REXAHN PHARMACEUTICALS, INC.
Form 10QSB
November 14, 2007

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

FORM 10-QSB

(Mark One)

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

For the Quarterly Period Ended September 30, 2007

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

For the Transition Period from _____ to _____

Commission file number: 000-50590

REXAHN PHARMACEUTICALS, INC.
(Exact name of registrant as specified on its charter)

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

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

State the number of shares outstanding of each of the registrant's classes of common equity, as of the latest practicable

date: 50,374,837 issued and 50,360,632 outstanding as of November 14, 2007

Transitional Small Business Disclosure Format (check one): Yes o No x

REXAHN PHARMACEUTICALS, INC.

INDEX

Table of Contents

PART I – FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

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

	September 30, 2007 (unaudited)	December 31, 2006
ASSETS		
Current Assets:		
Cash and cash equivalents	**$ 1,367,801**	$ 4,034,060
Prepaid expenses and other	**417,330**	483,186
Total Current Assets	**1,785,131**	4,517,246
Equipment, Net (note 3)	**117,356**	149,993
Intangible Assets, Net (note 4)	**308,396**	321,971
Total Assets	**$ 2,210,883**	$ 4,989,210
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued expenses	**$ 432,307**	$ 575,363
Total Current Liabilities	**432,307**	575,363
Deferred Revenue (note 5)	**1,143,750**	1,200,000
Total Liabilities	**1,576,057**	1,775,363
Commitment and Contingencies (note 8)		
Stockholders' Equity (note 6):		
Preferred stock, par value $0.0001, 100,000 authorized shares, none issued and outstanding	**-**	-
Common stock, par value $0.0001, 500,000,000 authorized shares, 50,374,837 (2006 – 50,322,337) issued and 50,360,632 (2006 – 50,308,132) outstanding	**5,037**	5,032
Additional paid-in capital	**24,755,640**	23,927,551
Accumulated deficit during the development stage	**(24,097,441)**	(20,690,326)
Treasury stock, 14,205 shares, at cost	**(28,410)**	(28,410)
Total Stockholders' Equity	**634,826**	3,213,847
Total Liabilities and Stockholders' Equity	**$ 2,210,883**	$ 4,989,210

Table of Contents

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

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,		Cumulative from March 19, 2001 (Inception) to September 30, 2007
	2007	2006	**2007**	2006	
Revenue:					
Research	**$ 18,750**	$ 18,750	**$ 56,250**	$ 56,250	$ 356,250
Expenses:					
General and administrative	**555,625**	1,004,030	**1,971,891**	2,662,756	11,582,473
Research and development	**465,934**	635,047	**1,441,225**	3,192,663	10,716,268
Patent fees	**45,698**	100,611	**120,536**	164,900	639,396
Depreciation and amortization	**14,475**	54,817	**46,212**	97,081	428,603
Total Expenses	**1,081,732**	1,794,505	**3,579,864**	6,117,400	23,366,740
Loss from Operations	**(1,062,982)**	(1,775,755)	**(3,523,614)**	(6,061,150)	(23,010,490)
Other (Income) Expense					
Interest income	**(23,606)**	(71,098)	**(116,499)**	(270,377)	(839,196)
Interest expense	**-**	3,998	**-**	95,019	301,147
Beneficial conversion feature	**-**	-	**-**	-	1,625,000
	(23,606)	(67,100)	**(116,499)**	(175,358)	1,086,951
Net Loss	**$ (1,039,376)**	$ (1,708,655)	**$ (3,407,115)**	$ (5,885,792)	$ (24,097,441)
Loss per weighted average number of shares outstanding basic and diluted	**$ (0.02)**	$ (0.03)	**$ (0.07)**	$ (0.12)	
Weighted average number of shares basic and diluted	**50,338,393**	50,265,632	**50,323,209**	48,990,761	

Table of Contents

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

(Unaudited)

