicable, the penny stock rules may make it difficult for investors to sell their shares of our stock. Because of the rules and restrictions applicable to a penny stock, there is less trading in penny stocks and the market price of our common stock may be adversely affected. Also, many brokers choose not to participate in penny stock transactions. Accordingly, purchasers may not always be able to resell shares of our common stock publicly at times and prices that they feel are appropriate.

Item 3. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of June 30, 2007, our management carried out an evaluation, under the supervision of our Chief Executive Officer and Chief Financial Officer of the effectiveness of the design and operation of our system of disclosure controls and procedures pursuant to Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that our disclosure controls and procedures were effective, as of the date of this evaluation, for the purposes of recording, processing, summarizing and timely reporting material information required to be disclosed in reports filed by us under the Exchange Act.

There were no changes in our internal control over financial reporting during the quarter ended June 30, 2007 that have materially affected, or are reasonably likely to affect, our financial reporting.

PART II – OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

We are not subject to any pending legal proceedings, nor are we aware of any threatened claim against us.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

At the annual meeting of stockholders of the Company on June 11, 2007 in Rockville, Maryland, the following matters were voted on by the Company's stockholders and approved by the following votes:

	Number of Shares		
	Voted For		**Withheld**
1. Election of directors:			
Chang H. Ahn	36,834,958		50
Charles Beever	36,834,958		50
Kwang Soon Cheong	36,834,958		50
Ted T.H. Jeong	36,834,958		50
Y. Michele Kang	36,834,958		50
David McIntosh	36,834,958		50

	Number of Shares				
	Voted For		**Voted Against**		**Abstentions**
2. Proposal to ratify appointment of Lazar Levine & Felix LLP as the Company's Independent auditors	36,835,008		0		0

Item 5. OTHER INFORMATION

On June 11, 2007, we implemented a new non-employee director compensation policy for service on our Board of Directors, Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee as follows:

Position	Compensation
Director	$1,000 per board meeting (up to maximum of $4,000 per annum)
Audit Committee (Chairman)	$3,000 per annum
Audit Committee (Member)	$1,500 per annum
Compensation Committee (Chairman)	$2,000 per annum
Compensation Committee (Member)	$1,000 per annum
Nominating and Corporate Governance Committee (Chairman)	$1,000 per annum
Nominating and Corporate Governance Committee (Member)	$1,000 per annum

No director is compensated for more than one committee membership per year in addition to their board retainer, and directors who are officers receive no compensation for the board related work whatsoever.

Item 6. EXHIBITS

Exhibit Number	Description
10.1	Summary of New Director Compensation Policy
10.2	Form of Option Grant Agreement for Non-Employee Directors and Consultants
31.1	Certification of Chief Executive Officer of Periodic Report Pursuant to Rule 13a-15(e) or Rule 15d-15(e)
31.2	Certification of Chief Financial Officer of Periodic Report Pursuant to Rule 13a-15(e) or Rule 15d-15(e)
32.1	Certification of Chief Executive Officer of Periodic Report Pursuant to 18 U.S.C. Section 1350
32.2	Certification of Chief Financial Officer of Periodic Report Pursuant to 18 U.S.C. Section 1350

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

REXAHN PHARMACEUTICALS, INC.

/s/ Ted T.H. Jeong
Name: Ted T. H. Jeong
Title: Chief Financial Officer and Secretary
Date: August 14, 2007

Index

EXHIBIT INDEX

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32.1	Certification of Chief Executive Officer of Periodic Report Pursuant to 18 U.S.C. Section 1350
32.2	Certification of Chief Financial Officer of Periodic Report Pursuant to 18 U.S.C. Section 1350

EXHIBIT 10.1

On June 11, 2007, we implemented a new non-employee director compensation policy for service on our Board of Directors, Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee as follows:

Position	Compensation
Director	$1,000 per board meeting (up to maximum of $4,000 per annum)
Audit Committee (Chairman)	$3,000 per annum
Audit Committee (Member)	$1,500 per annum
Compensation Committee (Chairman)	$2,000 per annum
Compensation Committee (Member)	$1,000 per annum
Nominating and Corporate Governance Committee (Chairman)	$1,000 per annum
Nominating and Corporate Governance Committee (Member)	$1,000 per annum

No director is compensated for more than one committee membership per year in addition to their board retainer, and directors who are officers receive no compensation for the board related work whatsoever.

