UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

☑ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended **September 30, 2011**

OR

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

For the transition period from _____ to _____

Rexahn Pharmaceuticals, Inc.

(Exact name of registrant as specified in its charter)

Commission File No.: 001-34079

Delaware	**11-3516358**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification Number)*

15245 Shady Grove Road, Suite 455
Rockville, MD 20850
(Address of principal executive offices, including zip code)

Telephone: (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 preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes ☑ No ☐

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

Large Accelerated Filer	☐	Accelerated Filer	☑
Non-Accelerated Filer (Do not check if a smaller reporting company)	☐	Smaller reporting company	☐

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 95,345,656 shares of common stock outstanding as of November 9, 2011.

REXAHN PHARMACEUTICALS, INC.
(A Development Stage Company)
TABLE OF CONTENTS

PART I Financial Information
Item 1 Financial Statements
REXAHN PHARMACEUTICALS, INC.
(A Development Stage Company)
Condensed Balance Sheet

	September 30, 2011 (unaudited)	December 31, 2010
ASSETS		
Current Assets:		
Cash and cash equivalents	**$ 13,216,933**	$ 12,340,239
Marketable securities (note 4)	**1,950,000**	2,451,620
Research tax credit receivable	**-**	145,513
Prepaid expenses and other current assets (note 5)	**455,709**	706,649
Note receivable – current portion (note 6)	**25,688**	28,023
Total Current Assets	**15,648,330**	15,672,044
Restricted Cash Equivalents (note 18)	**2,947,451**	401,893
Note Receivable (note 6)	**-**	18,682
Equipment, Net (note 7)	**93,072**	123,565
Total Assets	**$ 18,688,853**	$ 16,216,184
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued expenses (note 8)	**$ 3,905,460**	$ 1,820,900
Deferred Research and Development Arrangement (note 9)	**843,750**	900,000
Other Liabilities (note 10)	**113,640**	133,117
Warrant Liabilities (note 15)	**3,653,706**	2,966,710
Total Liabilities	**8,516,556**	5,820,727
Commitments and Contingencies (note 18)		
Stockholders' Equity (note 13):		
Preferred stock, par value $0.0001, 100,000,000 authorized shares, none issued and outstanding	**-**	-
Common stock, par value $0.0001, 500,000,000 authorized shares, 95,279,861 (2010 – 84,175,504) issued and 95,265,656 (2010 – 84,160,849) outstanding	**9,528**	8,418
Additional paid-in capital	**67,665,073**	56,157,452
Accumulated other comprehensive loss	**-**	(2,340)
Accumulated deficit during the development stage	**(57,473,894)**	(45,739,663)
Treasury stock, 14,205 shares, at cost	**(28,410)**	(28,410)
Total Stockholders' Equity	**10,172,297**	10,395,457
Total Liabilities and Stockholders' Equity	**$ 18,688,853**	$ 16,216,184

See the notes accompanying the condensed financial statements.

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,		Cumulative from March 19, 2001 (Inception) to September 30, 2011
	2011	2010 (Restated)	**2011**	2010 (Restated)	
Revenues:					
Research	**$ -**	$ -	**$ -**	$ -	$ -
Expenses:					
General and administrative	**774,307**	1,561,377	**2,811,097**	4,423,376	26,610,263
Research and development	**2,372,201**	671,339	**10,506,823**	2,453,350	30,400,339
Patent fees	**198,424**	123,147	**374,163**	238,089	1,929,141
Depreciation and amortization	**10,127**	11,663	**34,904**	34,843	630,371
Total Expenses	**3,355,059**	2,367,526	**13,726,987**	7,149,658	59,570,114
Loss from Operations	**(3,355,059)**	(2,367,526)	**(13,726,987)**	(7,149,658)	(59,570,114)
Other Income (Expense)					
Realized loss on marketable securities	**-**	**-**	**(3,960)**	**-**	(13,301)
Interest income	**19,592**	49,418	**100,914**	97,699	1,412,981
Interest expense	**-**	-	**-**	-	(301,147)
Other income	**-**	**-**	**-**	56,047	56,047
Unrealized gain (loss) on fair value of warrants	**1,866,249**	2,536,999	**1,993,469**	(4,333,496)	891,124
Unrealized gain on fair value of put feature on common stock	**-**	-	**-**	97,713	2,315,539
Financing expense	**-**	**-**	**(97,667)**	(180,080)	(640,023)
Beneficial conversion feature	**-**	-	**-**	-	(1,625,000)
Total Other Income (Expense)	**1,885,841**	2,586,417	**1,992,756**	(4,262,117)	2,096,220
Net (Loss) Income Before Provision for Income Taxes	**(1,469,218)**	218,891	**(11,734,231)**	(11,411,775)	(57,473,894)
Provision for income taxes	**-**	**-**	**-**	**-**	**-**
Net (Loss) Income	**$ (1,469,218)**	$ 218,891	**$ (11,734,231)**	$ (11,411,775)	$ (57,473,894)
Net loss per share, basic and diluted	**$ (0.02)**	$ 0.00	**$ (0.13)**	$ (0.15)	
Weighted average number of shares outstanding, basic and diluted	**95,240,221**	83,063,250	**92,276,111**	76,932,814	

See the notes accompanying the condensed financial statements.

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

	For the Nine Months Ended September 30,		Cumulative From March 19, 2001 (Inception) to September 30,
	2011	2010 (Restated)	2011
Cash Flows from Operating Activities:			
Net loss	**$ (11,734,231)**	$ (11,411,775)	$ (57,473,894)
Adjustments to reconcile net loss to net cash used in operating activities:			
Beneficial conversion feature	**-**	-	1,625,000
Compensatory stock	**-**	1,663,999	2,129,877
Depreciation and amortization	**34,904**	34,843	630,371
Stock-based compensation	**513,255**	435,305	5,452,277
Amortization of deferred research and development contribution	**(56,250)**	(56,250)	(656,250)
Note receivable	**21,017**	(53,711)	(25,688)
Realized losses on marketable securities	**3,960**	-	13,301
Unrealized (gain) loss on fair value of warrants	**(1,993,469)**	4,333,496	(891,124)
Unrealized gain on fair value of put feature on common stock	**-**	(97,713)	(2,315,539)
Financing expense	**97,667**	180,080	640,023
Amortization of deferred lease incentive	**(15,000)**	(15,000)	(45,000)
Deferred lease expenses	**(4,477)**	24,728	58,640
Loss on impairment of intangible assets	**-**	-	286,132
Changes in assets and liabilities:			
Prepaid expenses and other current assets	**250,940**	(160,113)	(455,709)
Research tax credit receivable	**145,513**	-	-
Accounts payable and accrued expenses	**2,084,560**	555,268	3,905,460
Net Cash Used in Operating Activities	**(10,651,611)**	(4,566,843)	(47,122,123)
Cash Flows from Investing Activities:			
Restricted cash equivalents	**(2,545,558)**	842,454	(2,947,451)
Purchase of equipment	**(4,411)**	(3,744)	(553,359)
Purchase of marketable securities	**(8,000,000)**	(503,960)	(21,123,960)
Proceeds from sales of marketable securities	**8,500,000**	75,000	19,160,659
Payment of licensing fees	**-**	-	(356,216)
Net Cash (Used in) Provided by Investing Activities	**(2,049,969)**	409,750	(5,820,327)
Cash Flows from Financing Activities:			
Issuance of common stock and units, net of issuance costs	**13,220,273**	9,318,228	55,805,574
Proceeds from exercise of stock options	**40,040**	107,240	150,882
Proceeds from exercise of stock warrants	**317,961**	3,263,376	3,581,337
Proceeds from long-term debt	**-**	-	5,150,000
Proceeds from research contribution	**-**	-	1,500,000
Purchase of treasury stock	**-**	-	(28,410)
Net Cash Provided by Financing Activities	**13,578,274**	12,688,844	66,159,383
Net Increase in Cash and Cash Equivalents	**876,694**	8,531,751	13,216,933
Cash and Cash Equivalents – beginning of period	**12,340,239**	7,298,032	-
Cash and Cash Equivalents - end of period	**$ 13,216,933**	$ 15,829,783	$ 13,216,933

See the notes accompanying the condensed financial statements.

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

	For the Nine Months Ended September 30,		Cumulative From March 19, 2001 (Inception) to September 30, 2011
	2011	2010 (Restated)	
Supplemental Cash Flow Information			
Interest paid	**$ -**	$ -	$ 301,147
Non-cash financing and investing activities:			
Warrants issued	**$ 2,924,333**	$ 1,980,880	$ 11,054,427
Put feature on common stock issued	**$ -**	$ -	$ 4,954,738
Dilutive issuances of common stock	**$ -**	$ -	$ 2,639,199
Warrant liability extinguishment from exercise of warrants	**$ 243,868**	$ 5,286,602	$ 6,180,660
Leasehold improvement incentive	**$ -**	$ -	$ 100,000
Settlement of lawsuit	**$ -**	$ 43,953	$ 43,953

See the notes accompanying the condensed financial statements.

REXAHN PHARMACEUTICALS, INC.
(A Development Stage Company)
Notes to Condensed Financial Statements
(Unaudited)

1. Operations and Organization

Operations

Rexahn Pharmaceuticals, Inc. (the "Company", "Rexahn Pharmaceuticals"), a Delaware corporation, is a development stage biopharmaceutical company dedicated to the discovery, development and commercialization of innovative treatments for cancer, central nervous system ("CNS") disorders, sexual dysfunction and other medical needs. The Company had an accumulated deficit of $57,473,894 at September 30, 2011 and anticipates incurring losses through the remainder of fiscal 2011 and beyond. The Company has not yet generated commercial sales revenue and has been able to fund its operating losses to date through the sale of its common stock, warrants exercisable for common stock, units, issuance of long-term debt, and proceeds from reimbursed research and development costs. Management has the capability of managing the Company's operations within existing cash available by focusing on core research and development activities.

Basis of Presentation

The accompanying unaudited condensed financial statements of the Company have been prepared pursuant to the rules and regulations of the U.S. Securities and Exchange Commission ("SEC") for interim financial information. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of the Company's management, all adjustments (consisting of only normal recurring accruals) considered necessary for a fair presentation of the Company's financial position as of September 30, 2011 and December 31, 2010 and the results of operations and cash flows for the three and nine months ended September 30, 2011 and 2010 have been included. Operating results for the three and nine month periods ended September 30, 2011 are not necessarily indicative of results that may be expected for any other interim period or the full fiscal year ending December 31, 2011. The accompanying unaudited financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's Annual Report on Form 10-K/A for the year ended December 31, 2010 ("2010 Form 10-K/A"). Information included in the condensed balance sheet as of December 31, 2010 has been derived from the Company's audited financial statements for the year ended December 31, 2010 included in the 2010 Form 10-K/A.

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 the Company may undertake in the future. Actual results may ultimately differ from those estimates. These estimates are reviewed periodically and as adjustments become necessary, they are reported in earnings in the period in which they become available.

Reclassification

The Company has reclassified previously reported amortization of Rexgene's research and development arrangement, as disclosed in Note 9, "Deferred Research and Development Arrangement", from revenue to a reduction of research and development expenses in the statement of operations. The reclassification had no effect on the Company's balance sheets, net loss, or cash flows from operating activities.

REXAHN PHARMACEUTICALS, INC.
(A Development Stage Company)
Notes to Condensed Financial Statements
(Unaudited)

2. Prior Period Adjustment

The financial statements of the Company for the three and nine months ended September 30, 2010 have been restated as a result of management's determination that the Company had misclassified warrants issued to investors through offerings occurring in December 2007, March 2008, June 2009, October 2009 and June 2010. The warrants were previously reported as equity, but further review by management concluded that these warrants should have been classified as liabilities at inception due to provisions within the warrant agreements, and should be reported at fair value at the balance sheet date.

Management also determined that the anti-dilution make whole provision (the "Anti-dilution provision") which is a put on the common stock, issued in the 2007 and 2008 offerings were also misclassified as equity. In the event that the Company issued shares or share indexed contracts below an effective purchase price paid by the investors, the investor would receive additional shares equal to a ratio of the initial purchase price per share less the original number of common shares issued. The Anti-dilution provision expired on the second anniversary of the financing and should have been reported as a liability at fair value at inception.

The restatement had no effect on the Company's cash, loss from operations or net cash used in operating activities for the three and nine months ended September 30, 2010. After reviewing the circumstances leading up to the restatement, management believes that the errors were inadvertent and unintentional. In addition, following the discovery of these errors, the Company began implementing procedures intending to strengthen its internal control processes and prevent a recurrence of these errors.

