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

FORM 10-QSB

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

For the Quarterly Period Ended September 30, 2006

£ 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 T 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 T No

State the number of shares outstanding of each of the registrant's classes of common equity, as of the latest practicable date: 50,275,632 issued and outstanding as of November 14, 2006

Transitional Small Business Disclosure Format (check one): Yes £ No T

REXAHN PHARMACEUTICALS, INC.

INDEX

PART I - FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

REXAHN PHARMACEUTICALS, INC.
(A DEVELOPMENT STAGE COMPANY)
Condensed Balance Sheets

	September 30, 2006	December 31, 2005
	(Unaudited)	
ASSETS		
Current Assets:		
Cash and cash equivalents	**$ 5,038,752**	$ 10,116,625
Prepaid expenses and other	**99,308**	54,774
Total Current Assets	**5,138,060**	10,171,399
Equipment, Net	**168,820**	203,632
Intangible Assets, Net	**326,532**	339,890
Total Assets	**$ 5,633,412**	$ 10,714,921
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued expenses	**$ 289,799**	$ 587,612
Licensing fee payable	**42,243**	172,813
Total Current Liabilities	**332,042**	760,425
Long-Term Convertible Debt	**-**	3,850,000
Deferred Revenue	**1,218,750**	1,275,000
Total Liabilities	**1,550,792**	5,885,425
Commitment and Contingencies (note 7)		
Stockholders' Equity:		
Common stock, par value $0.0001	**5,028**	4,641
Treasury stock, 14,205 shares, at cost	**(28,410)**	-
Additional paid-in capital	**24,196,117**	19,029,178
Accumulated deficit during the development stage	**(20,090,115)**	(14,204,323)
Total Stockholders' Equity	**4,082,620**	4,829,496
Total Liabilities and Stockholders' Equity	**$ 5,633,412**	$ 10,714,921

See notes accompanying the financial statements

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

	Cumulative from March 19, 2001 (Inception) to September 30, 2006	Three Months Ended September 30,		Nine Months Ended September 30,	
		2006	2005	**2006**	2005
Revenues:					
Interest and other income	$ 661,826	**$ 71,098**	$ 57,542	**$ 270,377**	$ 94,311
Research	281,250	**18,750**	18,750	**56,250**	56,250
	943,076	**89,848**	76,292	**326,627**	150,561
Expenses:					
General and administrative	9,221,845	**1,004,030**	830,422	**2,662,756**	2,168,185
Beneficial conversion feature	1,625,000	**-**	-	**-**	-
Research and development	9,142,283	**635,047**	275,819	**3,192,663**	917,633
Patent fees	392,586	**100,611**	52,039	**164,900**	107,481
Interest	296,515	**3,998**	59,808	**95,019**	137,027
Depreciation and amortization	354,962	**54,817**	30,074	**97,081**	63,107
	21,033,191	**1,798,503**	1,248,162	**6,212,419**	3,393,433
Net Loss	$ (20,090,115)	**$ (1,708,655)**	$ (1,171,870)	**$ (5,885,792)**	$ (3,242,872)
Loss per share - basic and diluted		**$ (0.03)**	$ (0.03)	**$ (0.12)**	$ (0.08)
Weighted average number of shares outstanding - basic and diluted		**50,265,632**	43,943,795	**48,990,761**	40,648,411

See notes accompanying the financial statements

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

	Cumulative from March 19, 2001 (Inception) to September 30, 2006	Nine Months Ended September 30, **2006**	Nine Months Ended September 30, 2005
Cash Flows from Operating Activities:			
Net loss	$ (20,090,115)	**$ (5,885,792)**	$ (3,242,872)
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	354,962	**97,081**	63,107
Stock option compensation expense	2,518,309	**1,312,717**	465,427
Deferred revenue	1,218,750	**(56,250)**	(56,250)
Changes in assets and liabilities:			
Prepaid expenses and other	(99,308)	**(44,534)**	(15,245)
Accounts payable and accrued expenses	289,799	**(297,813)**	148,354
Net Cash Used in Operating Activities	(14,160,726)	**(4,874,591)**	(2,637,479)
Cash Flows from Investing Activities:			
Purchase of equipment	(494,098)	**(48,911)**	(45,117)
Net Cash Used in Investing Activities	(494,098)	**(48,911)**	(45,117)
Cash Flows from Financing Activities:			
Issuance of common stock	14,885,959	**4,609**	8,349,982
Proceeds from long-term debt	5,150,000	**—**	5,150,000
Principal payments on long-term debt	(313,973)	**(130,570)**	(138,567)
Purchase of treasury stock	(28,410)	**(28,410)**	—
Net Cash Provided by (Used in) Financing Activities	19,693,576	**(154,371)**	13,361,415
Net Increase (Decrease) in Cash and Cash Equivalents	5,038,752	**(5,077,873)**	10,678,819
Cash and Cash Equivalents - beginning of period	—	**10,116,625**	1,015,979
Cash and Cash Equivalents - end of period	$ 5,038,752	**$ 5,038,752**	$ 11,694,798
Supplemental Cash Flow Information			
Interest paid	$ 292,912	**$ 280,535**	$ 2,277

Non cash investing and financing activities
In February 2005, the Company entered into a licensing agreement in exchange for debt of $375,000.
In May 2006, the convertible debt of $3.85 million was converted into 3.85 million shares of the Company’s common stock.