EXHIBIT 10.2

[Non-Employee Directors/Consultants]

REXAHN PHARMACEUTICALS, INC.
STOCK OPTION PLAN

STOCK OPTION GRANT AGREEMENT

THIS AGREEMENT, made as of the ___th day of _____, 200__ (the "Grant Date"), by and between (i) Rexahn Pharmaceuticals, Inc., a Delaware corporation (the "Company"), and (ii) _____, an individual who serves as a [director of/consultant to] the Company ("Optionee").

WHEREAS, the Board of Directors and stockholders of the Company have duly adopted and approved the Rexahn Pharmaceuticals, Inc. Stock Option Plan (the "Plan"); and

WHEREAS, in order to provide an incentive to Optionee to serve as a [director of/consultant to] the Company and for such other purposes as are set forth in the Plan, the Committee responsible for administration of the Plan has determined to grant an option to Optionee as provided herein.

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

1. Grant of Option.

1.1. Subject to the terms and conditions hereafter set forth including, without limitation, Optionee's compliance with Optionee's representations, covenants and agreements in Sections 13 through 20 hereof inclusive and Optionee's execution contemporaneously with this Agreement of the Stockholder's Agreement of even date herewith (the "Stockholder's Agreement"), the Company hereby grants to Optionee the right and option (the "Option") to purchase all or any part of an aggregate of _____ whole shares of Common Stock of the Company (the "Shares").

1.2. This Agreement shall be construed in accordance and consistent with, and subject to, the provisions of the Plan (the provisions of which are incorporated herein by reference) and, except as otherwise expressly set forth herein, the capitalized terms used in this Agreement shall have the same definitions as set forth in the Plan. In the event any provision of this Agreement shall conflict with any of the terms in the Plan as constituted on the Grant Date, the terms of the Plan as constituted on the Grant Date shall control.

2. Purchase Price.

The price at which Optionee shall be entitled to purchase the Shares upon the exercise of the Option shall be $_____ per Share (the "Exercise Price").

3. Duration of Option.

The Option shall be exercisable to the extent and in the manner provided herein for a period of ten (10) years from the Grant Date (the "Exercise Term"); *provided, however*, that the Option may be terminated earlier, as provided in Sections 5.1, 7.1 and 22 hereof.

4. Vesting of Option.

4.1. So long as Optionee shall not have violated the provisions of Sections 13 through 20 hereof inclusive, and further subject to the provisions of the Plan and this Agreement regarding the duration of the Option and the period during which the Option may be exercised, except as provided in Section 4.2 hereof, Optionee shall become vested in the Options as follows:

(a) One hundred percent (100%) of the Options shall vest on the first (1st) anniversary of the Grant Date.

4.2. Notwithstanding Section 4.1 hereof, but subject to the provisions of the Plan and this Agreement regarding the duration of the Option and the Period during which the Option may be exercised, Optionee shall become one hundred percent (100%) vested in the Options if a Change of Control, as provided in Section 5.1 hereof, shall occur prior to the termination or expiration of the Option.

4.3. For purposes of this Agreement, the Options which are vested are referred to as "Vested Options". The Option may be exercised with respect to the Vested Options, as provided under the applicable provisions of this Agreement.

5. Effect of a Change of Control.

5.1. In the event of any Change of Control (as defined in the Plan), the vesting of each outstanding Option shall automatically accelerate so that each such Option shall, immediately prior to the effective date of the Change of Control, become fully exercisable for all of the Shares at the time subject to such Option and may be exercised for any or all of those Shares as fully-vested Options. However, an outstanding Option shall NOT so accelerate if and to the extent such Option is, in connection with the Change of Control, either to be assumed by the successor corporation (or parent thereof) or to be replaced with a comparable Option for shares of the capital stock of the successor corporation (or the parent thereof). The determination of Option comparability shall be made by the administrator of the Plan, and its determination shall be final, binding and conclusive.