The effects of the restatement on the Company's statement of operations and cash flows for the three and nine months ended September 30, 2010 are as follows:

STATEMENT OF OPERATIONS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2010

	As previously reported	Effect of Restatement	As restated
Unrealized gain on fair value of warrants	-	2,536,999	2,536,999
Total other income (expense)	49,418	2,536,999	2,536,999
Net (loss) income before provision for income taxes	(2,318,108)	2,536,999	218,891
Net (loss) income	(2,318,108)	2,536,999	218,891
Net (loss) income per share, basic and diluted	(0.03)	0.03	0.00

STATEMENT OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010

	As previously reported	Effect of Restatement	As restated
Unrealized gain on fair value of put feature on common stock	-	97,713	97,713
Unrealized loss on fair value of warrants	-	(4,333,496)	(4,333,496)
Financing expense	-	(180,080)	(180,080)
Total other income (expense)	153,746	(4,415,863)	(4,262,117)
Net loss before provision for income taxes	(6,995,912)	(4,415,863)	(11,411,775)
Net loss	(6,995,912)	(4,415,863)	(11,411,775)
Net loss per share, basic and diluted	(0.09)	(0.06)	(0.15)

REXAHN PHARMACEUTICALS, INC.
(A Development Stage Company)
Notes to Condensed Financial Statements
(Unaudited)

2. Prior Period Adjustment (cont'd)

STATEMENT OF CASH FLOWS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010

	As previously reported	Effect of Restatement	As restated
Net loss	(6,995,912)	(4,415,863)	(11,411,775)
Unrealized gain on fair value of put feature on common stock	-	(97,713)	(97,713)
Unrealized loss on fair value of warrants	-	4,333,496	4,333,496
Financing expense	-	180,080	180,080
Net cash used in operating activities	(4,566,843)	-	(4,566,843)

3. Recent Accounting Pronouncements Affecting the Company

Fair Value Measurements

In May 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2011-04 to Accounting Standards Codification ("ASC") 820, "Fair Value Measurements and Disclosures" ("ASC 820") which amends the disclosure requirements for fair value instruments. The new disclosures required include disclosure regarding the sensitivity of the fair value measurement to changes in unobservable inputs, and the interrelationships between those unobservable inputs. The guidance is effective for the Company for fiscal years and interim periods beginning on or after December 15, 2011.

Comprehensive Income

In June 2011, the FASB issued authoritative guidance for presentation and disclosure of comprehensive income in the financial statements. Under the new guidance, a Company may no longer present the components of other comprehensive income as part of the statement of changes in the Statement of Stockholder's Equity, and instead must present the components of comprehensive income either in the Statement of Operations or in a separate statement immediately following the Statement of Operations. In addition, reclassification adjustments between comprehensive income and net income must be disclosed on the financial statements. This guidance is effective for the Company for fiscal years and interim periods beginning on or after December 15, 2011.

REXAHN PHARMACEUTICALS, INC.
(A Development Stage Company)
Notes to Condensed Financial Statements
(Unaudited)

4. Marketable Securities

Cost and fair value of the Company's marketable securities are as follows:

Securities available-for-sale	Cost Basis	Gross Unrealized Losses	Fair Value
September 30, 2011:			
State and municipal obligations	**$ 1,950,000**	**$ -**	**$ 1,950,000**
December 31, 2010:			
State and municipal obligations	$ 2,453,960	$ (2,340)	$ 2,451,620

Amortized cost and fair value at September 30, 2011 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because the Company may redeem certain securities at par.

Maturity	Cost Basis	Gross Unrealized Losses	Fair Value
10 years or more	$ 1,950,000	-	$ 1,950,000

During the nine months ended September 30, 2011, the Company sold $8,500,000 of securities at par and the total amount that was reclassified from accumulated comprehensive loss into net loss was $3,960. The Company did not sell any securities in the three months ended September 30, 2011. The unrealized loss on marketable securities for the nine months ended September 30, 2011 was $1,620, respectively. There was no unrealized loss on marketable securities for the three months ended September 30, 2011.

5. Prepaid Expenses and Other Current Assets

	September 30, 2011	December 31, 2010
Deposits on contracts	**$ 244,131**	$ 564,074
Other assets	**211,578**	142,575
	$ 455,709	$ 706,649

Deposits on contracts consist of deposits on research and development contracts for services that had not been incurred as of the balance sheet date. Other assets include prepaid general and administrative expenses, such as insurance, rent, and investor relations services.

REXAHN PHARMACEUTICALS, INC.
(A Development Stage Company)
Notes to Condensed Financial Statements
(Unaudited)

6. Note Receivable

On June 16, 2010, Amarex, LLC ("Amarex") executed a note payable to the Company in settlement of a contract dispute. The Company settled the case with Amarex for $100,000 less a balance owed of $43,953. The principal sum of the note was $56,047, and is included in other income in the Company's statement of operations. Monthly payments of $2,335 began on September 1, 2010 and will continue until August 1, 2012 at which time the balance is expected to be paid in full. The note does not bear interest. Pursuant to the note, Amarex shall pay a late charge of five percent (5%) of any past due installment payments if any installment payment is not paid within 10 days of its due date. As of September 30, 2011, all payments were made as scheduled.

As of September 30, 2011, the principal amortization of the note is shown below:

Principal Amortization	Expected Payment
Within 1 year	$ 25,688

7. Equipment, Net

	September 30, 2011	December 31, 2010
Furniture and fixtures	**$ 32,646**	$ 32,169
Office equipment	**80,120**	77,032
Lab and computer equipment	**430,261**	429,415
Leasehold improvements	**110,713**	110,713
Total fixed assets	**653,740**	649,329
Less: Accumulated depreciation	**(560,668)**	(525,764)
Net carrying amount	**$ 93,072**	$ 123,565

Depreciation expense was $10,127 and $11,663 for the three months ended September 30, 2011 and 2010, respectively, and $34,904, and $34,843 for the nine months ended September 30, 2011 and 2010, respectively.

REXAHN PHARMACEUTICALS, INC.
(A Development Stage Company)
Notes to Condensed Financial Statements
(Unaudited)

8. Accounts Payable and Accrued Expenses

	September 30, 2011	December 31, 2010
Trade payables	**$ 2,039,922**	$ 489,527
Accrued expenses	**25,400**	18,466
Accrued research and development contract costs	**1,706,650**	1,239,233
Payroll liabilities	**133,488**	73,674
	$ 3,905,460	$ 1,820,900

9. Deferred Research and Development Arrangement

In 2003, the Company entered into a collaborative research agreement with Rexgene Biotech Co., Ltd. ("Rexgene"), a shareholder. Rexgene is engaged in the development of pharmaceutical products in Asia and has agreed to assist the Company with the research, development and clinical trials necessary for registration of the Company's drug candidate, Archexin, in Asia. This agreement provides Rexgene with exclusive rights to license, sublicense, make, have made, use, sell and import Archexin in Asia. In accordance with the agreement, Rexgene paid the Company a one-time fee of $1,500,000 in 2003. The agreement terminates at the later of 20 years or the term of the patent. The amortization reduces research and development expenses for the periods presented.

The Company is using 20 years as its basis for recognition and accordingly $18,750 and $56,250 reduced research and development expenses for the three and nine months ended September 30, 2011 and 2010, respectively. The remaining $843,750 and $900,000 at September 30, 2011 and December 31, 2010, respectively, is reflected as deferred research and development arrangement on the balance sheet. The contribution is being used in the cooperative funding of the costs of development of Archexin. Royalties of 3% of net sales of licensed products will become payable to the Company on a quarterly basis once commercial sales of Archexin begin in Asia. The product is still under development and commercial sales in Asia are not expected to begin until at least 2013. Under the terms of the agreement, Rexgene does not receive royalties on Company net sales outside of Asia.

10. Other Liabilities

Deferred Lease Incentive

On June 29, 2009, the Company entered into a five year office lease agreement as disclosed in Note 18. The lessor agreed to grant a leasehold improvement allowance of $100,000 to the Company to be used for the construction cost of improvements to the leased property, which included architectural and engineering fees, government agency plan check, permit and other fees, sales and use taxes, testing and inspection costs, and telephone and data cabling and wiring in the premises. The Company accounts for the benefit of the leasehold improvement allowance as a reduction of rental expense over the five-year term of the office lease.

REXAHN PHARMACEUTICALS, INC.
(A Development Stage Company)
Notes to Condensed Financial Statements
(Unaudited)

10. Other Liabilities (cont'd)

The following table sets forth the deferred lease incentive:

	September 30, 2011	December 31, 2010
Deferred lease incentive	**$ 100,000**	$ 100,000
Less accumulated amortization	**(45,000)**	(30,000)
Balance	**$ 55,000**	$ 70,000

Deferred Office Lease Expense

The office lease agreement, disclosed above, requires an initial annual base rent with annual increases over the next five years. The Company recognizes rental expense on a straight-line basis over the term of the lease, which resulted in a deferred rent liability of $58,640 and $63,117 as of September 30, 2011 and December 31, 2010, respectively.

11. Comprehensive Loss

The Company's accumulated other comprehensive loss as of December 31, 2010 was $2,340 which is computed as the difference between the cost and fair value of the Company's marketable securities as of the balance sheet date. The Company did not have an accumulated other comprehensive loss as of September 30, 2011. The total comprehensive (loss) income for the three months ended September 30, 2011 and 2010 was ($1,469,218) and $218,891 respectively, and the total comprehensive loss for the nine months ended September 30, 2011 and 2010 was $11,731,891 and $11,411,775, respectively.

12. Net Loss per Common Share

Basic loss per common share is computed by dividing net loss by the weighted average number of common shares outstanding and excluding any potential dilution. Diluted loss per common share is also computed by dividing net loss by the weighted average number of common shares outstanding, but also reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted from the issuance of common stock that would then share in earnings, and such calculation excludes common shares in treasury. Basic and diluted loss per common share are identical for all periods presented, with the exception of the three months ended September 30, 2010 as potentially dilutive securities of the Company have been excluded from the calculation of the diluted net loss per common share because the inclusion of such securities would be anti-dilutive. The Company did not disclose earnings per share and the diluted shares outstanding for three months ended September 30, 2010 since the impact is immaterial and the Company had a net loss for the nine months ended September 30, 2010. As of September 30, 2011 and December 31, 2010, there were stock options and warrants to acquire 16,857,937 and 13,701,378 shares of our common stock, respectively, which were the potentially dilutive securities of the Company.

REXAHNPHARMACEUTICALS, INC.
(A Development Stage Company)
Notes to Condensed Financial Statements
(Unaudited)

13. Common Stock

The following transactions occurred from March 19, 2001 (inception) to September 30, 2011:

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

b) On August 10, 2001, the Company issued:

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

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

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

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

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

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

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

f) In July 2003, the stockholders described in b) (iii) and e) transferred an aggregate of 1,268,332 shares of common stock to a voting trust. The trust allows for the unified voting of the stock by the trustees.

The appointed trustees are senior management of the Company who, together with their existing shares, control a majority of the voting power of the Company.

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

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

i) Pursuant to the agreement and plan of merger which occurred on May 13, 2005, (i) each share of the issued and outstanding common stock of Rexahn, Corp ("Rexahn") (other than dissenting shares) was converted into the right to receive five shares of Rexahn Pharmaceuticals common stock; (ii) each issued, outstanding and unexercised option to purchase a share of Rexahn common stock was converted into an option to purchase five shares of Rexahn Pharmaceuticals' common stock and (iii) the par value of Rexahn's common stock was adjusted to reflect the par value of Corporate Road Show Com Inc. ("CRS") common stock. In the acquisition merger, 289,780,000 CRS pre-reverse stock split shares were converted into 2,897,802 post-reverse stock split Rexahn Pharmaceuticals shares, and an additional 500,000 post-reverse stock split Rexahn Pharmaceuticals shares were issued to a former executive of CRS. All shares and earnings per share information have been retroactively restated in these financial statements.

j) On August 8, 2005, the Company issued, in a transaction exempt from registration under the Securities Act of 1993, as amended, 4,175,000 shares of common stock at a purchase price of $2.00 per share.

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

REXAHN PHARMACEUTICALS, INC.
(A Development Stage Company)
Notes to Condensed Financial Statements
(Unaudited)

13. Common Stock (cont'd)

l) On December 2, 2005, the holders of a convertible note that was issued on August 8, 2005 and, represented $1,300,000 aggregate principal amount, exercised their option to convert the entire principal amount of the note into the Company's common stock. Based on a $2.00 per share conversion price, the holders received an aggregate of 650,000 shares.

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

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

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

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

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

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

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

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

u) On July 23, 2007, an option holder exercised options to purchase shares of the Company's common stock for cash of $12,000 and the Company issued an aggregate of 15,000 shares.

v) On September 27, 2007, an option holder exercised options to purchase shares of the Company's common stock for cash of $15,600 and the Company issued an aggregate of 19,500 shares.