See notes accompanying the financial statements

REXAHN PHARMACEUTICALS, INC.
(A Development Stage Company)
Notes to Condensed Financial Statements
Three and Nine Months Ended September 30, 2006 and 2005
(Unaudited)

1. Organization

The accompanying unaudited financial statements of Rexahn Pharmaceuticals, Inc. (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. The 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, 2005. The results from operations for the period are not necessarily indicative of the results expected for the full fiscal year or any future period.

Reverse Merger Acquisition

Pursuant to an Agreement and Plan of Merger by and among Rexahn, Corp ("Rexahn"), Corporate Road Show.Com Inc. ("CRS"), a New York corporation and predecessor corporation of the Company, CRS Merger Sub, Inc., a Delaware corporation and wholly owned subsidiary of CRS ("Merger Sub"), CRS Delaware, Inc., a Delaware corporation and wholly owned subsidiary of CRS ("CRS Delaware"), immediately after giving effect to a 1-for-100 reverse stock split and the reincorporation of CRS as a Delaware corporation under the name Rexahn Pharmaceuticals, Inc. ("Rexahn Pharmaceuticals"), on May 13, 2005, Merger Sub merged with and into Rexahn, with Rexahn surviving as a wholly owned subsidiary of Rexahn Pharmaceuticals (the "Acquisition Merger"). 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; and (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.

Shares of Rexahn Pharmaceuticals common stock issued in the Acquisition Merger were exempt from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act"), pursuant to Regulation D under the Securities Act and/or Regulation S under the Securities Act. These shares of Rexahn Pharmaceuticals common stock are deemed "restricted securities" and bear an appropriate restrictive legend indicating that the resale of such shares may be made only pursuant to registration under the Securities Act or pursuant to an available exemption from such registration.

REXAHN PHARMACEUTICALS, INC.
(A Development Stage Company)
Notes to Condensed Financial Statements
Three and Nine Months Ended September 30, 2006 and 2005
(Unaudited)

1. Organization (cont'd)

Reverse Merger Acquisition (cont'd)

As part of the Acquisition Merger, the Company assumed the convertible notes and the conversion price was adjusted to reflect the merger exchange ratio.

For accounting purposes, the Acquisition Merger is accounted for as a reverse acquisition of CRS (legal acquirer) by Rexahn (accounting acquirer). As a result, following the Acquisition Merger, the historical financial statements of Rexahn became the historical financial statements of the Company.

Merger of Subsidiary

On September 29, 2005, the Company's wholly owned subsidiary, Rexahn, was merged with and into the Company and Rexahn's separate existence was terminated.

2. Summary of Significant Accounting Policies

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.

Recent Accounting Pronouncements

On September 15, 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 158, "Fair Value Measurements". SFAS No. 158 provides enhanced guidance for using fair value to measure assets and liabilities. The standard applies whenever other standards require (or permit) assets or liabilities to be measured at fair value. The standard does not expand the use of fair value in any new circumstances. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Earlier application is encouraged, provided that the reporting entity has not yet issued financial statements for that fiscal year, including financial statements for an interim period within that fiscal year. The Company will adopt this pronouncement effective periods beginning January 1, 2008. We are currently evaluating the impact of adopting this pronouncement on our financial statements.

In July 2006, FASB issued Financial Accounting Standards 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 Statement of Financial Accounting Standards No. 109 ("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 on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transitions. FIN 48 is effective for fiscal years beginning on or after December 15, 2006. The Company is currently reviewing the effect, if any, FIN 48 will have on its financial position.

In September 2006, the Securities and Exchange Commission ("SEC") staff issued Staff Accounting Bulletin ("SAB") No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements." SAB No. 108 was issued to provide consistency in how registrants quantify financial statement misstatements. The Company is required to and will initially apply SAB No.108 in connection with the preparation of its annual financial statements for the year ending December 31, 2006. The Company does not expect the application of SAB No. 108 to have a material effect on its financial position and results of operations.

REXAHN PHARMACEUTICALS, INC.
(A Development Stage Company)
Notes to Condensed Financial Statements
Three and Nine Months Ended September 30, 2006 and 2005
(Unaudited)

3. Equipment, Net

	September 30, 2006		December 31, 2005	
	Cost	**Accumulated Depreciation**	Cost	Accumulated Depreciation
Furniture and fixtures	**$ 31,713**	**$ 19,629**	$ 31,713	$ 15,060
Office equipment	**43,648**	**32,716**	43,648	25,007
Lab equipment	**412,050**	**268,087**	363,140	197,701
Computer equipment	**5,066**	**4,670**	5,066	4,161
Cylinders and designs	**2,000**	**555**	2,000	6
	$ 494,477	**$ 325,657**	$ 445,567	$ 241,935
Net carrying amount		**$ 168,820**		$ 203,632

Equipment is stated at cost less accumulated depreciation. Depreciation, based on the estimated useful lives of the assets, is provided as follows:

Furniture and fixtures	7 years	Double declining balance
Office equipment	5 years	Double declining balance
Lab equipment	7 years	Double declining balance
Computer equipment	3 years	Straight line
Cylinders and designs	7 years	Double declining balance