6. Manner of Exercise and Payment.

6.1. The Option may be exercised only if compliance with all applicable Federal and state securities laws can be effected and only by (a) Optionee's completion, execution and delivery to the Company of a Notice of Exercise substantially in the form attached hereto as Exhibit A and an investment letter (if required by the Company) as supplied by the Company, and (b) the payment to the Company, by cash or check, of an amount equal to the amount obtained by multiplying the Exercise Price by the number of Shares being purchased pursuant to such exercise, as shall be specified by Optionee in such Notice of Exercise.

6.2. Upon receipt of Notice of Exercise and full payment of the Exercise Price for the Shares in respect of which the Option is being exercised, the Company shall take such action as may be necessary to effect the transfer to Optionee of the number of Shares as to which such exercise was effective.

6.3. Optionee shall not be deemed to be the owner of any of the Shares unless and until: (i) the Option shall have been exercised pursuant to the terms of this Agreement and Optionee shall have paid the full purchase price for the number of Shares in respect of which the Option was exercised; (ii) Optionee shall have satisfied all of Optionee's obligations regarding the withholding of taxes, as provided in Section 12 hereof; (iii) the Company shall have issued and delivered the Shares to Optionee; and (iv) Optionee's name shall have been entered as a shareholder of record on the books of the Company, whereupon Optionee shall have full dividend and other ownership rights with respect to such Shares.

7. Termination of Engagement.

7.1. If the Optionee's service as [director of/consultant to] the Company shall terminate or cease for any reason whatsoever, any unexercised portion of the Option (whether or not vested and exercisable) shall terminate and expire on the Termination Date, after which the Optionee shall have no right to exercise the Option. For purposes of the foregoing, (i) if Optionee's service with the Company shall be terminated for Cause (as defined in Section 7.2 hereof), the "Termination Date" shall mean the effective date of Optionee's termination of service with the Company, or (ii) if Optionee's employment shall terminate for any reason other than Cause, the "Termination Date" shall mean the date that is thirty (30) days after the effective date of Optionee's termination of service with the Company.

7.2. "Cause" shall mean (i) Optionee's conviction of any felony or business-related misdemeanor; (ii) fraud, theft or embezzlement; (iii) a material act of personal dishonesty affecting the Company; (iv) an act of gross neglect or gross misconduct; (v) the commission of any other act with the intent to harm or injure the Company; or (vi) a material breach of this Agreement.

8. No Pre-Emptive Rights or Registration Rights.

Optionee shall not be entitled to any pre-emptive rights with respect to the Company's issuance of any Common Stock or other securities, nor shall Optionee be entitled to registration rights with respect to any Shares in the event that the Company files a registration statement under the Securities Act of 1933 with respect to the Common Stock or any other securities.

9. Nontransferability.

The Option granted hereunder shall not be transferable by Optionee other than by will or the laws of descent and distribution and the Option may be exercised during the lifetime of Optionee only by Optionee or his or her guardian or legal representative. The terms of the Option shall be final, binding and conclusive upon the beneficiaries, executors, administrators, heirs and successors of Optionee.

10. No Right to Continued Service.

Except as provided by the Company's certificate of incorporation and by-laws and the General Corporation Law of the State of Delaware, nothing in this Agreement or the Plan shall be interpreted or construed to confer upon Optionee any right with respect to continuation of the Optionee's service [as a non-employee director or consultant] with the Company, nor shall this Agreement or the Plan interfere in any way with the right of the Company to terminate Optionee's service at any time. No change of Optionee's duties as an non-employee director or consultant of the Company shall result in, or be deemed to be, a modification of any terms of this Agreement.

11. Adjustments.

In the event of a reclassification, recapitalization, stock split, stock dividend, combination of shares, or other similar event with respect to the Common Stock, the Committee may make appropriate adjustments to the number and class of Shares or other stock or securities subject to the Option and the purchase price for such Shares or other stock or securities. The Committee's adjustment shall be made in accordance with the provisions of Section 9 of the Plan and shall be effective and final, binding and conclusive for all purposes of the Plan and this Agreement.