REXAHN PHARMACEUTICALS, INC.
(A Development Stage Company)
Notes to Condensed Financial Statements
(Unaudited)

13. Common Stock (cont'd)

w) On December 18, 2007, the Company issued 4,857,159 units at a price $1.40 per share for total gross proceeds of $6,800,023. Investors also were issued one warrant for every five shares purchased. One warrant will entitle the holder to purchase an additional share of common stock at a purchase price of $1.80 at any time over a period of three years from the date of the closing. The Company has recorded the warrants as liabilities at fair value as disclosed in Note 15. Private placement closing costs of $139,675 were recorded as a reduction of the issuance proceeds. Private placements costs also consist of 107,144 warrants, valued at $138,326, and were recorded as a financing expense. The Company extended anti-dilutive protection to the investors. The anti-dilution protection provision is structured in a way that is designed to protect a holder's position from being diluted and contains a price protection based on a mathematical calculation, and is recorded as a liability at fair value, as disclosed in Note 16. The Company revalues these liabilities each reporting period, with the unrealized gain (loss) recorded as other income (expense).

A summary of the allocation of the proceeds of the offering is shown below:

Gross Proceeds:	$ 6,800,023
Allocated to liabilities:	
Warrant liabilities	1,392,476
Put feature on common stock	4,401,169
Total allocated to liabilities	5,793,645
Allocated to equity:	
Common stock and additional paid-in capital	1,144,704
Allocated to expense:	
Financing expense	(138,326)
Total allocated gross proceeds:	$ 6,800,023

x) On December 27, 2007, an option holder exercised options to purchase shares of the Company's common stock for cash of $18,000 and the Company issued an aggregate of 75,000 shares.

REXAHN PHARMACEUTICALS, INC.
(A Development Stage Company)
Notes to Condensed Financial Statements
(Unaudited)

13. Common Stock (cont'd)

y) On March 20, 2008, the Company issued 642,858 units consisting of one share of the Company's common stock and one warrant for every five common shares purchased in a private placement at a price of $1.40 per unit for total gross proceeds of $900,001. One warrant will entitle the holder to purchase an additional share of common stock at a price of $1.80 at any time over a period of three years from the date of the private placement, and is recorded as a liability at fair value. The Company extended anti-dilution protection to investors, and the provision is structured in a way that is designed to protect the holder's position from being diluted and contains a price based on a mathematical computation.

A summary of the allocation of the proceeds of the offering is shown below:

Gross Proceeds:	$ 900,001
Allocated to liabilities:	
Warrant liabilities	190,917
Put feature on common stock	553,569
Total allocated to liabilities	744,486
Allocated to common stock and additional paid-in capital	155,515
Total allocated gross proceeds:	$ 900,001

z) On May 30, 2008, an option holder exercised options to purchase shares of the Company's common stock for cash of $7,200 and the Company issued an aggregate of 30,000 shares.

aa) On June 2, 2008, an option holder exercised options to purchase shares of the Company's common stock for cash of $12,000 and the Company issued an aggregate of 50,000 shares.

ab) On June 30, 2008, an option holder exercised options to purchase shares of the Company's common stock for cash of $12,000 and the Company issued an aggregate of 10,000 shares.

REXAHN PHARMACEUTICALS, INC.
(A Development Stage Company)
Notes to Condensed Financial Statements
(Unaudited)

13. Common Stock (cont'd)

ac) On June 5, 2009 the Company closed on a purchase agreement to issue 2,857,143 shares of common stock at a price of $1.05 per share to an institutional investor for total gross proceeds of $3,000,000 and incurred $289,090 of stock issuance costs. The investor was also issued:

1) Series I warrants to purchase 2,222,222 shares of common stock at a purchase price of $1.05 per share at any time before September 3, 2009;

2) Series II warrants to purchase 1,866,666 shares of common stock at a purchase price of $1.25 per share at any time from December 3, 2009 to June 5, 2012; and

3) Series III warrants to purchase 1,555,555 shares of common stock at a purchase price of $1.50 per share at any time from December 3, 2009 to June 5, 2014.

The closing costs included 142,857 warrants valued at $122,257 and were recorded as a financing expense. All warrants issued from this purchase agreement are recorded as liabilities at fair value.

The Company incurred a derivative loss upon issuance of these warrants, as the fair value of the warrants at inception was greater than the proceeds received from the investor. The derivative loss was combined with unrealized gains (losses) for the year ended December 31, 2009.

A summary of the allocation of the proceeds of the offering is shown below:

Gross Proceeds:	$ 3,000,000
Allocated to liabilities:	
Warrant liabilities	3,451,194
Allocated to equity:	
Common stock and additional paid-in capital	-
Allocated to expense:	
Financing expense	(122,257)
Derivative loss at inception	(328,937)
Total allocated to expense	(451,194)
Total allocated gross proceeds:	$ 3,000,000

ad) On June 9, 2009, the Company issued 1,833,341 shares of common stock and 862,246 warrants to purchase common stock at a purchase price of $1.05 per share to existing stockholders pursuant to the anti-dilution protection provisions of the private placements transacted on December 18, 2007 and March 20, 2008. The fair value of the additional warrants issued was approximately $422,300.

ae) On September 4, 2009, an option holder exercised options to purchase shares of the Company's common stock for cash of $3,600 and the Company issued an aggregate of 15,000 shares.

af) On September 21, 2009, the Company issued 3,102,837 shares of common stock at a purchase price of $1.13 per share to an institutional investor for net proceeds of $3,371,340, which includes $128,659 of stock issuance costs.

REXAHN PHARMACEUTICALS, INC.
(A Development Stage Company)
Notes to Condensed Financial Statements
(Unaudited)

13. Common Stock (cont'd)

ag) On October 23, 2009, the Company closed on a purchase agreement to issue 6,072,383 shares of common stock at a price of $0.82 per share to five institutional investors for gross proceeds of $5,000,000, which includes $351,928 of stock issuance costs. The investors were also issued warrants to purchase 2,125,334 shares of common stock at a purchase price of $1.00 per share, exercisable on or after the date of delivery until the five-year anniversary, and were recorded as liabilities at fair value. The closing costs included 245,932 warrants valued at $101,693 and were recorded as a financing expense.

A summary of the allocation of the proceeds of the offering is shown below:

Gross Proceeds:	$ 5,000,000
Allocated to liabilities:	
Warrant liabilities	1,114,627
Allocated to equity:	
Common stock and additional paid-in capital	3,987,066
Allocated to expense:	
Financing expense	(101,693)
Total allocated gross proceeds:	$ 5,000,000

ah) On October 23, 2009, the Company issued 2,018,143 shares of common stock and 569,502 warrants to purchase common stock at a purchase price of $0.82 per share to existing stockholders pursuant to anti-dilution protection provisions of the private placements transacted on December 24, 2007 and March 20, 2008.The fair value of the additional warrants issued was approximately $476,200.

ai) On February 12, 2010, the Company entered into two consulting agreements pursuant to which the Company issued 300,000 shares of common stock upon the execution of the agreements. Upon the extension of the term, 200,000 shares of common stock for each month will be issued until the termination of services.

The following table lists the issuances of shares by the Company under the consulting agreement:

Date of Issuance	Number of Shares Issued	Market Value Per Share	Total Market Value of Share Issuance
February 12, 2010	300,000	$ 1.22	$ 366,000
May 24, 2010	200,000	1.40	280,000
June 15, 2010	200,000	1.15	230,000
August 2, 2010	400,000	1.37	548,000
September 21, 2010	200,000	1.20	240,000
October 21, 2010	200,000	1.16	232,000
November 11, 2010	200,000	1.06	212,000
Total	1,700,000		$ 2,108,000

The market value of these shares was recorded as an expense and is reflected in general and administrative expenses in the Company's statement of operations. The agreements were terminated by the Company on November 11, 2010.

REXAHN PHARMACEUTICALS, INC.
(A Development Stage Company)
Notes to Condensed Financial Statements
(Unaudited)

13. Common Stock (cont'd)

aj) In March 2010, warrant holders exercised their warrants to purchase shares of the Company's common stock for cash of $1,297,001 and the Company issued an aggregate of 1,197,001 shares.

ak) In March 2010, option holders exercised options to purchase shares of the Company's common stock for cash of $21,240 and the Company issued an aggregate of 48,000 shares.

al) In April 2010, warrant holders exercised their warrants to purchase shares of the Company's common stock for cash of $1,966,375 and the Company issued an aggregate of 1,595,825 shares.

am) On April 20, 2010, an option holder exercised options to purchase shares of the Company's common stock for cash of $86,000 and the Company issued an aggregate of 107,500 shares.

an) In May 2010, warrant holders exercised warrants to obtain shares of the Company's common stock and the Company issued an aggregate of 547,674 shares.

ao) On June 30, 2010, the Company entered into a purchase agreement to issue 6,666,667 shares of common stock at a price of $1.50 per share to investors for gross proceeds of $10,000,000, which includes $681,773 of stock issuance costs. The investors were also issued warrants to purchase 2,000,000 shares of common stock at an exercise price of $1.90 per share. The warrants became immediately exercisable on the date of delivery until the four-year anniversary of the date of issuance. These warrants were valued at $1,800,800 and recorded as warrant liabilities. The closing costs included 200,000 warrants valued at $180,080 and were recorded as a financing expense.

Gross Proceeds:	$ 10,000,000
Allocated to liabilities:	
Warrant liabilities	1,980,880
Allocated to equity:	
Common stock and additional paid-in capital	8,199,200
Allocated to expense:	
Financing expense	(180,080)
Total allocated gross proceeds:	$ 10,000,000

ap) In November 2010, warrant holders exercised 936,883 cashless warrants to obtain shares of the Company's common stock and the Company issued an aggregate of 247,491 shares.

aq) In December 2010, warrant holders exercised 530,900 cashless warrants to obtain shares of the Company's common stock and the Company issued an aggregate of 126,195 shares.

ar) On January 19, 2011, the Company issued 2,334,515 shares of common stock at a purchase price of $1.69 per share to an institutional investor for net proceeds of $3,926,397, which includes $23,603 of stock issuance costs.

as) On February 15, 2011, a warrant holder exercised warrants to purchase shares of the Company's common stock for cash of $215,104 and the Company issued 209,042 shares.

at) On February 28, 2011, an option holder exercised options to purchase shares of the Company's common stock for cash of $6,000 and the Company issued 25,000 shares.

au) On March 11, 2011, an option holder exercised options to purchase shares of the Company's common stock for cash of $12,000 and the Company issued 50,000 shares.

REXAHN PHARMACEUTICALS, INC.
(A Development Stage Company)
Notes to Condensed Financial Statements
(Unaudited)

13. Common Stock (cont'd)

av) On March 28, 2011, warrant holders exercised their warrants to purchase shares of the the Company's common stock for cash of $102,857 and the Company issued 124,917 shares.

aw) On March 31, 2011, the Company closed on a purchase agreement to issue 8,333,333 shares of common stock at a price of $1.20 per share to five institutional investors for gross proceeds of $10,000,000, which includes $803,791 of stock issuance costs. The investors were also issued warrants to purchase 3,333,333 shares of common stock at a purchase price of $1.50 per share, exercisable on or after six months after the closing date until the five-year anniversary of the initial exercise date, and were recorded as liabilities at fair value. The closing costs included 208,333 warrants valued at $97,667 and were recorded as a financing expense.

A summary of the allocation of the proceeds of the offering is shown below:

Gross Proceeds:	$ 10,000,000
Allocated to liabilities:	
Warrant liabilities	2,924,333
Allocated to equity:	
Common stock and additional paid-in capital	7,173,334
Allocated to expense:	
Financing expense	(97,667)
Total allocated gross proceeds:	$ 10,000,000

ax) In September 2011, an option holder exercised options to purchase shares of the Company's common stock for cash of $22,040 and the Company issued 28,000 shares.

REXAHN PHARMACEUTICALS, INC.
(A Development Stage Company)
Notes to Condensed Financial Statements
(Unaudited)

14. Stock-Based Compensation

On August 5, 2003, the Company established a stock option plan (the "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. Options expire between five and ten years from the date of grant.

For grants to non-employee consultants of the Company after September 12, 2005, the vesting period is between one to three years, subject to the fulfillment of certain conditions in the individual stock option grant agreements, or 100% upon the occurrence of certain events specified in the individual stock option grant agreements. Options authorized for issuance under the Plan total 17,000,000 after giving effect to an amendment to the Plan approved at the Annual Meeting of the Stockholders of the Company on June 2, 2006. At September 30, 2011, 8,218,000 shares of common stock were 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

The Company's results of operations for the three months ended September 30, 2011 and 2010 include share-based employee compensation expense totaling $161,876 and $115,907 respectively. The Company's results of operations for the nine months ended September 30, 2011 and 2010 include share-based compensation expense totaling $466,739 and $338,899 respectively. Such amounts have been included in the statement of operations in general and administrative and research and development expenses. No income tax benefit has been recognized in the statement of operations for share-based compensation arrangements as the Company has provided for a 100% valuation allowance on its deferred tax assets.