4. Long-Term Convertible Debt

On February 28, 2005, the Company issued, in a transaction exempt from registration under the Securities Act of 1933, as amended, $3,850,000 aggregate principal amount of 6% convertible notes due on February 28, 2008. The notes are subject to conversion into shares of common stock of the Company, at the holder's option, at any time from and after the earlier of (i) the date of the first anniversary of the closing of the Acquisition Merger (May 13, 2006) and (ii) May 26, 2006 to the maturity date, February 28, 2008. The notes would be automatically converted upon (i) the closing of the sale of all or substantially all of the assets of the Company or any merger, consolidation or other business combination and (ii) the maturity date. The conversion price is equal to the lesser of $1.00 per share (as adjusted in the Acquisition Merger) and a floating price determined by the average of three lowest current market prices of Company common stock during the 40 calendar day period immediately preceding conversion. On May 13, 2006, owners of the convertible notes exercised their rights to convert the entire principal amount of the notes into 3,850,000 shares of the Company’s common stock at a conversion price of $1.00 per share.

REXAHN PHARMACEUTICALS, INC.
(A Development Stage Company)
Notes to Condensed Financial Statements
Three and Nine Months Ended September 30, 2006 and 2005
(Unaudited)

5. Common Stock

Authorized
500,000,000 shares of common stock, voting, par value $0.0001 per share

	September 30, 2006	December 31, 2005
Issued		
50,279,837 shares (2005 - 46,410,632) of common stock		
Outstanding		
50,265,632 shares (2005 - 46,410,632) of common stock	**$ 5,028**	$ 4,641
14,205 shares (2005 - 0) of treasury stock	**$ 28,410**	—

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; and (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. 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.

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

On April 12, 2006, an option holder exercised its options to purchase shares of Rexahn's common stock for cash of $3,409. Pursuant to the agreement, the Company issued an aggregate 14,205 shares. On the same date, the Company agreed to purchase the shares of Rexahn common stock for treasury in exchange for the aggregate purchase price of $28,410 in cash.

On May 13, 2006, owners of the $3,850,000 convertible notes issued on February 28, 2005, exercised their rights to convert the entire principal amount of the note 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 transaction (See Note 4).

REXAHN PHARMACEUTICALS, INC.
(A Development Stage Company)
Notes to Condensed Financial Statements
Three and Nine Months Ended September 30, 2006 and 2005
(Unaudited)

6. 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 100% on the first anniversary of the grant date, 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 September 30, 2006, 10,729,205 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.

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, "Accounting for Stock-Based Compensation", and supersedes Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees", 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.

Prior to January 1, 2006, the Company accounted for similar employee transactions in accordance with APB No. 25 which employed the intrinsic value method of measuring compensation cost. Accordingly, compensation expense was not recognized for employee stock options if the exercise price of the option equaled or exceeded the fair value of the underlying stock at the grant date.

REXAHN PHARMACEUTICALS, INC.
(A Development Stage Company)
Notes to Condensed Financial Statements
Three and Nine Months Ended September 30, 2006 and 2005
(Unaudited)

6. Stock-Based Compensation (cont'd)

Accounting for Employee Awards (cont'd)

While SFAS No. 123, for employee options, encouraged recognition of the fair value of all stock-based awards on the date of grant as expense over the vesting period, companies were permitted to continue to apply the intrinsic value-based method of accounting prescribed by APB No. 25 and disclose certain pro forma amounts as if the fair value approach of SFAS No. 123 had been applied. In December 2002, SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure, an amendment of SFAS No. 123", was issued, which, in addition to providing alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation, required more prominent pro-forma disclosures in both the annual and interim financial statements. The Company complied with these disclosure requirements for all applicable periods prior to January 1, 2006.

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 and nine months ended September 30, 2006 include share-based employee compensation expense totaling $175,336 and $505,131, 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. No stock option compensation expense was recorded under APB No. 25 in the Statements of Operations for the three and nine months ended September 30, 2005.

Employee stock option compensation expense in 2006 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.

REXAHN PHARMACEUTICALS, INC.
(A Development Stage Company)
Notes to Condensed Financial Statements
Three and Nine Months Ended September 30, 2006 and 2005
(Unaudited)

6. 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 Emerging Issues Task Force Issue No. 96-18 ("EITF Issue No. 96-18"), "Accounting for Equity Instruments That Are Issued to Other Than Employees". The adoption of SFAS No. 123R and SAB 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 was $329,062 and $807,586 for the three and nine months ended September 30, 2006, respectively and $87,811 and $158,531 for the three and nine months ended September 30, 2005, respectively. Such amounts have been included in the Statements of Operations in general and administrative and research and development expenses.

The weighted average estimated fair value of stock options granted in the nine months ended September 30, 2006 and 2005 was $0.92 and $2.27, respectively. The fair value of options at the date of grant was estimated using the Black-Scholes option pricing model. During 2006, 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 observation of actual time elapsed between the date of grant and exercise of options for all employees.

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

	Nine Months Ended September 30,	
	2006	2005
Black-Scholes Weighted Average Assumptions:		
Expected dividend yield	**0**	0
Expected volatility	**100%**	100%
Risk free interest rate	**4.59%**	4.54%
Expected term (in years)	**5 years**	5 years

REXAHN PHARMACEUTICALS, INC.
(A Development Stage Company)
Notes to Condensed Financial Statements
Three and Nine Months Ended September 30, 2006 and 2005
(Unaudited)

6. Stock-Based Compensation (cont'd)

Pro Forma Information under SFAS No. 123 for Periods Prior to Adoption of SFAS No. 123R

The following table illustrates the pro forma effect on net loss and loss per share as if the fair value recognition provisions of SFAS No. 123 had been applied to all outstanding and unvested awards in the three and nine months ended September 30, 2005.