12. Withholding of Taxes.

At such times as Optionee exercises the Option, Optionee shall pay to the Company in cash an amount equal to the Federal, state and local income taxes and other amounts as may be required by law to be withheld by the Company in connection with exercise of the Option (the "Withholding Taxes") prior to the issuance of the Shares in respect of which the Option was exercised. The Company shall have the right to deduct from any payment of cash to which Optionee is entitled from the Company an amount equal to the Withholding Taxes in satisfaction of the obligation to pay Withholding Taxes. In satisfaction of the Withholding Taxes, Optionee may make a written election, which may be accepted or rejected in the sole discretion of the Committee, to have withheld a portion of the Shares issuable to him upon exercise of the Option, having an aggregate Fair Market Value, on the date preceding the date of such issuance, equal to the Withholding Taxes.

13. Treatment of Information.

13.1. Optionee acknowledges that, in and as a result of Optionee's engagement by the Company, Optionee shall or may be making use of, acquiring and/or adding to confidential information of a special and unique nature and value relating to such matters as the Company's trade secrets, systems, programs, procedures, manuals, confidential reports and communications and lists of customers and clients. Optionee further acknowledges that any information and materials received by the Company from third parties in confidence (or subject to nondisclosure or similar covenants) shall be deemed to be and shall be confidential information within the meaning of this Section 13. As a material inducement to the Company to grant to Optionee the Option, Optionee covenants and agrees that Optionee shall not, except with the prior written consent of the Company, or except if Optionee is acting as an non-employee director or consultant of the Company solely for the benefit of the Company in connection with the Company's business and in accordance with the Company's business practices and employee policies, at any time during or following the term of Optionee's engagement by the Company, directly or indirectly, disclose, divulge, reveal, report, publish, transfer or use, for any purpose whatsoever, any of such information which has been obtained by or disclosed to Optionee as a result of Optionee's engagement with the Company, including any of the information referred to in Section 14 hereof.

13.2. Disclosure of any of the information referred to in Section 13.1 hereof shall not be prohibited if such disclosure is directly related to a valid and existing order of a court or other governmental body or agency within the United States; provided, however, that (i) Optionee shall first have given prompt notice to the Company of any possible or prospective order (or proceeding pursuant to which any such order may result) and (ii) the Company shall have been afforded a reasonable opportunity to prevent or limit any such disclosure.

14. Definition of Protected Information.

14.1. For purposes of this Agreement, the term "Protected Information" shall mean all of the information referred to in Section 13 hereof and all of the following materials and information (whether or not reduced to writing and whether or not patentable or protectible by copyright) which Optionee receives, receives access to, conceives or develops or has received, received access to, conceived or developed, in whole or in part, directly or indirectly, in connection with Optionee's engagement with the Company or in the course of Optionee's engagement with the Company (in any capacity, whether executive, managerial, planning, technical, sales, research, development, manufacturing, engineering or otherwise) or through the use of any of the Company's facilities or resources:

(a) Application, operating system, data base, communication and other computer software, whether now or hereafter existing, developed for use on any operating system, all modifications, enhancements and versions and all options available with respect thereto, and all future products developed or derived therefrom;

(b) Source and object codes, flowcharts, algorithms, coding sheets, routines, sub-routines, compilers, assemblers, design concepts and related documentation and manuals;

(c) Production processes, marketing techniques and arrangements, mailing lists, purchasing information, pricing policies, quoting procedures, financial information, customer and prospect names and requirements, employee, customer, supplier and distributor data and other materials or information relating to the Company's business and activities and the manner in which the Company does business;

(d) Discoveries, concepts and ideas including, without limitation, the nature and results of research and development activities, processes, formulas, inventions, computer-related equipment or technology, techniques, "know-how", designs, drawings and specifications;

(e) Any other materials or information related to the business or activities of the Company which are not generally known to others engaged in similar businesses or activities; and

(f) All ideas which are derived from or relate to Optionee's access to or knowledge of any of the above enumerated materials and information.