Employee stock option compensation expense is the estimated fair value of options granted amortized on a straight-line basis over the requisite vesting service period for the entire portion of the award.

Accounting for Non-Employee Awards

Stock compensation expenses related to non-employee options were ($20,787) and ($4,305) for the three months ended September 30, 2011 and 2010, respectively. Stock compensation expenses related to non-employee options were $46,515 and $96,406, for the nine months ended September 30, 2011 and 2010, respectively. Such amounts have been included in the statement of operations in general and administrative and research and development expenses.

REXAHN PHARMACEUTICALS, INC.
(A Development Stage Company)
Notes to Condensed Financial Statements
(Unaudited)

14. Stock-Based Compensation (cont'd)

Summary of Stock Compensation Expense Recognized

Total stock-based compensation recognized by the Company in the three and nine months ended September 30, 2011 and 2010, and the period from inception (March 19, 2001) to September 30, 2011, is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,		Cumulative from March 19, 2001 (Inception) to September 30, 2011
	2011	2010	**2011**	2010	
Statement of operations line item: General and administrative:					
Payroll	**$ 138,170**	$ 94,375	**$ 397,192**	$ 286,011	$ 2,390,708
Consulting and other professional fees	**(16,915)**	(6,851)	**30,265**	81,961	790,220
Research and development:					
Payroll	**23,706**	21,532	**69,546**	52,888	945,844
Consulting and other professional fees	**(3,872)**	2,546	**16,252**	14,445	1,325,505
Total	**$ 141,089**	$ 111,602	**$ 513,255**	$ 435,305	$ 5,452,277

Summary of Stock Option Transactions

The table below summarizes the stock options granted for the nine months ended September 30, 2011 and 2010:

For the nine months ended September 30, 2011			
Date Granted	**Number of Options Granted**	**Exercise Price**	**Grant Date Fair Value**
February 7, 2011	130,000	$ 1.84	$ 180,326
June 6, 2011	100,000	$ 1.25	91,334
June 10, 2011	20,000	$ 1.22	17,915
September 8, 2011	150,000	$ 1.12	121,595
Total	400,000		$ 411,170

For the nine months ended September 30, 2010			
Date Granted	Number of Options Granted	Exercise Price	Grant Date Fair Value
February 17, 2010	375,000	$ 1.33	$ 304,043
June 14, 2010	160,000	$ 1.17	142,150
September 17, 2010	190,000	$ 1.19	171,280
Total	725,000		$ 617,473

REXAHN PHARMACEUTICALS, INC.
(A Development Stage Company)
Notes to Condensed Financial Statements
(Unaudited)

14. Stock-Based Compensation (cont'd)

The fair value of options at the date of grant was estimated using the Black-Scholes option pricing model. The Company took into consideration guidance under Accounting Standards Codification ("ASC") 718, "Compensation-Stock Compensation" and Staff Accounting Bulletin ("SAB") 107 when reviewing and updating assumptions. The expected volatility is based upon historical volatility of the Company's stock. The expected term is based upon the simplified method as allowed under SAB 107.

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

	Nine Months Ended September 30,	
	2011	2010
Black-Scholes weighted average assumptions		
Expected dividend yield	**0%**	0%
Expected volatility	**96-101%**	100-114%
Risk free interest rate	**0.11-2.29%**	0.26-2.40%
Expected term (in years)	**5 years**	1- 5 years

The following table summarizes the employee and non-employee share-based transactions:

	2011		2010	
	Number of Options	**Weighted Avg. Exercise Price**	Number of Options	Weighted Avg. Exercise Prices
Outstanding at January 1	**8,076,795**	**$ 1.01**	7,715,795	$ 0.98
Granted	**400,000**	**1.39**	725,000	1.26
Exercised	**(103,000)**	**0.39**	(155,500)	0.69
Cancelled	**(192,000)**	**1.21**	(78,500)	1.00
Outstanding at September 30	**8,181,795**	**$ 1.03**	8,206,795	$ 1.02

REXAHN PHARMACEUTICALS, INC.
(A Development Stage Company)
Notes to Condensed Financial Statements
(Unaudited)

14. Stock-Based Compensation(cont'd)

The following table summarizes information about stock options outstanding as of September 30, 2011 and December 31, 2010.

	Number of Options	Weighted Avg. Exercise Prices	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at September 30, 2011	**8,181,795**	**$ 1.03**	**4.9 years**	**$ 1,466,974**
Exercisable at September 30, 2011	**6,971,795**	**$ 1.02**	**4.3 years**	**$ 1,356,324**
Outstanding at December 31, 2010	8,076,795	$ 1.01	5.4 years	$ 2,198,790
Exercisable at December 31, 2010	6,762,795	$ 1.00	4.8 years	$ 2,198,790

The total intrinsic value of the options exercised was $103,450 and $239,560 for the nine months ended September 30, 2011 and 2010, respectively. The total intrinsic value of the options exercised was $9,200 for the three months ended September 30, 2011. There were no options exercised in the three months ended September 30, 2010. The weighted average fair value of the options vested was $0.85 and $0.91 for the nine months ended September 30, 2011 and 2010, respectively.

A summary of the Company's unvested shares as of September 30, 2011 and changes during the nine months ended September 30, 2011 is presented below:

	2011	
	Number of Options	**Weighted Average Fair Value at Grant Date**
Unvested at January 1, 2011	**1,314,000**	**$ 0.77**
Granted	**400,000**	**$ 1.03**
Vested	**(415,000)**	**$ 0.85**
Cancelled	**(89,000)**	**$ 0.90**
Unvested at September 30, 2011	**1,210,000**	**$ 0.80**

As of September 30, 2011 and December 31, 2010, there was $524,820 and $685,636 of total unrecognized compensation cost, respectively, related to all unvested stock options, which is expected to be recognized over a weighted average vesting period of 1.2 years and 1.4 years, respectively.

REXAHN PHARMACEUTICALS, INC.
(A Development Stage Company)
Notes to Condensed Financial Statements
(Unaudited)

15. Warrants

As of September 30, 2011, warrants to purchase 8,676,142 shares were outstanding, having exercise prices ranging from $1.00 to $1.90 and expiration dates ranging from August 8, 2013 to September 30, 2016.

	2011		2010	
	Number of warrants	**Weighted average exercise price**	Number of warrants	Weighted average exercise price
Balance, January 1	**5,624,583**	**$ 1.48**	8,575,243	$ 1.10
Issued during the period	**3,541,666**	**$ 1.50**	2,200,000	$ 1.90
Exercised during the period	**(333,959)**	**$ (0.95)**	(3,682,877)	$ (0.89)
Expired during the period	**(156,148)**	**$ (0.82)**	-	$ -
Balance, September 30	**8,676,142**	**$ 1.53**	7,092,366	$ 1.35

At September 30, 2011 and December 31, 2010, the average remaining contractual life of the outstanding warrants was 3.4 years.

The warrants, which were issued to investors in the December 2007, March 2008, May 2009, October 2009, June 2010, and March 2011 offerings, contain a provision for net cash settlement in the event that there is a fundamental transaction (contractually defined as a merger, sale of substantially all assets, tender offer, or share exchange). If a fundamental transaction occurs in which the consideration issued consists principally of cash or stock in a non-public company, then the warrant holder has the option to receive cash, equal to the fair value of the remaining unexercised portion of the warrant. Due to this contingent redemption provision, the warrants require liability classification in accordance with ASC 480, "Distinguishing Liabilities from Equity," ("ASC 480") and are recorded at fair value. In addition, the warrants issued in the May 2009, October 2009, June 2010 and March, 2011 offerings contain a cashless exercise provision that is exercisable only in the event that a registration statement is not effective, which provision may not be operative if an effective registration statement is not available because of an exemption under the U.S. Securities laws may not be available to issue unregistered shares. As a result, net cash settlement may be required.

ASC 820 provides requirements for disclosure of liabilities that are measured at fair value on a recurring basis in periods subsequent to the initial recognition. Fair values for warrants are determined using the Binomial Lattice ("Lattice") valuation technique. The Lattice model provides for dynamic assumptions regarding volatility and risk-free interest rates within the total period to maturity. Accordingly, within the contractual term, the Company provided multiple date intervals over which multiple volatilities and risk free interest rates were used. These intervals allow the Lattice model to project outcomes along specific paths which consider volatilities and risk free rates that would be more likely in an early exercise scenario.

Significant assumptions are determined as follows:
Trading market values—published trading market values;
Exercise price—Stated exercise price;
Term—remaining contractual term of the warrant;
Volatility—Historical trading volatility for periods consistent with the remaining terms;
Risk-free rate—Yields on zero coupon government securities with remaining terms consistent with the remaining terms of the warrants.

REXAHN PHARMACEUTICALS, INC.
(A Development Stage Company)
Notes to Condensed Financial Statements
(Unaudited)

15. Warrants (cont'd)

Due to the fundamental transaction provision, which could provide for early redemption of the warrants, the model also considered the probability the Company would enter into a fundamental transaction during the remaining term of the warrant. Since the Company is still in its development stage and is not yet achieving positive cash flow, management believes the probability of a fundamental transaction occurring over the term of the warrant is approximately 5%. For valuation purposes, the Company also assumed that if such a transaction did occur, it was more likely to occur towards the end of the term of the warrants.

The warrants issued in December 2007 and March 2008 are not only subject to traditional anti-dilution protection, such as stock splits and dividends, but they are also subject to down-round anti-dilution protection. Accordingly, if the Company sells common stock or common stock indexed financial instruments below the stated exercise price, the exercise price related to these warrants will adjust to that lower amount. The Lattice model used to value the warrants with down-round anti-dilution protection provides for multiple, probability-weighted scenarios at the stated exercise price and at five additional decrements/scenarios on each valuation date in order to encompass the value of the anti-dilution provisions in the estimate of fair value of the warrants. Calculations were performed at the stated exercise price and at five additional decrements/scenarios on each valuation date. The calculations provide for multiple, probability-weighted scenarios reflecting decrements that result from declines in the market prices. Decrements are predicated on the trading market prices in decreasing ranges below the contractual exercise price. For each valuation date, multiple Binomial Lattice calculations were performed which were probability weighted by considering both the Company's (i) historical market pricing trends, and (ii) an outlook for whether or not the Company may need to issue equity or equity-indexed instruments in the future with a price less than the current exercise price.

The following table summarizes the fair value of the warrants as of the respective balance sheet or transaction dates:

	Fair Value as of:		
Warrant Issuance:	**September 30, 2011**	December 31, 2010	Transaction Date
December 18, 2007 financing	**$ -**	$ -	$ 1,392,476
March 20, 2008 financing	**-**	123,558	190,917
June 5, 2009 financing:			
Series I warrants	**-**	-	707,111
Series II warrants	**-**	**-**	1,315,626
Series III warrants	**485,800**	751,022	1,306,200
Warrants to placement agent	**46,012**	69,032	122,257
October 23, 2009 financing:			
Warrants to institutional investors	**579,650**	694,377	1,012,934
Warrants to placement agent	**5,886**	111,241	101,693
June 30, 2010 financing			
Warrants to institutional investors	**516,400**	1,106,800	1,800,800
Warrants to placement agent	**28,040**	110,680	180,080
March 31, 2011 financing:			
Warrants to institutional investors	**1,950,000**	-	2,826,666
Warrants to placement agent	**41,918**	-	97,667
Total:	**$ 3,653,706**	$ 2,966,710	$ 11,054,427

REXAHN PHARMACEUTICALS, INC.
(A Development Stage Company)
Notes to Condensed Financial Statements
(Unaudited)

15. Warrants (cont'd)

The following table summarizes the number of shares indexed to the warrants as of the respective balance sheet or transaction dates:

	Number of Shares indexed as of:		
Warrant Issuance	**September 30, 2011**	December 31, 2010	Transaction Date
December 18, 2007 financing	**-**	-	1,078,579
March 20, 2008 financing	**-**	281,065	128,572
June 5, 2009 financing:			
Series I warrants	**-**	-	2,222,222
Series II warrants	**-**	-	1,866,666
Series III warrants	**1,555,555**	1,555,555	1,555,555
Warrants to placement agent	**132,143**	132,143	142,857
October 23, 2009 financing:			
Warrants to institutional investors	**1,228,333**	1,228,333	2,125,334
Warrants to placement agent	**18,445**	227,487	245,932
June 30, 2010 financing			
Warrants to institutional investors	**2,000,000**	2,000,000	2,000,000
Warrants to placement agent	**200,000**	200,000	200,000
March 31, 2011 financing:			
Warrants to institutional investors	**3,333,333**	**-**	3,333,333
Warrants to placement agent	**208,333**	**-**	208,333
Total:	**8,676,142**	5,624,583	15,107,383