	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2005
Net loss, as reported	(1,171,870)	$ (3,242,872)
Add: Employee stock option compensation expense included in reported net loss	150,306	305,946
Deduct: Employee stock option compensation expense determined under fair value-based method for all employee awards (no tax effect)	(164,576)	(403,476)
Pro forma net loss	**$ (1,186,140)**	**$ (3,340,402)**
Net loss per share:		
Basic and diluted-as reported	$ (0.03)	$ (0.08)
Basic and diluted-pro forma	$ (0.03)	$ (0.08)

REXAHN PHARMACEUTICALS, INC.
(A Development Stage Company)
Notes to Condensed Financial Statements
Three and Nine Months Ended September 30, 2006 and 2005
(Unaudited)

6. Stock-Based Compensation (cont'd)

Pro Forma Information under SFAS No. 123 for Periods Prior to Adoption of SFAS No. 123R (cont'd)

The following table represents all of the Company's stock options granted, exercised, and forfeited during the nine months ended September 30, 2006.

	Shares Subject to Options	Weighted Avg. Option Prices	Weighted Average Remaining Contractual Term	Aggregated Intrinsic Value
Outstanding at January 1, 2006	5,770,000	$ 0.84	-	-
Granted	1,045,000	1.20	-	-
Exercised	(19,205)	0.24	-	-
Cancelled	(525,000)	0.80	-	-
Outstanding at September 30, 2006	**6,270,795**	**$ 0.90**	**8.2 years**	**$ 8,450,098**
Exercisable at September 30, 2006	**2,937,129**	**$ 0.82**	**7.7 years**	**$ 4,205,992**

No options were exercised in the third quarter of 2006 or the same period in 2005.

As of September 30, 2006, there was $3,506,296 of total unrecognized compensation cost, net of estimated forfeitures, related to all unvested stock options, which is expected to be recognized over a weighted average period of approximately two years.

REXAHN PHARMACEUTICALS, INC.
(A Development Stage Company)
Notes to Condensed Financial Statements
Three and Nine Months Ended September 30, 2006 and 2005
(Unaudited)

7. 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 September 30, 2006, the total value of these agreements was approximately $1,900,000 and the Company had made payments totaling $1,000,000 under the terms of the agreements

b) The Company signed an agreement with a public relations company to provide services for a period of 12 months for consideration of an initiation fee of $5,000 and periodic payments totaling $30,000. As of September 30, 2006, the Company had paid $17,332 in connection with this agreement.

c) On April 19, 2006, the Company executed definitive agreements with Future Systems, Inc. ("FSI"), a Korean stock exchange (KOSDAQ) listed information technology company based in Seoul, Korea. Pursuant to the agreements, the Company would transfer to FSI exclusive rights and a non-exclusive license to develop, manufacture, and sell products based on Rexahn's RX-0201, RX-0047 and RX-10100 drug candidates in certain territories for approximately $35.8 million, and simultaneously, FSI would issue and sell 4,326,854 shares of its common stock to the Company, representing approximately 28% of FSI's outstanding shares, after giving effect to the subscription. The investment, of approximately $35.8 million, would have made the Company the largest single stockholder of FSI. In addition, the Company entered into an agreement with FSI and Core F.G. Co., Ltd., the general partner of Triplewin Corporate Restructuring Partnership, the then-current majority shareholder of FSI, with respect to the management of FSI in connection with redirecting FSI's business focus to the biopharmaceutical industry. Completion of the transactions was subject to customary closing conditions, including approval by FSI shareholders. On June 8, 2006, the Company terminated the agreements entered into with FSI and Core F.G. Co., Ltd., including a share subscription agreement, an intellectual property assignment and license agreement and a management agreement, providing for, among other things, the assignment and license by the Company to FSI of certain intellectual property rights for the Company's drug candidates in specified markets and the acquisition by the Company of an ownership interest in FSI. The termination followed a vote on the proposed transactions that was not approved by the FSI shareholders at a meeting in Seoul, Korea on June 7, 2006.

8. Comparative Information

Certain amounts for fiscal 2005 have been reclassified to conform with the current year's financial statement presentation.

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

OVERVIEW

Our company resulted from the merger of Corporate Road Show.Com Inc., a New York corporation incorporated in November 1999 ("CPRD"), and Rexahn, Corp, a Maryland corporation, immediately after giving effect to our reincorporation as a Delaware corporation under the name "Rexahn Pharmaceuticals, Inc." In connection with that transaction, a wholly owned subsidiary of ours merged with and into Rexahn, Corp, with Rexahn, Corp remaining as the surviving corporation and a wholly owned subsidiary of ours. In exchange for their shares of capital stock in Rexahn, Corp, the former stockholders of Rexahn, Corp received shares of common stock representing approximately 91.8% of our outstanding equity after giving effect to the transaction. Further, upon the effective time of the merger, our historic business was abandoned and the business plan of Rexahn, Corp was adopted. The transaction was therefore accounted for as a reverse acquisition with Rexahn, Corp as the accounting acquiring party and CPRD as the acquired party. In September 2005, Rexahn, Corp was merged with and into our company.

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 receive any product sales until we receive approval from the Food and Drug Administration ("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.