14.2. Failure to mark any of the Protected Information as confidential, proprietary or Protected Information shall not affect its status as part of the Protected Information under the terms of this Agreement.

14.3. For purposes of this Agreement, the term "Protected Information" shall not include information which is or becomes publicly available without breach of (i) this Agreement, (ii) any other agreement or instrument to which the Company is a party or a beneficiary or (iii) any duty owed to the Company by Optionee or any third party; provided, however, that Optionee hereby acknowledges and agrees that, except as otherwise provided in Section 13.2 hereof, if Optionee shall seek to disclose, divulge, reveal, report, publish, transfer or use, for any purpose whatsoever, any Protected Information, Optionee shall bear the burden of proving that any such information shall have become publicly available without any such breach.

15. Ownership of Information.

15.1. Optionee covenants and agrees that all right, title and interest in any Protected Information shall be and shall remain the exclusive property of the Company; provided, however, that the foregoing shall not apply to any invention for which no equipment, supplies, facility or Protected Information of the Company was used, which was developed entirely on Optionee's own time, and which does not (i) relate to the business of the Company, (ii) relate to the Company's actual or demonstrably anticipated research or development or (iii) result from any work performed by Optionee for the Company. Optionee agrees immediately to disclose to the Company all Protected Information developed in whole or in part by Optionee during the term of Optionee's engagement with the Company and to assign to the Company any right, title or interest Optionee may have in such Protected Information. Optionee agrees to execute any instruments and to do all other things reasonably requested by the Company (both during and after Optionee's engagement with the Company) in order to vest more fully in the Company all ownership rights in those items hereby transferred by Optionee to the Company.

15.2. If any one or more of the items described in Section 15.1 above are protectible by copyright and are deemed in any way to fall within the definition of "work made for hire," as such term is defined in 17 U.S.C. §101, such work shall be considered a "work made for hire," the copyright of which shall be owned solely, completely and exclusively by the Company. If any one or more of the aforementioned items are protectible by copyright and are not considered to be included in the categories of works covered by the "work made for hire" definition contained in 17 U.S.C. §101, such items shall be deemed to be assigned and transferred completely and exclusively to the Company by virtue of the execution of this Agreement.

16. Materials.

All notes, data, tapes, reference items, sketches, drawings, memoranda, records and other materials in any way relating to any of the information referred to in Sections 13 and 14 hereof (including, without limitation, any Protected Information) or to the Company's business shall belong exclusively to the Company and Optionee agrees to turn over to the Company all copies of such materials in Optionee's possession or under Optionee's control at the request of the Company or, in the absence of such a request, upon the termination of engagement of Optionee.

17. Covenants Not to Compete or Hire Employees.

It is recognized and understood by the parties hereto that Optionee, through Optionee's association with the Company as an non-employee director or consultant, shall acquire a considerable amount of knowledge and goodwill with respect to the business of the Company, which knowledge and goodwill are extremely valuable to the Company and which would be extremely detrimental to the Company if used by Optionee to compete with the Company. It is, therefore, understood and agreed by the parties hereto that, because of the nature of the business of the Company, it is necessary to afford fair protection to the Company from such competition by Optionee. Consequently, as a material inducement to the Company to grant Optionee the Option, Optionee covenants and agrees that for the period commencing with the date hereof and ending one (1) year after Optionee's termination of service with the Company for any reason whatsoever, Optionee shall not (a) engage, directly, indirectly or in concert with any other person or entity, in any activity, any service or promote any product which in any way competes with any service or product provided, sold, licensed or promoted by the Company or (b) directly or indirectly, solicit or divert or attempt to solicit or divert from the Company any customer, client, account or business of the Company. Optionee further covenants and agrees that for the period commencing with the date hereof and ending one (1) year after Optionee's termination of engagement from the Company for any reason whatsoever, Optionee shall not, directly or indirectly, hire or engage or attempt to hire or engage any employee of the Company, whether for or on behalf of Optionee or for any entity in which Optionee shall have a direct or indirect interest (or any subsidiary or affiliate of any such entity), whether as a proprietor, partner, co-venturer, financier, investor or stockholder, director, officer, employer, employee, servant, agent, representative or otherwise.