The assumptions used in calculating the fair values of the warrants are as follows:

December 18, 2007 financing:	**September 30, 2011**	December 31, 2010	Transaction Date
Trading market prices	**$ -**	$ -	$ 1.75
Estimated future volatility	**-**	-	143%
Dividend	**-**	-	-
Estimated future risk-free rate	**-**	-	3.27%
Equivalent volatility	**-**	-	106%
Equivalent risk-free rate	**-**	-	3.26%
Estimated additional shares to be issued upon dilutive event	**-**	-	98,838

March 20, 2008 financing:	**September 30, 2011**	December 31, 2010	Transaction Date
Trading market prices	**$ -**	$ 1.12	$ 2.14
Estimated future volatility	**-**	75%	142%
Dividend	**-**	-	-
Estimated future risk-free rate	**-**	0.47%	1.95%
Equivalent volatility	**-**	42%	97%
Equivalent risk-free rate	**-**	0.12%	1.31%
Estimated additional shares to be issued upon dilutive event	**-**	25,462	7,479

REXAHN PHARMACEUTICALS, INC.
(A Development Stage Company)
Notes to Condensed Financial Statements
(Unaudited)

15. Warrants (cont'd)

June 5, 2009 financing:	**September 30, 2011**	December 31, 2010	Transaction Date
Trading market prices	**$ 1.00**	$ 1.12	$ 1.14
Estimated future volatility	**80-86%**	94-100%	100%
Dividend	**-**	-	-
Estimated future risk-free rate	**0.76%**	1.84-4.18%	0.63-4.31%
Equivalent volatility	**68%**	72-73%	103-117%
Equivalent risk-free rate	**0.15%**	0.52%	0.20-1.44%

October 23, 2009 financing:	**September 30, 2011**	December 31, 2010	Transaction Date
Trading market prices	**$ 1.00**	$ 1.12	$ 0.69
Estimated future volatility	**84-100%**	100%	100%
Dividend	**-**	-	-
Estimated future risk-free rate	**0.37-0.71%**	1.84%	2.63-3.80%
Equivalent volatility	**61-71%**	65-74%	98-99%
Equivalent risk-free rate	**0.11-0.19%**	0.38-0.58%	0.93-1.16%

June 30, 2010 financing:	**September 30, 2011**	December 31, 2010	Transaction Date
Trading market prices	**$ 1.00**	$ 1.12	$ 1.43
Estimated future volatility	**70-100%**	67%	100%
Dividend	**-**	-	-
Estimated future risk-free rate	**0.37-0.76%**	1.84%	1.78%
Equivalent volatility	**61-68%**	89%	98%
Equivalent risk-free rate	**0.11-0.16%**	0.52%	0.59%

March 31, 2011 financing:	**September 30, 2011**	December 31, 2010	Transaction Date
Trading market prices	**$ 1.00**	$ -	$ 1.18
Estimated future volatility	**71-100%**	-	100%
Dividend	**-**	-	-
Estimated future risk-free rate	**0.37-1.77%**	-	1.32-3.64%
Equivalent volatility	**61-84%**	-	79-96%
Equivalent risk-free rate	**0.11-0.37%**	-	0.39-1.09%

REXAHN PHARMACEUTICALS, INC.
(A Development Stage Company)
Notes to Condensed Financial Statements
(Unaudited)

15. Warrants (cont'd)

Changes in the fair value of the warrant liabilities, carried at fair value, as reported as "unrealized gain (loss) on fair value of warrants" in the statement of operations:

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010 (Restated)
December 18, 2007 financing	$ -	$ 601,900
March 20, 2008 financing	-	128,848
June 5, 2009 financing:		
Series I warrants	-	-
Series II warrants	-	-
Series III warrants	**314,066**	627,978
Warrants to placement agent	**26,799**	52,315
October 23, 2009 financing:		
Warrants to institutional investors	**292,712**	277,849
Warrants to placement agent	**3,528**	117,709
June 30, 2010 financing		
Warrants to institutional investors	**356,200**	663,934
Warrants to placement agent	**25,340**	66,466
March 31, 2011 financing:		
Warrants to institutional investors	**816,000**	-
Warrants to placement agent	**31,604**	-
Total:	**$ 1,866,249**	$ 2,536,999

	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010 (Restated)	Cumulative from March 19, 2001 (Inception) to September 30, 2011
December 18, 2007 financing	$ -	$ (510,776)	$ 50,722
March 20, 2008 financing	**92,704**	(16,319)	160,063
June 5, 2009 financing:			
Series I warrants	-	-	707,111
Series II warrants	-	(2,996,828)	(2,191,175)
Series III warrants	**265,222**	(405,688)	820,400
Warrants to placement agent	**23,020**	(46,275)	61,864
Derivative loss at inception	-	-	(328,937)
October 23, 2009 financing:			
Warrants to institutional investors	**114,727**	(1,018,197)	(615,956)
Warrants to placement agent	**(107,659)**	(69,813)	(141,824)
June 30, 2010 financing			
Warrants to institutional investors	**590,400**	663,934	1,284,400
Warrants to placement agent	**82,640**	66,466	152,040
March 31, 2011 financing:			
Warrants to institutional investors	**876,666**	-	876,666
Warrants to placement agent	**55,749**	-	55,750
Total:	**$ 1,993,469**	$ (4,333,496)	$ 891,124

REXAHN PHARMACEUTICALS, INC.
(A Development Stage Company)
Notes to Condensed Financial Statements
(Unaudited)

16. Put feature on Common Stock

The Anti-dilution provision extended in the December 2007 and March 2008 financings is a financial instrument separate and apart from the share. It is a freestanding written put (a put on the Company's common stock). As an enterprise value put, the contracts' value moves inversely with the value of the underlying common stock which, under ASC 480, is not consistent with the general concepts or criterion for equity classified financial instruments. Accordingly, the written put was required to be classified as a liability under ASC 480 and recorded at fair value each reporting period, while the common stock achieved equity classification. Changes in the fair value of the anti-dilution make-whole provision are reported as "unrealized gain (loss) on fair value of put feature on common stock."

The anti-dilution make-whole provisions associated with the common stock, were valued using a probability–weighting of put values provided by the Lattice model. Additional value would result from the put upon an increase in the exercise price or upon decrease of the trading market price in the future. Since the exercise price is based on the actual sales price of the stock issued, it is not subject to adjustment unless there is an actual dilutive event. Therefore, the mechanism for determining the value of the put was to adjust the stock price input into the Lattice model based on the Company's estimated future stock price. A Random Walk Brownian Motion Stochastic Process ("Brownian") technique was used to estimate the market price at several points in the future (e.g. at inception, 6 months, 12 months, 18 months and 24 months) over the term of the put to determine if the stock price will be expected to decrease over the related interval of time. Brownian is a continuous stochastic process that is widely used in financing for modeling random behavior that evolves over time, and a stochastic process is a sequence of events or paths generated by probabilistic laws. At each interval, the Brownian technique was run and the simulation returned the mean stock price (the "expected stock price").

Expected stock prices returned from the stochastic model were then input into the Lattice model to provide a put value at each of the expected prices and these values were probability weighted to determine the overall fair value of the anti-dilution make-whole provision. The term was based on the remaining term of the put (two years at inception) and the inputs for volatility and interest rate were based on projected volatility and interest rate in the future over the remaining term.

The following table summarizes the fair value of the Anti-dilution provision recorded at fair value as liabilities:

Fair Values:	**September 30, 2011**	December 31, 2010	Transaction Date
December 18, 2007 financing	**$ -**	$ -	$ 4,401,169
March 20, 2008 financing	**-**	-	553,569
Total:	**$ -**	$ -	$ 4,954,738

The following table summarizes the number of shares indexed to the Anti-dilution provision at the respective balance sheet or transaction dates:

Number of Shares indexed:	**September 30, 2011**	December 31, 2010	Transaction Date
December 18, 2007 financing	**-**	-	4,857,159
March 20, 2008 financing	**-**	-	642,858
Total:	**-**	-	5,500,017

The following table reflects the fair values of the common stock anti-dilution make-whole provisions recorded as liabilities and significant assumptions used in the valuation:

December 18, 2007 financing:	**September 30, 2011**	December 31, 2010	Transaction Date
Trading market prices	**$ -**	$ -	$ 1.75
Estimated future stock price	**-**	-	$ 0.98-$1.75
Estimated future volatility	**-**	**-**	143%
Dividend	**-**	**-**	-
Estimated future risk-free rate	**-**	**-**	3.14%

REXAHN PHARMACEUTICALS, INC.
(A Development Stage Company)
Notes to Condensed Financial Statements
(Unaudited)

16. Put feature on Common Stock (cont'd)

March 20, 2008 financing:	**September 30, 2011**	December 31, 2010	Transaction Date
Trading market prices	**$ -**	$ -	$ 2.14
Estimated future stock price	**-**	-	$ 1.36-$2.10
Estimated future volatility	**-**	**-**	142%
Dividend	**-**	**-**	-
Estimated future risk-free rate	**-**	**-**	1.85%

Since the Anti-dilution provisions expired on December 18, 2009 and March 20, 2010, there is no liability as of September 30, 2011, or no changes in the fair value for the three months ended September 30, 2011 and 2010.

Changes in the fair value of the Anti-dilution provision, carried at fair value, as reported as "unrealized gain on fair value of put feature on common stock" in the statement of operations:

	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010 (restated)	Cumulative from March 19, 2001 (Inception) to September 30, 2011
December 18, 2007 financing	**$ -**	$ -	$ 2,148,418
March 20, 2008 financing	**-**	97,713	167,121
Total:	**$ -**	$ 97,713	$ 2,135,539

17. Income Taxes

No provision for Federal and State income taxes was required for the three and nine months ended September 30, 2011 and 2010 due to the Company's operating losses and increased deferred tax asset valuation allowance. At September 30, 2011 and December 31, 2010, the Company has unused net operating loss carry-forwards of approximately $53,054,000 and $46,283,000 which expire at various dates through 2031. Some of this amount may be subject to annual limitations under certain provisions of the Internal Revenue Code related to "changes in ownership." During the three months ended September 30, 2011, the Company amended prior years' tax returns to correct prior year errors, which adjusted the net operating loss carryforward.

As of September 30, 2011 and December 31, 2010, the deferred tax assets related to the aforementioned carry-forwards have been fully offset by valuation allowances, since significant utilization of such amounts is not presently expected in the foreseeable future.

Deferred tax assets and valuation allowances consist of:

	September 30, 2011	December 31, 2010
Net Operating Loss Carryforwards	**$ 20,691,060**	$ 18,050,380
Valuation Allowance	**(20,691,060)**	(18,050,380)
Net Deferred Tax Assets	$ -	$ -

REXAHN PHARMACEUTICALS, INC.
(A Development Stage Company)
Notes to Condensed Financial Statements
(Unaudited)

17. Income Taxes (cont'd)

The Company files income tax returns in the U.S. Federal and Maryland state jurisdictions. Tax years for fiscal 2007 through 2010 are open and potentially subject to examination by the Federal and Maryland state taxing authorities.

18. 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 initial fee and monthly or periodic payments over the term of the agreement, ranging from 2 months to 36 months. The costs to be incurred are estimated and are subject to revision. As of September 30, 2011, the total estimated cost to be incurred under these agreements was approximately $19,914,155 and the Company had made payments totaling $11,432,004 under the terms of the agreements. All of these agreements may be terminated by either party upon appropriate notice as stipulated in the respective agreements.

b) The Company and three of its key executives entered into employment agreements. Each of these agreements was renewed on August 10, 2009 and expire on August 10, 2012. The agreements result in annual commitments for each key executive of $350,000, $250,000 and $200,000, respectively. The employment agreements were amended on September 9, 2010 and will expire on September 9, 2013.

c) On June 22, 2009, the Company entered into a License Agreement with Korea Research Institute of Chemical Technology ("KRICT") to acquire the rights to all intellectual properties related to Quinoxaline-Piperazine derivatives that were synthesized under a Joint Research Agreement. The initial license fee was $100,000, all of which was paid as of December 31, 2009. The agreement with KRICT calls for a one-time milestone payment of $1,000,000 within 30 days after the first achievement of marketing approval of the first commercial product arising out of or in connection with the use of KRICT's intellectual properties. As of September 30, 2011, the milestone has not occurred.

d) On June 29, 2009, the Company signed a five year commercial lease agreement for 5,466 square feet of office space in Rockville, Maryland commencing on June 29, 2009. The lease agreement requires annual base rent with increases over the next five years. Under the lease agreement, the Company pays its allocable portion of real estate taxes and common area operating charges. Rent paid under the Company's lease during the three months ended September 30, 2011 and 2010 was $39,219 and $35,078, respectively, and rent paid under the lease for the nine months ended September 30, 2011 and 2010 was $109,375 and $73,340, respectively.