RECENT DEVELOPMENTS

On April 19, 2006, we executed definitive agreements with Future Systems, Inc., or FSI, a Korean stock exchange (KOSDAQ) listed information technology company based in Seoul, Korea, pursuant to which we would transfer to FSI exclusive rights and a non-exclusive license to develop, manufacture, and sell products based on our RX-0201, RX-0047 and RX-10100 drug candidates in certain territories for approximately $35.8 million, and simultaneously, FSI would issue and sell 4,326,854 shares of its common stock to us, representing approximately 28% of FSI's outstanding shares, after giving effect to the subscription. The investment, of approximately $35.8 million, would have made us the largest single stockholder of FSI. In addition, we entered into an agreement with FSI and Core F.G. Co., Ltd., the general partner of Triplewin Corporate Restructuring Partnership, the then-current majority shareholder of FSI, with respect to the management of FSI in connection with redirecting FSI's business focus to the biopharmaceutical industry. Completion of the transactions was subject to customary closing conditions, including approval by FSI shareholders.

On June 8, 2006, we terminated the agreements entered into with FSI and Core F.G. Co., Ltd., including a share subscription agreement, an intellectual property assignment and license agreement and a management agreement, providing for, among other things, the assignment and license by us to FSI of certain intellectual property rights for our drug candidates in specified markets and the acquisition by the Company of an ownership interest in FSI. The termination followed a vote on the proposed transactions that was not approved by the FSI shareholders at a meeting in Seoul, Korea on June 7, 2006.

On October 17, 2006, we announced the conclusion of the Phase I clinical trial of RX-0201, our leading drug candidate. The cost incurred for the clinical trial was approximately $1,300,000. RX-0201 is a first-in-class signal inhibitor that directly blocks the production of Akt, a protein kinase that plays a key role in cancer progression. Akt is over-activated in a significant number of cancers, such as breast, colorectal, gastric, head and neck, ovarian, pancreatic, prostate, and thyroid cancers. Akt's transformation ability, as well as its role in cancer progression, makes it a highly attractive and unique target in the treatment of cancer.

The Phase I clinical trial of RX-0201, 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 in early 2007.

The Phase II clinical trial of RX-0201 is expected to begin in early 2007 in patients with advanced renal cell carcinoma who have failed previous treatments. The trial is the first of multiple trials planned for RX-0201. In January 2005, we received "orphan drug designation" from the Food and Drug Administration for RX-0201 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 RX-0201 to the treatment of other orphan indications and other cancers.

On November 6, 2006, we announced that we had been granted a U.S. patent for RX-0201. 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.

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 for 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 ("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 accounting principles generally accepted in the United States 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 we 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 amounts in the statement of operations. The implementation of this statement was effective January 1, 2006 and has been adopted using the modified prospective method.

For all non-employee stock-based compensation we use 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, we 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".

RECENTLY ISSUED ACCOUNTING STANDARDS

In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments—an amendment of FASB Statements No. 133 and 140". This Statement permits fair value of remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation; clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities"; establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation; clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives; and amended SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities", to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. SFAS No. 155 is effective for all financial instruments acquired, issued, or subject to a remeasurement (new basis) event occurring after the beginning of an entity's first fiscal year that begins after September 15, 2006. The Company is currently reviewing the effect, if any, the proposed guidance will have on its financial position.

In March 2006, FASB issued SFAS No. 156, "Accounting for Servicing of Financial Assets", which amends SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities". In a significant change to current guidance, SFAS No. 156 permits an entity to choose either of the following subsequent measurement methods for each class of separately recognized servicing assets and servicing liabilities: (1) Amortization Method or (2) Fair Value Measurement Method. SFAS No. 156 is effective as of the beginning of an entity's first fiscal year that begins after September 15, 2006. The Company is currently reviewing the effect, if any, the proposed guidance will have on its financial position.

In July 2006, FASB issued Financial Accounting Standards Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes". FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprises' financial statement 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 on derecognition, classification, interest and penalties, accounting in interim periods, disclosures and transitions. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is currently reviewing the effect, if any, the proposed guidance will have on its financial position.

In September 2006, the Securities and Exchange Commission ("SEC") staff issued Staff Accounting Bulletin ("SAB") No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements." SAB No. 108 was issued to provide consistency in how registrants quantify financial statement misstatements. The Company is required to and will initially apply SAB No.108 in connection with the preparation of its annual financial statements for the year ending December 31, 2006. The Company does not expect the application of SAB No. 108 to have a material effect on its financial position and results of operations.

On September 15, 2006, FASB issued Statement of Financial Accounting Standards ("SFAS") No. 158, "Fair Value Measurements". SFAS No. 158 provides enhanced guidance for using fair value to measure assets and liabilities. The standard applies whenever other standards require (or permit) assets or liabilities to be measured at fair value. The standard does not expand the use of fair value in any new circumstances. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those financial statements for that fiscal year, including financial statements for an interim period within that fiscal year. The Company will adopt this pronouncement effective periods beginning January 1, 2008. We are currently evaluating the impact of adopting this pronouncement on our financial statements.