18. No Prior Agreements.

Optionee represents that Optionee's performance of all the terms of this Agreement and any services to be rendered as an non-employee director or consultant of the Company do not and shall not breach any fiduciary or other duty or any covenant, agreement or understanding (including, without limitation, any agreement relating to any proprietary information, knowledge or data acquired by Optionee in confidence, trust or otherwise prior to Optionee's engagement by the Company) to which Optionee is a party or by the terms of which Optionee may be bound. Optionee covenants and agrees that Optionee shall not disclose to the Company, or induce the Company to use, any such proprietary information, knowledge or data belonging to any previous employer or others. Optionee further covenants and agrees not to enter into any agreement or understanding, either written or oral, in conflict with the provisions of this Agreement.

19. Injunctive Relief.

Optionee understands and agrees that the Company will suffer irreparable harm in the event that Optionee breaches any of Optionee's obligations under Sections 13, 15, 16, 17 or 18 hereof and that monetary damages will be inadequate to compensate the Company for such breach. Accordingly, Optionee agrees that, in the event of a breach or threatened breach by Optionee of any of the provisions of Sections 13, 15, 16, 17 or 18 hereof, the Company, in addition to and not in limitation of any other rights, remedies or damages available to the Company at law or in equity, shall be entitled to a temporary restraining order, preliminary injunction and permanent injunction in order to prevent or to restrain any such breach by Optionee, or by any or all of Optionee's partners, co-venturers, employers, employees, servants, agents, representatives and any and all persons directly or indirectly acting for, on behalf of or with Optionee.

20. Accounting for Profits; Indemnification.

Optionee covenants and agrees that, if Optionee shall violate any of Optionee's covenants or agreements contained in Sections 13, 15, 16 or 17 hereof, the Company shall be entitled to an accounting and repayment of all profits, compensation, royalties, commissions, remunerations or benefits which Optionee directly or indirectly shall have realized or may realize relating to, growing out of or in connection with any such violation; such remedy shall be in addition to and not in limitation of any injunctive relief or other rights or remedies to which the Company is or may be entitled at law or in equity or otherwise under this Agreement. Optionee hereby agrees to defend, indemnify and hold harmless the Company against and in respect of: (i) any and all losses and damages resulting from, relating or incident to, or arising out of any misrepresentation or breach by Optionee of any warranty, covenant or agreement made or contained in this Agreement; and (ii) any and all actions, suits, proceedings, claims, demands, judgments, costs and expenses (including reasonable attorneys' fees) incident to the foregoing.

21. Reasonableness of Restrictions.

OPTIONEE HAS CAREFULLY READ AND CONSIDERED THE PROVISIONS OF SECTIONS 13 THROUGH 20 HEREOF INCLUSIVE AND, HAVING DONE SO, AGREES THAT THE RESTRICTIONS SET FORTH IN SUCH SECTIONS ARE FAIR AND REASONABLE AND ARE REASONABLY REQUIRED FOR THE PROTECTION OF THE INTERESTS OF THE CORPORATION, AND ITS OFFICERS, DIRECTORS, STOCKHOLDERS AND EMPLOYEES. OPTIONEE FURTHER AGREES THAT ALL SUCH PROVISIONS ARE IN FURTHERANCE AND NOT IN LIMITATION OF ANY OTHER COVENANTS AND RESTRICTIONS APPLICABLE TO OPTIONEE.

22. Forfeiture of Right to Exercise Option.

Any breach by Optionee of any of Optionee's representations, covenants or agreements in Sections 13 through 20 hereof inclusive shall result in the forfeiture, as of the date of such breach, of all rights to exercise the Option.

23. Optionee Bound by the Plan.

Optionee hereby acknowledges receipt of a copy of the Plan and agrees to be bound by all the terms and provisions thereof.

24. Modification of Agreement.

This Agreement may be modified, amended, suspended or terminated, and any terms or conditions may be waived, but only by a written instrument executed by the parties hereto.