Future rental payments over the next five years and thereafter are as follows:

2011	$	39,219
2012		158,835
2013		162,805
2014		82,408
Total	**$**	**443,267**

In connection with the lease agreement, the Company issued a letter of credit of $100,000 in favor of the lessor. The Company has restricted cash equivalents of the same amount for the letter of credit. On August 2, 2010, and July 1, 2011 the letter of credit was amended and reduced to $50,000 and $37,500, respectively.

REXAHN PHARMACEUTICALS, INC.
(A Development Stage Company)
Notes to Condensed Financial Statements
(Unaudited)

18. Commitments and Contingencies (cont'd)

e) On September 21, 2009, the Company closed on a securities purchase agreement with Teva Pharmaceutical Industries Limited ("Teva"), under which Teva purchased 3,102,837 shares of our common stock for $3.5 million. Contemporaneous with the execution and delivery of this agreement, the parties executed a research and exclusive license option agreement ("RELO") pursuant to which the Company agreed to use $2,000,000 from the gross proceeds of the issuance and sale of shares to Teva to fund a research and development program for the pre-clinical development of RX-3117. On January 19, 2011, the Company entered into a second amendment to the securities purchase agreement (the "Second Amendment") in which Teva purchased 2,334,515 shares of the common stock of the Company for gross proceeds of $3,950,000, which the Company agreed to use for the further preclinical development of RX-3117. Currently, the Company has proceeds remaining of $2,909,951 and has included this amount in restricted cash equivalents. The Company will be eligible to receive royalties on net sales of RX-3117 worldwide.

f) The Company has a 401(k) plan established for its employees. The Company elected to match 100% of the first 3% of the employee's compensation plus 50% of an additional 2% of the employee's deferral. Expense related to this matching contribution aggregated $17,902 and $15,670 for the three months ended September 30, 2011, and 2010, respectively, and $50,876 and $50,812 for the nine months ended September 30, 2011 and 2010, respectively.

g) On June 28, 2010, the Company signed a one year renewal to use lab space commencing on July 1, 2010. The lease requires monthly rental payments of $4,554. Rent paid under the Company's lease during the three and nine months ended September 30, 2011 and 2010 was $13,662 and $40,986, respectively. On June 22, 2011, the Company extended the agreement for another year with monthly rental payments of $4,554.

h) On August 31, 2011, the Company entered into an agreement with a consultant for advisory services pertaining to the securing of grants or other funding sources for the Company. Per the terms of the agreement, the consultant will be compensated in shares of restricted common stock calculated by a formula of the funding received by the Company. As of September 30, 2011, the Company has not received funding or issued stock resulting from this agreement.

REXAHN PHARMACEUTICALS, INC.
(A Development Stage Company)
Notes to Condensed Financial Statements
(Unaudited)

19. Fair Value Measurements

ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, not adjusted for transaction costs. ASC 820 also establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels giving the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

The three levels are described below:

Level 1 Inputs — Unadjusted quoted prices in active markets for identical assets or liabilities that is accessible by the Company;

Level 2 Inputs — Quoted prices in markets that are not active or financial instruments for which all significant inputs are observable, either directly or indirectly;

Level 3 Inputs — Unobservable inputs for the asset or liability including significant assumptions of the Company and other market participants.

The following tables present assets and liabilities that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy. The fair value hierarchy has three levels based on the reliability of the inputs used to determine fair value.

	Fair Value Measurements at September 30, 2011			
	Total	Level 1	Level 2	Level 3
Assets:				
Restricted Cash equivalents	**$ 2,947,451**	**$ 2,909,951**	**$ 37,500**	**$ -**
Marketable Securities	**1,950,000**	**1,950,000**	**-**	**-**
Total Assets:	**$ 4,897,451**	**$ 4,859,951**	**$ 37,500**	**$ -**
Liabilities:				
Warrant Liabilities	**$ 3,653,706**	**-**	**-**	**$ 3,653,706**

	Fair Value Measurements at December 31, 2010			
	Total	Level 1	Level 2	Level 3
Assets:				
Restricted Cash equivalents	$ 401,893	$ 351,893	$ 50,000	$ -
Marketable Securities	2,451,620	2,451,620	-	-
Total Assets:	$ 2,853,513	2,803,513	$ 50,000	$ -
Liabilities:				
Warrant Liabilities	$ 2,966,710	-	-	$ 2,966,710

REXAHN PHARMACEUTICALS, INC.
(A Development Stage Company)
Notes to Condensed Financial Statements
(Unaudited)

19. Fair Value Measurements (cont'd)

As of September 30, 2011 and December 31, 2010, the Company's restricted cash equivalents are comprised of the following:

a) Money market funds valued at the net asset value of shares held by the Company and is classified within level 1 of the fair value hierarchy;

b) Certificate of deposit valued based upon the underlying terms of a letter of credit, as disclosed in Note 18, and classified within level 2 of the fair value hierarchy.

Marketable securities consist of state authority and municipal security fund bonds which are valued at fair value and classified within level 1 of the fair value hierarchy.

The fair value methodology for the warrant liabilities is disclosed in Note 15.

The carrying amounts reported in the financial statements for cash and cash equivalents, note receivable, prepaid expenses, and other current assets and accounts payable and accrued expenses approximate fair value because of the short term maturity of these financial instruments.

The following table sets forth a reconciliation of changes in the nine months ended September 30, 2011 and 2010 in the fair value of the liabilities classified as level 3 in the fair value hierarchy:

	Warrant Liabilities	Put Feature on Common Stock	Total Level 3 Liabilities
Balance at January 1, 2011	$ 2,966,710	$ -	$ 2,966,710
Additions	2,924,333	-	2,924,333
Unrealized gains, net	(1,954,900)	-	(1,954,900)
Unrealized gains on expiration	(38,569)	-	(38,569)
Transfers out of level 3	(243,868)	-	(243,868)
Balance at September 30, 2011	$ 3,653,706	$ -	$ 3,653,706

	Warrant Liabilities	Put Feature on Common Stock	Total Level 3 Liabilities
Balance at January 1, 2010	$ 3,099,476	$ 97,713	$ 3,197,189
Additions	1,980,880	-	1,980,880
Unrealized losses	4,333,496	-	4,333,496
Unrealized gains on expiration	-	(97,713)	(97,713)
Transfers out of level 3	(5,286,602)	-	(5,286,602)
Balance at September 30, 2010	$ 4,127,250	$ -	$ 4,127,250

Additions consist of the fair value of warrant liabilities upon issuance. Transfers out of Level 3 for warrant liabilities consist of warrant exercises. The Company's policy is to recognize transfers in and transfers out as of the actual date of the event or change in circumstance that caused the transfer. There were no significant transfers in and out of Levels 1 and 2 for the nine months ended September 30, 2011 and 2010.

REXAHN PHARMACEUTICALS, INC.
(A Development Stage Company)
Notes to Condensed Financial Statements
(Unaudited)

20. Subsequent Event

On November 4, 2011, the Company announced results from its Phase IIb clinical trial of Serdaxin in major depressive disorder ("MDD"). The randomized, double-blind, placebo-controlled study compared two doses of Serdaxin, 0.5mg and 5mg, to placebo over an 8-week treatment period. Results from the study did not demonstrate Serdaxin's efficacy compared to placebo measured by the Montgomery-Asberg Depression Rating Scale ("MADRS"). All groups showed an approximate 14 point improvement in the protocol defined primary endpoint of MADRS. All groups had a substantial number of patients who demonstrated a meaningful clinical improvement from baseline. The study showed Serdaxin to be safe and well tolerated. The Company is currently evaluating future plans for its candidate pipeline as well as allocations of resources for the candidates.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

OVERVIEW

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

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

The following discussion should be read in conjunction with the unaudited condensed 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. We caution that forward-looking statements are based largely on our expectations, and are subject to a number of known and unknown risks and uncertainties that are subject to change based on factors which are, in many instances, beyond our control. Actual results, performance or achievements may differ materially from those contemplated, expressed, or implied by the forward-looking statements.

The following factors, among others, could cause our financial performance to differ materially from that expressed in such forward-looking statements:

- 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 (the "SEC").

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 of 1995 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 GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates are based on management's best knowledge of current events and actions the Company may undertake in the future. Actual results may ultimately differ from those estimates. These estimates are reviewed periodically and as adjustments become necessary, they are reported in earnings in the period in which they become available.

Reclassification

The Company has reclassified previously reported amortization of Rexgene Biotech research and development arrangement disclosed in Note 9 in the Notes to the Condensed Financial Statements, from revenue to a reduction of research and development expenses ("R&D expenses") in the accompanying statements of operations. The reclassification had no effect on the Company's balance sheets, net loss, or cash flows from operating activities.

RECENTLY ISSUED ACCOUNTING STANDARDS

In May 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2011-04 to Accounting Standards Codification ("ASC") 820, "Fair Value Measurements and Disclosures" ("ASC 820") which amends the disclosure requirements for fair value instruments. The new disclosures required include disclosure regarding the sensitivity of the fair value measurement to changes in unobservable inputs, and the interrelationships between those unobservable inputs. The guidance is effective for the Company for fiscal years and interim periods beginning on or after December 15, 2011.

In June 2011, the FASB issued authoritative guidance which for presentation and disclosure of comprehensive income in the financial statements. Under the new guidance, a Company may no longer present the components of other comprehensive income as part of the statement of changes in the Statement of Stockholder's Equity, and instead must present the components of comprehensive income either in the Statement of Operations or in a separate statement immediately following the Statement of Operations. In addition, reclassification adjustments between comprehensive income and net income must be disclosed on the financial statements. This guidance is effective for the Company for fiscal years and interim periods beginning on or after December 15, 2011.

RESULTS OF OPERATIONS

Comparison of the Three and Nine Months Ended September 30, 2011 and 2010:

Total Revenues

The Company had no revenues for the three and nine months ended September 30, 2011 and 2010.

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, investor relations and general legal activities.

General and administrative expenses decreased $787,070, or 50.4%, to $774,307 for the three months ended September 30, 2011 from $1,561,377 for the three months ended September 30, 2010. The decrease is attributed to 2010 investor relations services provided by two firms, for which the Company issued compensatory stock valued at $815,000, for the three months ended September 30, 2010. The agreements with these firms had been terminated in November 2010, therefore, we did not incur these investor relations services for the three months ended September 30, 2011. General and administrative expenses decreased $1,612,279, or 36.4%, to $2,811,097 for the nine months ended September 30, 2011 from $4,423,376 for the nine months ended September 30, 2010. The decrease is primarily attributed to legal and professional fees in 2010 pertaining to the Amarex litigation as described in Note 6 in the Notes to the Condensed Financial Statements. The decrease in general and administrative expenses is also attributable to the compensatory stock issued for investor relations services as described above.

Research and Development Expenses

Research and development expenses consist primarily of salaries and related personnel costs, fees paid to consultants and outside service providers for laboratory development and other expenses relating to the design, development, testing, and enhancement of our drug candidates. We expense our research and development costs as they are incurred. See the discussion under "Research and Development Projects" below for additional information about expected future research and development expenses.

Research and development expenses increased $1,700,862 or 253.4%, to $2,372,201 for the three months ended September 30, 2011 from $671,339 for the three months ended September 30, 2010. The increase was primarily attributable to increased costs on three of our research and development projects, Serdaxin, RX-3117 and RX-5902. We incurred costs of approximately $1.0 million for our Serdaxin Phase IIb clinical trial, which has been completed and for which results were announced on November 4, 2011. This trial was not being conducted in the three months ended September 30, 2010. The increase is also attributable to costs incurred on our preclinical pipeline, particularly candidates RX-3117 and RX-5902, which are in late-stage preclinical development. Research and development expenses increased $8,053,473 or 328.3%, to $10,506,823 for the nine months ended September 30, 2011 from $2,453,350 for the nine months ended September 30, 2010. The increase was primarily attributable to the Serdaxin Phase IIb clinical trial and preclinical costs as described above.

Patent Fees

Our patent fees increased $75,277, or 61.1%, to $198,424 for the three months ended September 30, 2011 from $123,147 for the three months ended September 30, 2010. Our patent fees increased $136,074, or 57.2%, to $374,163 for the nine months ended September 30, 2011 from $238,089 for the nine months ended September 30, 2010. The increase was primarily due to increased legal costs to respond to inquiries on pending patent applications in the three and nine months ended September 30, 2011.

Depreciation and Amortization

Depreciation and amortization expenses decreased $1,536, or 13.2%, to $10,127 for the three months ended September 30, 2011 from $11,663 for the three months ended September 30, 2010. The decrease is due to fully depreciated assets for the three months ended September 30, 2011 which were still being depreciated for the three months ended September 30, 2010. Depreciation and amortization expenses increased $61 to $34,904 for the nine months ended September 30, 2011 from $34,843 for the nine months ended September 30, 2010. The increase is primarily due to a shorter useful life used for computer equipment. The impact of the change in useful life is immaterial.