RESULTS OF OPERATIONS

Comparison of Three Months and Nine Months Ended September 30, 2006 and 2005:

Total Revenues

For the three months and nine months ended September 30, 2006, we recorded revenues of $89,848 and $326,627, respectively, compared to $76,292 and $150,561 in the same period last year. Revenues include $18,750 and $56,250 from the recognition 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 and nine months ended September 30, 2006 and the same period last year. We recorded $71,098 and $270,397, respectively, of interest and other income from the investment of our cash and cash equivalents and other short-term investments for the three months and nine months ended September 30, 2006, compared to $57,542 and $94,311, respectively, for the same periods in 2005. The increase of $13,556 and $176,066 in total revenues, or 18% and 117%, respectively, was primarily due to an increase in interest income in the three months and nine months ended September 30, 2006, compared to the same periods in 2005 as a result of higher cash and cash equivalent balances and higher interest rates during the 2006 period.

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 increased $173,608 and $494,571, or 21% and 23%, respectively, from $830,422 and $2,168,185, respectively, for the three months and nine months ended September 30, 2005 to $1,004,030 and $2,662,756, respectively, for the three months and nine months ended September 30, 2006. The increases were primarily due to professional fees and expenses incurred during the 2006 periods related to preparing for compliance with Section 404 of the Sarbanes-Oxley Act of 2002 and during the first nine months of 2006, professional fees and expenses related to the FSI transaction. Higher general and administrative expenses during the 2006 periods were also attributable to the adoption of SFAS No. 123R, effective January 1, 2006, and an increase in the number of outstanding shares subject to options during the three and nine months ended September 30, 2006 compared to the same periods last year. We incurred stock option compensation expense of $147,633 and $288,565, respectively, for the three months and nine months ended September 30, 2005 compared to $311,387 and $810,397, respectively, for the three months and nine months ended September 30, 2006.

Research and Development Expenses

Research and development expenses consist primarily of salaries and related personnel and stock option compensation expenses, 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 increased $359,228 and $2,275,030, or 130% and 248%, respectively, from $275,819 and $917,633, respectively, for the three months and nine months ended September 30, 2005 to $635,047 and $3,192,663, respectively, for the three months and nine months ended September 30, 2006. The increases during the 2006 periods were due primarily to the fact that the clinical trials of RX-0201, one of our drug candidates, are continuing and we have taken preliminary steps to prepare other drug candidates for clinical trials. We expect that research and development expenses will continue to increase as our other drug candidates move into the clinical trials phases of development. Higher research and development expenses during the 2006 periods were also attributable to the adoption of SFAS No. 123R, effective January 1, 2006, and an increase in the number of outstanding shares subject to options during the three and nine months ended September 30, 2006 compared to the same periods last year. We incurred stock option compensation expense of $90,485 and $176,862, respectively, for the three months and nine months ended September 30, 2005 compared to $193,011 and $502,319, respectively, for the three months and nine months ended September 30, 2006.

Patent Fees

Our patent fees increased $48,572 and $57,419, or 93% and 53%, respectively, from $52,039 and $107,481, respectively, for the three months and nine months ended September 30, 2005 to $100,611 and $164,900, respectively, for the three months and nine months ended September 30, 2006. The increases during the 2006 periods were due primarily to an increase in the number of patent filings made during the three and nine months ended September 30, 2006 compared to the same periods last year.

Interest Expense

Interest expense decreased $55,810 and $42,008, or 93% and 31%, respectively, from $59,808 and $137,027, respectively, for the three months and nine months ended September 30, 2005 to $3,998 and $95,019, respectively, for the three months and nine months ended September 30, 2006. The decreases during the three month and nine month periods ended September 30, 2006 were due to conversion of debt in May 2006.

Depreciation and Amortization

Depreciation and amortization expenses increased $24,743 and $33,974, or 82% and 54% respectively, from $30,074 and $63,107, respectively, for the three months and nine months ended September 30, 2005 to $54,817 and $97,081, respectively, for the three months and nine months ended September 30, 2006. The increase was due primarily to the purchase of new laboratory equipment.

Net Loss

As a result of the above, the net loss for the three months and nine months ended September 30, 2006 was $1,708,655 and $5,885,792, or $0.03 and $0.12 per share, respectively, compared to a net loss of $1,171,870 and $3,242,872, or $0.03 and $0.08 per share, respectively, for the three months and nine months ended September 30, 2005.

Research and Development Projects

Research and development expenses 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 four lead drug candidates, RX-0201, RX-0047, RX-5902 and 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 candidate, RX-0201, is uncertain, and because RX-0047, RX-5902 and RX-10100 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. If these projects are not completed as planned, our results of operations and financial condition could be negatively affected and if we are unable to obtain additional financing to fund these projects, we may not be able to continue as a going concern.

RX-0201

On October 17, 2006, we announced the conclusion of the Phase I clinical trial of RX-0201, our leading drug candidate. The cost incurred for the clinical trial was approximately $1,300,000. RX-0201 is a first-in-class signal inhibitor that directly blocks the production of Akt, a protein kinase that plays a key role in cancer progression. Akt is over-activated in a significant number of cancers, such as breast, colorectal, gastric, head and neck, ovarian, pancreatic, prostate, and thyroid cancers. Akt's transformation ability, as well as its role in cancer progression, makes it a highly attractive and unique target in the treatment of cancer.

The Phase I clinical trial of RX-0201, 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 in early 2007.