25. Severability.

Whenever possible, each provision in this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement shall be held by a court of competent jurisdiction to be prohibited by or invalid or unenforceable under applicable law, then (a) such provision shall be deemed amended to accomplish the objectives of the provision as originally written to the fullest extent permitted by law and (b) all other provisions of this Agreement shall remain in full force and effect.

26. Governing Law.

The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of Delaware without giving effect to the conflicts of laws principles thereof.

27. Successors in Interest.

This Agreement shall inure to the benefit of and be binding upon any successor to the Company. This Agreement shall inure to the benefit of Optionee's legal representatives. All obligations imposed upon Optionee and all rights granted to the Company under this Agreement shall be final, binding and conclusive upon Optionee's heirs, executors, administrators and successors. As used in Sections 13 through 20 hereof inclusive and this Section 27, the term "Company" shall also include any corporation which is a parent or a subsidiary of the Company or any corporation or entity which is an affiliate of the Company by virtue of common (although not identical) ownership. Optionee hereby consents to the enforcement of any and all of the provisions of this Agreement by or for the benefit of the Company and any such other corporation or entity.

28. Resolution of Disputes.

Any dispute or disagreement which may arise under, or as a result of, or in any way relate to, the interpretation, construction or application of this Agreement shall be determined by the Committee. Any determination made hereunder shall be final, binding and conclusive on Optionee and Company for all purposes.

29. Specific Performance.

Strict compliance by Optionee shall be required with each and every provision of this Agreement. The parties hereto agree that the Shares are unique, that Optionee's failure to perform the obligations provided by this Agreement will result in irreparable damage to the Company and that specific performance of Optionee's obligations may be obtained by suit in equity.

30. Interpretation.

30.1. This Agreement and the Plan set forth all of the promises, agreements, conditions, understandings, warranties and representations between the parties hereto with respect to the Option and the Shares, and there are no promises, agreements, conditions, understandings, warranties or representations, oral or written, express or implied, between them with respect to the Option or the Shares other than as set forth herein and in the Plan, as amended. Any and all prior agreements between the parties hereto with respect to the Shares or the Option are hereby revoked. This Agreement and the Plan are intended by the parties to be an integration of any and all prior agreements or understandings, oral or written, with respect to the Option and the Shares.

30.2. The captions herein are for reference purposes only and in no way define or limit the scope or content of this Agreement or in any way affect the interpretation of its provisions.

31. Notices.

Any and all notices provided for herein shall be sufficient if in writing and shall either be hand delivered, with receipt therefor, or sent by Federal Express or other nationally recognized courier, or by certified or registered mail, postage prepaid, return receipt requested, in the case of the Company, to its principal office, and, in the case of Optionee, to Optionee's address as shown on the Company's records. A notice that is sent by Federal Express or other nationally recognized courier or that is sent by certified or registered mail will be deemed given on the earlier of the date the notice is received by the addressee or three (3) business days after the date the notice is sent. Either party may change the address to which notices or other communications are to be delivered to them hereunder by giving written notice to the other party as provided in this paragraph.

IN WITNESS WHEREOF, the parties hereto have duly executed and delivered this Agreement, or caused this Agreement to be duly executed and delivered in their name and on their behalf, as of the day and year first above written.

COMPANY:

REXAHN PHARMACEUTICALS, INC.,
a Delaware corporation

By: _____
Name: _____
Title: _____

OPTIONEE:

_____
Name: _____

EXHIBIT A

NOTICE AND REQUEST OF EXERCISE
OF
OPTION TO PURCHASE
SHARES OF STOCK
OF
REXAHN PHARMACEUTICALS, INC.

The undersigned Optionee of the Stock Option Plan (the "Plan") of Rexahn Pharmaceuticals, Inc., a Delaware corporation (the "Company"), does by this notice request that the Company issue to the undersigned that number of Shares specified below at the price per Share specified below pursuant to the exercise of Optionee's Option under the Plan and the Stock Option Grant Agreement (the "Agreement") between the undersigned and the Company.

Unless otherwise defined, the terms defined in the Stock Option Grant Agreement (the "Agreement") between the undersigned and the Company are used herein as thereon defined.