Interest Income

Interest income decreased $29,826, or 60.4%, to $19,592 for the three months ended September 30, 2011 from $49,418 for the three months ended September 30, 2010. The decrease is primarily due to a decrease in interest rates and interest-bearing investments for the three months ended September 30, 2011. Interest income increased $3,215, or 3.3%, to $100,914 for the nine months ended September 30, 2011 from $97,699 for the nine months ended September 30, 2010. The increase was primarily due to an increase in interest-bearing investments and higher interest rates on such investments for the first half of 2011 compared to the first half of 2010.

Unrealized Gain (Loss) on Fair Value of Warrants

Our warrants are recorded as liabilities at fair value, and are valued using a lattice model. Changes in the fair value of warrants are recorded as an unrealized gain or loss in our statement of operations. For the three months ended September 30, 2011 and 2010, respectively, we recorded unrealized gains on the fair value of our warrants of $1,866,249 and $2,536,999, respectively. For the nine months ended September 30, 2011 and 2010, we recorded unrealized gains (losses) on the fair value of our warrants of $1,993,469 and ($4,333,496). Estimating fair values of warrants requires the development of significant and subjective estimates that may, and are likely to, change over the duration of the warrant with related changes to external and internal market factors. In addition, option-based techniques are highly volatile and sensitive to the trading market price of the Company's common stock and the resulting estimated volatility of the common stock.

Net Income (Loss)

As a result of the above, the net loss for the three and nine months ended September 30, 2011 was $1,469,218, and $11,734,231 or $0.02 and $0.13 per share, respectively, compared to a net income (loss) of $218,891, and ($11,411,775), or $0.00 and ($0.15) per share, respectively, for the three and nine months ended September 30, 2010.

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 three clinical stage lead drug candidates, Archexin, Serdaxin and Zoraxel and pre-clinical stage drug candidates, RX-3117, RX-5902, RX-0201-Nano, RX-0047-Nano and Nano-polymer Anticancer Drugs. Each of our lead drug candidates is in various stages of completion as described below. As we expand our clinical studies, we will enter into additional development agreements. Significant additional expenditures will be required if we complete our clinical trials, start new trials, apply for regulatory approvals, continue development of our technologies, expand our operations and bring our products to market. The eventual total cost of each clinical trial is dependent on a number of uncertainties such as trial design, the length of the trial, the number of clinical sites and the number of patients. The process of obtaining and maintaining regulatory approvals for new therapeutic products is lengthy, expensive and uncertain. Because the successful development of our most advanced drug candidates, Archexin, Serdaxin and Zoraxel, is uncertain, and because RX-0201-Nano, RX-0047-Nano and Nano-polymer Anticancer Drugs 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, or the findings are not positive, 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.

Archexin®

Archexin is a 20 nucleotide single stranded DNA anti-sense molecule, which we believe is a first-in-class inhibitor of the protein kinase Akt. Akt plays critical roles in cancer cell proliferation, survival, angiogenesis, metastasis, and drug resistance. Archexin received "orphan drug" designation from the U.S. Food and Drug Administration, or FDA, for five cancer indications (renal cell carcinoma, or RCC, glioblastoma, ovarian cancer, stomach cancer and pancreatic cancer). The FDA orphan drug program provides seven years of marketing exclusivity after approval and tax incentives for clinical research. In October 2006, we announced the conclusion of the Phase I clinical trial of Archexin, our leading oncology drug candidate. The Phase I clinical trial of Archexin, which took place at Georgetown University and the University of Alabama, was an open-label, dose-escalation study with 14 day continuous infusion in 17 patients with solid tumors. The Phase I trial was intended primarily to assess the safety and tolerability of Archexin in patients with advanced cancer. The trial results showed that the dose limiting toxicity of Archexin occurring at 315 mg/m^2 dose in the form of fatigue. No other serious adverse events such as hematological toxicities were observed in this Phase I study. In the Phase I study stable disease was observed in two out of the 17 patients. Archexin is currently being studied in a Phase II clinical trial for the treatment of pancreatic cancer with enrollment completed in September, 2011, with results are currently anticipated in mid-2012. The Archexin Phase IIa trial is a single-arm, open-label study and is being conducted globally in the United States and India. Archexin will be administered in combination with gemcitabine in patients with advanced pancreatic cancer to assess safety and preliminary efficacy, maximum tolerated dose, and overall survival. Archexin's Phase II clinical trial protocol for the treatment of RCC was accepted by the FDA, but issues with enrollment delayed the trial. The enrollment issues were primarily due to the small number of patients that have been diagnosed with RCC and the fact that such patients are often treated with surgery instead of drug therapies. The enrollment issues have caused Rexahn to reallocate resources and reprioritize Archexin to pursue studies in pancreatic cancer. We own one issued U.S. patent for Archexin.

The costs incurred for the Phase I clinical trial was approximately $1,500,000. As of September 30, 2011, we have spent approximately $6,420,000 for the development of Archexin and we estimate that the Phase IIa trials for pancreatic cancer patients will be completed in first half of 2012 and will require approximately an additional $350,000 to complete.

Serdaxin® (RX-10100)

Serdaxin is an extended release formulation of clavulanic acid, which is an ingredient present in antibiotics approved by the FDA. We had been developing Serdaxin for the treatment of depression and neurodegenerative disorders. From January to September, 2011, we conducted a randomized, double-blind, placebo-controlled study compared two doses of Serdaxin, 0.5 mg and 5 mg, to placebo over an 8-week treatment period for major depressive disorder ("MDD") patients. On November 4, 2011, we released results that the study showed Serdaxin did not demonstrate efficacy compared to a placebo group as measured by the Montgomery-Asberg Depression Rating Scale ("MADRS"). All groups showed an approximate 14 point improvement in the protocol defined primary endpoint of MADRS, and had a substantial number of patients who demonstrated a meaningful clinical improvement from baseline. The study showed that Serdaxin was safe and well tolerated. At this point, we have not made any determinations of Serdaxin's future paths or allocations of our resources to the further development of Serdaxin for treatment for MDD.

During the quarter ended September 30, 2011, we incurred approximately $1,000,000 for costs associated with the Phase IIb trial for Serdaxin. Through September 30, 2011, the pre-clinical and clinical costs incurred for development of Serdaxin to date have been approximately $8,300,000. As of September 30, 2011, we accrued approximately $1,000,000 in contract costs for the Phase IIb trial expected all of which is expected to be paid in the fourth quarter of 2011. We estimate the Phase IIb trial has approximately $900,000 of additional costs to that will be incurred in the fourth quarter of 2011. We are also currently planning the Phase II clinical trial for Parkinson's disease ("PD") and have submitted the protocol for this study to the FDA. We currently estimate this study will require $600,000 through the first half of 2012. However, we are currently evaluating the proposed Serdaxin trials and have not yet made a determination with respect to the Phase II study for PD.

Zoraxel™ (RX-10100)

We are developing Zoraxel for treatment of erectile dysfunction. Zoraxel is an immediate release formulation of clavulanic acid, the same active ingredient found in our product candidate Serdaxin. The Phase IIa proof of concept, completed with positive results, was a randomized, double blind, placebo controlled and dose ranging (5 mg, 10 mg, 15 mg) study of 39 erectile dysfunction patients (ages of 18 to 65) treated with Zoraxel. The Phase IIa study was completed in May 2009 and demonstrated that Zoraxel consistently improved International Index of Erectile Function, ("IIEF"), scores of treated subjects. The Phase IIa study results showed treatment with 15mg of Zoraxel at week 8 improving subjects' IIEF-EF scores by 6.5, a value obtained from the changes from the baseline between scores of 15 mg of Zoraxel (5.3) and the placebo group (-1.2). Furthermore, the study showed among treated subjects a dose dependent treatment effect with improved erectile function and quality of life measures. The study also showed Zoraxel to be well tolerated in the patients in the study with no serious adverse events reported. To examine the clinical relevance of Zoraxel as an erectile dysfunction drug, an "effect size" analysis has been conducted. Effect size ("ES") is a data analysis index developed by Dr. Jacob Cohen of New York University and is derived from the improvement in IIEF mean score for the treatment group minus the improvement in IIEF mean score of the placebo group over the treatment period, divided by the standard deviation of the entire sample at baseline. An ES value greater than 0.80 is deemed "a considerable change" under the ES criteria. The ES for IIEF-EF and IIEF-intercourse satisfaction indices of Zoraxel (2.59 and 0.88, respectively) were larger than 0.80, suggesting a considerable change in sexual experiences in Zoraxel-treated patients based on the ES criteria. The Phase IIb study is designed to assess Zoraxel's efficacy in approximately 150 male subjects, ages 18 to 70, with ED. The double blind, randomized, placebo-controlled, 12-week study will include IIEF as the primary endpoint following treatment with Zoraxel at 25 and 50 mg doses. The Phase IIb study is expected to begin in the first half of 2012. However, given the recently reported results of the Serdaxin Phase IIb clinical trial, we are currently evaluating how to proceed with the Phase IIb study for Zoraxel.

Through September 30, 2011, the costs incurred for development of Zoraxel to date have been approximately $1,200,000. We currently estimate that these Phase IIb studies will require approximately $3,000,000 throughout the remainder of 2011 and 2012.

Pre-clinical Pipeline

On September 21, 2009, we closed on a securities purchase agreement with Teva Pharmaceutical Industries Limited ("Teva"), under which Teva purchased 3,102,837 shares of our common stock for $3.5 million. Contemporaneous with the execution and delivery of this agreement, the parties executed a research and exclusive license option agreement ("RELO") pursuant to which we agreed to use $2,000,000 from the gross proceeds of the issuance and sale of shares to Teva to fund a research and development program for the pre-clinical development of RX-3117. On January 19, 2011, we entered into a second amendment with Teva to the securities purchase agreement closed in September, 2009. Pursuant to the terms of the amendment, TEVA purchased 2,334,515 shares of our common stock in a private offering for gross proceeds of $3.95 million. The investment by TEVA is restricted to further supporting the research and development program for the pre-clinical development of RX-3117. We will be eligible to receive royalties on net sales of RX-3117 worldwide. This compound may be entered into an exploratory early stage clinical study during the fourth quarter of 2011.

RX-5902 may enter Phase I clinical trials during the first half of 2012. RX-0201-Nano, RX-0047-Nano and Nano-polymer Anticancer Drugs are 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 IND application to the FDA. Through September 30, 2011, the costs incurred for development of these compounds to date have been approximately $2,100,000. The estimated cost to complete pre-clinical toxicology and Phase I clinical trials is estimated to be approximately $1,500,000 per each compound.

The conduct of the clinical trial and toxicology studies described above are being accomplished in conjunction with third-party clinical research organizations 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.

We will need to raise additional money through debt and/or equity offerings in order to continue to develop our drug candidates. If we are not able to raise sufficient additional money, we will have to reduce our research and development activities. We will first reduce research and development activities associated with our preclinical compounds. To the extent necessary, we will then reduce our research and development activities related to some or all of our clinical drugs.

LIQUIDITY AND CAPITAL RESOURCES

Cash used in operating activities was $10,651,611 for the nine months ended September 30, 2011 compared to cash used in operating activities of $4,566,843 for the same period ended September 30, 2010. The increase in cash used in operating activities for the nine months ended September 30, 2011 compared to the nine months ended September 30, 2010 is primarily due to the increased costs on the Serdaxin Phase IIb clinical trial and the pre-clinical development of RX-3117. The operating cash flows during the nine months ended September 30, 2011 reflect our net loss of $11,734,231 and a net increase in cash components of working capital and non-cash charges totaling $1,082,620.

Cash used in investing activities of $2,049,969 for the nine months ended September 30, 2011 consisted of an increase of restricted cash equivalents of $2,545,558, $4,411 for the purchase of equipment and $8,000,000 for the purchase of marketable securities, offset by $8,500,000 from sales of marketable securities. Cash provided by investing activities was $409,750 during the nine months ended September 30, 2010.

Cash provided by financing activities of $13,578,274 during the nine months ended September 30, 2011 consisted of proceeds of $317,961 from the exercise of stock warrants, $40,040 from the exercise of stock options, $3,926,397 from the issuance of common stock to Teva, net of issuance costs, and $9,293,876 from the issuance of 8,333,333 shares of common stock to institutional investors, net of issuance costs. The institutional investors were also issued warrants to purchase 3,333,333 shares of common stock. During the same period in 2010, cash provided by financing activities was $12,688,844, which consisted of net proceeds from the issuance of stock, options and warrants.

For the nine months ended September 30, 2011, we experienced a net loss of $11,734,231. Our accumulated deficit as of September 30, 2011 was $57,473,894.

In June 2011, we filed a shelf registration statement on Form S-3 with the Securities and Exchange Commission which will enable us to offer up to $100 million in securities.