As the main purpose of the clinical trial was to establish the safety of RX-0201, 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 RX-0201 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 RX-0201 is expected to begin in early 2007 in patients with advanced renal cell carcinoma who have failed previous treatments. The trial is the first of multiple trials planned for RX-0201. In January 2005, we received "orphan drug designation" from the Food and Drug Administration for RX-0201 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 RX-0201 to the treatment of other orphan indications and other cancers.

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. RX-0047 directly inhibits HIF-1 alpha by reducing expressions of its mRNA and protein, resulting in the arrest of tumor growth and tumor metastasis, while reversing radiation resistance and inducing apoptosis. While it will be developed initially as an orphan drug, RX-0047 may also be developed to target a broad spectrum of human cancers, which will significantly expand its potential market. RX-5902, a piperazine analogue, is a G_2/M-specific cell cycle inhibitor. In pre-clinical studies, it strongly induced apoptosis (cell death) and inhibited proliferation of various human cancer cells at nanomolar concentrations. To date, 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. These compounds may be entered into these Phase I clinical trials in late 2007 or early 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.

RX-10100

RX-10100 is in early pre-IND stages of development and the next scheduled event is the synthesis and testing of novel formulations for pre-clinical and clinical evaluations. We currently estimate that these studies will require approximately $250,000 and $500,000, respectively. We are preparing to initiate a Phase II clinical trial of RX-10100 during early 2007.

LIQUIDITY AND CAPITAL RESOURCES

Cash used in operating activities was $4,874,591 for the nine months ended September 30, 2006 compared to cash used in operating activities of $2,637,479 for the same period ended September 30, 2005. The operating cash flows during the nine months ended September 30, 2006 reflect our loss from operations of $5,885,792 offset by non-cash charges of $1,353,548 and a net decrease in cash components of working capital of $342,347. Non-cash charges consist of depreciation and amortization of $97,081, stock option compensation expense of $1,312,717 and amoritization of deferred revenue of $(56,250). The decrease in working capital primarily consists of a $297,813 decrease in accounts payable and accrued expenses and an increase of $44,534 to prepaid and other assets.

Cash used in investing activities during the nine months ended September 30, 2005 reflects $45,117 of capital expenditures for the purchase of equipment. Cash used in investing activities during the nine months ended September 30, 2006 reflects $48,911 of capital expenditures for the purchase of equipment. Cash provided by financing activities of $13,361,415 during the nine months ended September 30, 2005 reflects proceeds from the issuance of common stock and long-term debt in financing transactions of $8,349,982 and $5,150,000, respectively, net of principal payments on long-term debt of $138,567. Cash used in financing activities of $154,371 during the nine months ended September 30, 2006 consisted of principal payments on long-term debt of $130,570 and the purchase of treasury stock in the amount of $28,410, offset by proceeds of $4,609 from the issuance of common stock.

For the nine months ended September 30, 2006, and the years ended December 31, 2005 and 2004, we experienced net losses of $5,885,792, $6,349,540 and $3,723,442, respectively. Our accumulated deficit as of September 30, 2006, and December 31, 2005 and 2004 was $20,090,115, $14,204,323 and $7,854,783, 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 nine months ended September 30, 2006, we had a net decrease in cash and cash equivalents of $5,077,873. This decrease primarily resulted from the net loss of $5,885,792. Total cash and cash equivalents as of September 30, 2006 were $5,038,752 compared to $10,116,625 as of December 31, 2005.

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.

CONTRACTUAL OBLIGATIONS

In April 2004, we entered into a clinical development agreement with Georgetown University with an effective period from April 5, 2004 through April 5, 2006. The total estimated cost of the program is $223,126, based on the fees, enrollment and completion of 20 patients and is payable based on the progress of the treatment over the effective period of the agreement. For the nine months ended September 30, 2006 and the years ended December 31, 2005 and 2004, we paid $0, $0 and $17,426, respectively, towards the cost of this program.

On August 17, 2004, we entered into an agreement with Formatech, Inc. to monitor and perform stability studies on our drug candidate, RX-0201. The total cost of these services is $46,700. For the nine months ended September 30, 2006 and the years ended December 31, 2005 and 2004, we paid $5,200, $10,400 and $22,900, respectively, towards the cost of these studies. The remainder consists of a $8,200 payment due during 2007.

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 are as follows:

For the years ending December 31		
2006	$	209,874
2007		216,170
2008		222,655
2009		112,972
	$	**761,671**

On August 1, 2005, we signed a one-year contract with the University of Massachusetts Medical School ("UMASS") to test proprietary drugs in preclinical behavioral assays of anxiety and cognition. We agreed to provide UMASS with a grant of $76,666, which includes the full direct and indirect costs of the preclinical study, payable in four equal quarterly installments of $19,167. For the year ended December 31, 2005, we made two quarterly payments totaling $38,333 and the remaining two quarterly payments totaling $38,333 during the nine months ended September 30, 2006.

On August 3, 2005, we engaged Montgomery Pacific Group ("MPG") to act as our financial advisor for a one-year term in connection with our growth strategies, certain licensing activities and acquisition of certain assets. In consideration of the services, we agreed to pay MPG an advisory fee, consisting of an initial retainer fee and success fees subject to the successful closing of licensing transactions, acquisitions and private placements. An initial retainer fee of $50,000 was paid during the year ended December 31, 2005. Dr. John Holaday, a former director of ours, is a partner of MPG.