Simultaneously herewith, the undersigned delivers to the Company the purchase price for the Shares (i.e., that amount which is obtained by multiplying the number of the Shares in D below by the price specified), in cash or by good check, in accordance with Section 6 of the Agreement or as otherwise provided under the Plan.

The undersigned hereby represents and warrants that the undersigned has read and understands the Plan and the Agreement and the terms and conditions set forth therein under which the Shares are acquired, shall be held and may be disposed, and hereby ratifies and confirms such terms and conditions.

The undersigned acknowledges and understands that in connection with the acquisition of the Shares by the undersigned: (1) that the Shares have not been approved or disapproved by the Securities and Exchange Commission or any State securities commission or other regulatory authority, nor have any of such authorities passed upon or endorsed the merits of such Shares; (2) that the undersigned has had a reasonable opportunity to ask questions of the Company regarding restrictions on the transferability of the Shares and other matters relevant to the undersigned's purchase of the Shares; (3) if the undersigned is an affiliate of the Company (i.e., an officer, director or owner of 10% or more of the outstanding shares of Common Stock), the undersigned will be required to file a Form 144 with the Securities and Exchange Commission in connection with sales of the Shares pursuant to Rule 144 under the Act, the undersigned will mail a copy of such Form to the Company at the same time and each time the undersigned mails a copy to the Securities and Exchange Commission; and (4) that the Company has made no representations or warranties to the undersigned of any kind whatsoever regarding the tax treatment of the Option and/or the Shares and the undersigned has been advised to seek the advice of its own tax advisor.

Dated: _____

Very truly yours,

_____
Signature

Name of Optionholder

RESIDENCE:

Street

City, State, Zip Code

A. Date of the Agreement: _____.

B. Number of Shares covered by Option: _____.

C. Number of Shares which may be purchased at this time: _____.

D. Number of Shares to be actually purchased at this time (must be 100 Shares or whole multiples thereof and cannot be greater than C): _____.

E. Exercise price per Share: $_____.

F. Aggregate price to be paid for Shares actually purchased (D multiplied by E): $_____.

EXHIBIT 31.1

CERTIFICATION

I, Chang H. Ahn, Chief Executive Officer of Rexahn Pharmaceuticals, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Rexahn Pharmaceuticals, Inc.;

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

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

4. The small business issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the small business issuer and have:

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

   (b) evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this quarterly report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and

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

5. The small business issuer's other certifying officer and I have disclosed, based on my most recent evaluation, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):

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

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

Dated: August 14, 2007

/s/ Chang H. Ahn
Chang H. Ahn
Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION

I, Ted T.H. Jeong, Chief Financial Officer of Rexahn Pharmaceuticals, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Rexahn Pharmaceuticals, Inc.;

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

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

4. The small business issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the small business issuer and have:

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

   (b) evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this quarterly report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and

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

5. The small business issuer's other certifying officer and I have disclosed, based on my most recent evaluation, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):

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

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

Dated: August 14, 2007

/s/ Ted T.H. Jeong
Ted T.H. Jeong
Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION OF
CHIEF EXECUTIVE OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350

I, Chang H. Ahn, Chief Executive Officer of Rexahn Pharmaceuticals, Inc. (the "Company"), certify, pursuant to 18 U.S.C. Section 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Quarterly Report on Form 10-QSB of the Company for the quarter ended June 30, 2007 as filed on the date hereof with the Securities and Exchange Commission (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 14, 2007

/s/ Chang H. Ahn
Chang H. Ahn
Chief Executive Officer

EXHIBIT 32.2

CERTIFICATION OF
CHIEF EXECUTIVE OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350

I, Ted T.H. Jeong, Chief Financial Officer of Rexahn Pharmaceuticals, Inc. (the "Company"), certify, pursuant to 18 U.S.C. Section 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Quarterly Report on Form 10-QSB of the Company for the quarter ended June 30, 2007 as filed on the date hereof with the Securities and Exchange Commission (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 14, 2007

/s/ Ted T.H. Jeong
Ted T.H. Jeong
Chief Financial Officer