We have not yet generated commercial sales revenue and have been able to fund our operating losses to date through the sale of our common stock, convertible debt financings, interest income from investments of cash and cash equivalents and proceeds from reimbursed research and development costs. During the nine months ended September 30, 2011, we had a net increase in cash and cash equivalents of $876,694. Total cash as of September 30, 2011 was $13,216,933 compared to $12,340,239 as of December 31, 2010. Total cash, restricted cash, and marketable securities were $18,114,384, which we believe will be sufficient to cover our cash flow requirements through December 31, 2012. Although we expect to have to pursue additional financing, there can be no assurance that we will be able to secure financing when needed or obtain such financing on terms satisfactory to us, if at all, or that any additional funding we do obtain will be sufficient to meet our needs in the long term. If we are not able to raise sufficient additional money, we will have to reduce our research and development activities. We will first reduce research and development activities associated with our preclinical compounds. To the extent necessary, we will then reduce our research and development activities related to some or all of our clinical drugs.

CONTRACTUAL OBLIGATIONS

We have 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 term of the agreement, ranging from two months to 36 months. The costs to be incurred are estimated and are subject to revision. As of September 30, 2011, the total contract value of these agreements was approximately $19,914,155 and we have made payments totaling $11,432,004 under the terms of the agreements as of September 30, 2011. All of these agreements may be terminated by either party upon appropriate notice as stipulated in the respective agreements.

On September 9, 2010, we and three of our key executives entered into Amended and Restated Employment Agreements. The Amended and Restated Employment Agreements replace the prior employment contracts entered into on August 10, 2009. We entered into the Amended and Restated Employment Agreements in order to provide the key executives with: (i) an automatic one year renewal upon the expiration of the initial three year term and upon each consecutive year term unless such employment with the Company is terminated earlier by the Company or the executives; (ii) an annual base salary adjustment for inflation as determined by the Consumer Price Index subject to review by the Company's Compensation Committee; (iii) an increase in the Company provided life insurance coverage from an amount equal to two times the executive's annual base salary to an amount equal to four times the executive's annual base salary; and (iv) a one-time cash payment, subject to applicable withholding requirements under applicable state and federal law, in an amount equal to the executive's increased income tax costs as a result of payments made to the executive by the Company under the change of control provisions of the Amended and Restated Employment Agreement. Other than these changes, the new contracts have substantially similar terms to the executives' prior employment agreements. The agreements result in annual commitments of $350,000, $250,000 and $200,000, respectively.

On May 21, 2009, the Company entered into a one year agreement to use lab space commencing on July 1, 2009. The Company agreed to pay monthly payments of $4,554 from October 1, 2009 to June 30, 2010. The agreement has been renewed for a one year term commencing on July 1, 2011 with the same payment schedule.

On June 22, 2009, the Company entered into a License Agreement with Korea Research Institute of Chemical Technology ("KRICT") to acquire the rights to all intellectual properties related to Quinoxaline-Piperazine derivatives that were synthesized under a Joint Research Agreement. The initial license fee was $100,000, all of which was paid as of June 30, 2010. The agreement with KRICT calls for a one-time milestone payment of $1,000,000 within 30 days after the first achievement of marketing approval of the first commercial product arising out of or in connection with the use of KRICT's intellectual properties.

On September 21, 2009, we closed on a securities purchase agreement with Teva, pursuant to which Teva purchased 3,102,837 shares of our common stock for $3.5 million. Contemporaneous with the execution and delivery of this agreement, the parties executed a research and exclusive license option agreement for the development of the anti-cancer compound, RX-3117. RX-3117 is a small molecule, new chemical entity ("NCE"*)*, nucleoside compound that has an anti-metabolite mechanism of action, and has therapeutic potential in a broad range of cancers including colon, lung and pancreatic cancer. Pursuant to the terms of the agreement, Teva has the option to make an additional investment in Rexahn common stock for the purpose of supporting the research and development program for the pre-clinical stage, anti-cancer compound RX-3117, and we will be eligible to receive additional development, regulatory and sales milestone payments. On January 19, 2011, we entered into a second amendment to the securities purchase agreement (the "Second Amendment"). The Second Amendment amends the securities purchase agreement to change the aggregate purchase price to be paid by Teva for a second investment in Rexahn common stock, which aggregate amount shall equal the sum of (i) the estimated amount that is required to complete the pre-clinical research and development program for RX-3117 plus (ii) $450,000 for expenses. Pursuant to the terms of the Second Amendment, Teva purchased 2,334,515 shares of Rexahn Common stock in a private offering for $3.95 million. In addition, the Second Amendment provided for a possible third investment in Rexahn common stock by Teva in the amount of $750,000, which investment may be made by Teva, in its sole discretion, upon the satisfactory completion by Rexahn of an exploratory early-stage clinical study of the compound RX-3117 (the "Phase 0 study"), which study shall be in the location and have protocols that are approved by Teva.

On June 29, 2009, the Company signed a five year lease for 5,466 square feet of office space in Rockville, Maryland commencing on June 29, 2009. The lease requires annual base rents of $76,524 with increases over the next five years. Under the leasing agreement, the Company pays its allocable portion of real estate taxes and common area operating charges. Rent paid under the Company's lease during the nine months ended September 30, 2011 was $109,375.

In connection with the lease agreement, the Company issued a letter of credit of $100,000 in favor of the lessor. The Company has restricted cash equivalents of the same amount for the letter of credit. On August 2, 2010 and July 1, 2011, the letter of credit was reduced to $50,000 and $37,500, respectively.

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. Total cash, including restricted cash, and marketable securities, was $18,114,384 as of September 30, 2011. Based on our current plans and our capital resources, we believe that our cash, restricted cash, and marketable securities will be sufficient to enable us to meet our minimum planned operating needs over the next fifteen months which would entail focusing our resources on Phase II clinical trials of Archexin, Serdaxin, and Zoraxel, and the further development of our preclinical pipeline. Over the next twelve months, we expect to spend a minimum of approximately $0.4 million on clinical development for Phase II clinical trial of Archexin, and approximately $1.9 million will be paid to close out the Serdaxin MDD Phase IIb clinical trial. We expect to pay $3.0 million for the Phase IIb clinical trial for Zoraxel, however, given the results of the Phase IIb study for Serdaxin, we are currently evaluating the use of our resources and which clinical trials to persue. These figures include our commitments described under "Contractual Obligations" of this Item 2. We also expect to pay $5.0 million on the development of our preclinical pipeline, $4.5 million on general corporate expenses, and approximately $210,000 on facilities rent. We will need to seek additional financing to implement and fund 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, Phase II clinical trials for new product candidates, as well as other research and development projects. If we are not able to secure additional financing, we may not be able to implement and fund the research and development.

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.

OFF-BALANCE SHEET ARRANGEMENTS

We do not have any off-balance sheet arrangements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

For the three and nine months ended September 30, 2011, we are exposed to the following market risks:

Interest Rate Risk

We invest our cash in a variety of financial instruments. At September 30, 2011, our cash was invested primarily in short term bank deposits and municipal obligations, all of which were denominated in U.S. dollars. Due to the conservative nature of these investments, which primarily bear interest at fixed rates, we do not believe we have material exposure to interest rate risk. At September 30, 2011, we had no debt instruments on our balance sheet.

Foreign Currency Risk

We are exposed to risks associated with foreign currency transactions on contracts with vendors associated outside of the United States. Accordingly changes in the value of the U.S. dollar, relative to other currencies, may have an impact on our financial statements and earnings. The number and dollar amount of contracts denominated in foreign currency is immaterial; therefore, we believe we do not have material exposure to foreign currency risk.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

As of the end of the period covered by this Quarterly Report on Form 10-Q, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer ("CEO") along with the Company's Chief Financial Officer ("CFO"), of the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")). Based on that evaluation, the CEO along with the CFO concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report.

The Company's management, including the CEO and CFO, does not expect that the Company's disclosure controls and internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls.

Changes in Internal Control Over Financial Reporting

There have not been any changes in the Company's internal controls over financial reporting (as such term is defined in Rule 13a-15(f) under the Exchange Act) during the quarter ended September 30, 2011 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

PART II. Other Information

Item 1. Legal Proceedings.

None

Item 1A. Risk Factors.

The Phase IIb results of Serdaxin may negatively impact our business, and our ability to secure financing.

In November, 2011, we released the results of our Serdaxin Phase IIb trial, which did not demonstrate Serdaxin's efficacy compared to the placebo measured by the Montgomery-Asberg Depression rating scale ("MADRS"). At this point, we have not made any determinations of Serdaxin's future paths or allocations of our resources to the further development of Serdaxin. These results may lead us to delay development of Serdaxin. If we are not able to secure additional financing, we may not be able to implement and fund the research and development.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None

Item 3. Defaults Upon Senior Securities.

None

Item 4. (Removed and Reserved).

Item 5. Other Information.

None

Item 6. Exhibits.

Exhibit No	Description	Location
31.1	Certification of Chief Executive Officer pursuant to Rules 13a-14(a) / 15d-14(a)	
31.2	Certification of Chief Financial Officer pursuant to Rules 13a-14(a) / 15d-14(a)	
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	
101	The following materials from Rexahn Pharmaceuticals, Inc.'s Quarterly Report on Form 10-Q, formatted in Extensible Business Reporting Language ("XBRL"): i) Condensed Balance Sheet, ii) Condensed Statement of Operations, iii) Condensed Statement of Cash Flows and (iv) Notes to the Financial Statements.	

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

REXAHN PHARMACEUTICALS, INC.
(Registrant)

By: /s/ Chang H. Ahn
Chang H. Ahn
Chairman and Chief Executive Officer
(principal executive officer)

Date: November 9, 2011

By: /s/ Tae Heum Jeong
Tae Heum Jeong
Chief Financial Officer and Secretary
(principal financial and accounting officer)

Date: November 9, 2011

INDEX TO EXHIBITS
Quarterly Report on Form 10-Q
Dated September 30, 2011

Exhibit No	Description	Location
31.1	Certification of Chief Executive Officer pursuant to Rules 13a-14(a) / 15d-14(a)	Filed herewith
31.2	Certification of Chief Financial Officer pursuant to Rules 13a-14(a) / 15d-14(a)	Filed herewith
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith
101.INS	XBRL Instance Document	Filed herewith
101.SCH	XBRL Taxonomy Extension Schema	Filed herewith
101.CAL	XBRL Taxonomy Extension Calculation Linkbase	Filed herewith
101.DEF	XBRL Taxonomy Extension Definition Linkbase	Filed herewith
101.LAB	XBRL Taxonomy Extension Label Linkbase	Filed herewith
101.PRE	XBRL Taxonomy Extension Presentation Linkbase	Filed herewith

Exhibit 31.1

CERTIFICATION
Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Amended

I, Chang H. Ahn, certify that:

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

2. Based on my knowledge, this 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 report;

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

4. The registrant'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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

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

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant'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 registrant'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 registrant's internal control over financial reporting.

Dated: November 9, 2011

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

Exhibit 31.2

CERTIFICATION
Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Amended

I, Tae Heum Jeong, certify that:

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

2. Based on my knowledge, this 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 report;

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

4. The registrant'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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

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

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant'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 registrant'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 registrant's internal control over financial reporting.

Dated: November 9, 2011

/s/ Tae Heum Jeong
Tae Heum Jeong
Chief Financial Officer

Exhibit 32.1

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

SECTION 1350 CERTIFICATION*

In connection with the Quarterly Report of Rexahn Pharmaceuticals, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Chang H. Ahn, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

(1) 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 result of operations of the Company.

Dated: November 9, 2011

By: /s/ Chang H. Ahn
Chang H. Ahn,
Chief Executive Officer

* This Certification is being furnished as required by Rule 13a-14(b) under the Securities Exchange Act of 1934 (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code, and shall not be deemed "filed" for purposes of Section 18 of the Exchange Act or otherwise subject to the liability of that section. This Certification shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Exchange Act, except as otherwise stated in such filing.

A signed original of this written statement required by 18 U.S.C. § 1350 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

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

SECTION 1350 CERTIFICATION*

In connection with the Quarterly Report of Rexahn Pharmaceuticals, Inc. (the "Company") on Form 10-Q for the quarter ended September, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Tae Heum Jeong, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

(1) 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 result of operations of the Company.

Dated: November 9, 2011

By: /s/ Tae Heum Jeong
Tae Heum Jeong,
Chief Financial Officer

* This Certification is being furnished as required by Rule 13a-14(b) under the Securities Exchange Act of 1934 (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code, and shall not be deemed "filed" for purposes of Section 18 of the Exchange Act or otherwise subject to the liability of that section. This Certification shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Exchange Act, except as otherwise stated in such filing.

A signed original of this written statement required by 18 U.S.C. § 1350 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request