On October 6, 2005, we entered into an agreement with Avecia Biotechnology Inc. ("Avecia"). Avecia supplied us with RX-0201 and related drug services. The total cost of the project is $1,738,000. For the nine months ended September 30, 2006 and the year ended December 31, 2005, we paid $1,216,600 and $521,400, respectively, towards the cost of these studies.

On January 3, 2006 and March 29, 2006, we contracted with Formatech to perform RX-0201 experiments in an effort to develop a more concentrated dosage form. The cost of the project was $57,000, the total cost of which was paid in the nine months ended September 30, 2006. In addition, on January 6, 2006, we entered into a drug packaging agreement with Formatech for Phase II clinical trials of RX-0201. In accordance with the agreement, the estimated cost of the project is $128,250 plus pass through expenses (*e.g.*, outsourced testing), of which $138,540 was paid during the nine months ended September 30, 2006.

On January 6, 2006, we contracted with Amarex, LLC to conduct Phase II clinical studies. 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 $283,599 towards the cost of the study in the nine months ended September 30, 2006 and a monthly payment of $18,633 was included in accrued expenses at September 30, 2006.

On March 1, 2006, we entered into a research program with Ewha Woman's University. The effective period of the agreement is from March 1, 2006 to February 28, 2007. In accordance with the agreement, the cost of the research program is $40,000 and is paid upon full execution of the agreement. The Company paid $40,000 in connection with the agreement during the nine months ended September 30, 2006.

On April 1, 2006, we entered into research agreement with Korean Research Institute of Bioscience and Biotechnology to evaluate antitumor activity, toxicology, pharmacokinetics and mechanisms of action for RX-5902. In accordance with the agreement, the estimated contract duration is twelve months for an estimated cost of $120,000, of which $60,000 was paid during the nine months ended September 30, 2006.

On April 3, 2006, we contracted with UPM Pharmaceuticals, Inc. to develop a short-acting extended release formulation for RX-10100. In accordance with the agreement, the estimated contract duration is seven months for an estimated cost of $443,975, of which $111,444 was paid during the nine months ended September 30, 2006. The service costs are payable based upon a payment schedule related to certain milestones.

Although we currently believe that our cash and cash equivalents will be sufficient to meet our minimum planned operating needs for the next 12 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.

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 (including the proceeds of our 2005 financings), 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 12 months, which would entail focusing our resources on Phase II clinical trials of RX-0201 and the pre-clinical studies and Phase II clinical trials for RX-10100. Over the next 12 months we expect to spend a minimum of approximately $1 million on clinical development for Phase II clinical trials of RX-0201 (including our commitments described under "Contractual Commitments" of this Item 2), $3 million on general corporate expenses, and approximately $216,000 on facilities rent. 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-5902, Phase II clinical trials for RX-10100 and other 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 $5 million through the third quarter of 2007.

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;
- 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. Over the next year we expect to spend approximately $3 million on clinical development for Phase II clinical trials of RX-0201 and RX-10100 and Phase I clinical trials for RX-5902. 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 year, including the clinical trials of RX-0201, RX-10100 and RX-5902.

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 together with the current operating plan for the next year, could aggregate $15 million through the second 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, which will 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 September 30, 2006 and December 31, 2005 was $20,090,115 and $14,204,323, respectively. For the nine months ended September 30, 2006 and the year ended December 31, 2005, we had net losses of $5,885,792 and $6,349,540, 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 four 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 four drug candidates, RX-0201 and RX-0047, are ASO compounds. To date, the FDA has not approved any NDAs for any ASO compounds. In addition, both RX-0201 and RX-0047 are of a drug class (Akt inhibitor, in the case of RX-0201, 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 2006, we expect to have one oncology drug candidate in Phase I clinical trials. In 2007, we expect to have RX-0201, an oncology drug candidate and RX-10100, a neuroscience drug candidate, entering Phase II clinical trials.

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. For example, the Phase I clinical trials of RX-0201 were conducted at the Lombardi Comprehensive Cancer Center of Georgetown Medical Center with the assistance of Amarex, LLC, a pharmaceutical clinical research service provider who will be responsible for creating the reports that will be submitted to the FDA. We also relied on TherImmune Research Corporation (currently Gene Logic Laboratories, Inc.), a discovery and pre-clinical service provider, to summarize RX-0201'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. 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 Antigenics Inc., Genta Incorporated, Imclone Systems Incorporated, Human Genome Sciences, Inc., Kosan Biosciences Incorporated and Medimmune, Inc. 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 RX-0201, and anti-HIF compounds, including RX-0047. In November 2006, we were granted a U.S. patent for our anti-Akt compounds, including RX-0201. 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. 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 Pharmaceuticals LLC, 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 issue;
- 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 those agreements, 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, 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 September 30, 2006 and December 31, 2005 was $20,090,115 and $14,204,323, respectively. For the nine months ended September 30, 2006 and the year ended December 31, 2005, we had net losses of $5,885,792 and $6,349,540, 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. 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 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 250 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 September 30, 2006, 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 September 30, 2006 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

None.

Item 5. OTHER INFORMATION

On September 1, 2006, George Steinfels, a business development executive, resigned from his position with the Company.

Item 6. EXHIBITS

Exhibit Number	Description
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: November 14, 2006

Index

EXHIBIT INDEX

Exhibit Number	Description
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

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: November 14, 2006

/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: November 14, 2006

/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 September 30, 2006 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: November 14, 2006

/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 September 30, 2006 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: November 14, 2006

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