	Nine Months Ended September 30,		Cumulative from March 19,2001 (Inception) to September 30,
	2007	2006	2007
Cash Flows from Operating Activities:			
Net loss	**$ (3,407,115)**	$ (5,885,792)	$ (24,097,441)
Adjustments to reconcile net loss to net cash used in operating activities:			
Beneficial conversion feature	**-**	-	1,625,000
Compensatory stock	**-**	-	21,877
Depreciation and amortization	**46,212**	97,081	428,984
Stock option compensation expense	**786,094**	1,312,717	3,036,596
Amortization of deferred revenue	**(56,250)**	(56,250)	(356,250)
Changes in assets and liabilities:			
Prepaid expenses and other	**65,856**	(44,534)	(417,330)
Accounts payable and accrued expenses	**(143,056)**	(297,813)	432,307
Net Cash Used in Operating Activities	**(2,708,259)**	(4,874,591)	(19,326,257)
Cash Flows from Investing Activities:			
Purchase of equipment	-	(48,911)	(498,520)
Net Cash Used in Investing Activities	**-**	(48,911)	(498,520)
Cash Flows from Financing Activities:			
Issuance of common stock	**42,000**	4,609	14,927,204
Proceeds from long-term debt	**-**	-	5,150,000
Proceeds from research contribution	**-**	-	1,500,000
Payment of licensing fees	**-**	(130,570)	(356,216)
Principal payments on long-term debt	**-**	(28,410)	(28,410)
Net Cash Provided by (Used in) Financing Activities	**42,000**	(154,371)	21,192,578
Net Increase (Decrease) in Cash and Cash Equivalents	**(2,666,259)**	(5,077,873)	1,367,801
Cash and Cash Equivalents - beginning of period	**4,034,060**	10,116,625	-
Cash and Cash Equivalents - end of period	**$ 1,367,801**	$ 5,038,752	$ 1,367,801
Supplemental Cash Flow Information			
Interest paid	**$ -**	$ 280,535	$ 292,912

Table of Contents

1. Operations and Organization and Going Concern

Operations and Organization

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

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

Going Concern

The Company's consolidated condensed financial statements are presented on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. The Company has experienced recurring losses from operations since inception that raise substantial doubt as to its ability to continue as a going concern. For the nine-month periods ended September 30, 2007 and 2006, the Company experienced net losses of $3,407,115 and $5,885,792, respectively. At September 30, 2007, the Company has an accumulated deficit of $24,097,441.

The Company is negotiating and has received term sheets for $4,000,000 of equity with two private investors. If finalized, the Company believes it will have sufficient cash to operate for at least twelve months. The Company’s ability to continue as a going concern is contingent upon its ability to maintain the financing and strategic alliances necessary to complete product development, obtain the necessary licensing for its products and attain profitable operations. Although the Company is in clinical trials, there can be no assurance of the success of the clinical trials or of the marketability of the drugs. The Company has entered into negotiations on strategic alliances including research funding collaborations, as well as equity financing with international pharmaceutical companies and other investors in the United States, Europe and Asia. The Company also plans to pursue additional financing. There can be no assurance that the Company will be able to secure financing when needed or to obtain such financing on terms satisfactory to the Company, if at all. The consolidated condensed financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the possible inability of the Company to continue as a going concern.

Table of Contents

2. Summary of Significant Accounting Policies

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

b) Recent Accounting Pronouncements Affecting the Company:

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

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

c) Earnings per share:

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	**2007**	2006
Basic:	50,338,393	50,265,632	50,323,209	48,990,761
Diluted:	50,338,393	50,265,632	50,323,209	48,990,761

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

Table of Contents

3. Equipment, Net

	September 30, 2007	December 31, 2006
Furniture and fixtures	**$ 31,713**	$ 31,713
Office equipment	**43,648**	43,648
Lab equipment	**416,093**	416,093
Computer equipment	**5,066**	5,066
Cylinders and designs	**2,000**	2,000
	498,520	498,520
Less: Accumulated depreciation	**381,164**	348,527
Net carrying amount	**$ 117,356**	$ 149,993

Depreciation expense was $32,637 and $83,723 for the nine months ended September 30, 2007 and 2006, respectively.

4. Intangible Assets, Net

On February 10, 2005, the Company entered into a licensing agreement with Revaax Pharmaceuticals LLC ("Revaax"), whereby the Company received an exclusive, worldwide, royalty bearing license, with the right to sub-license, of Revaax's licensed technology and products. The agreement called for an initial licensing fee of $375,000 to be payable to Revaax in eight quarterly installments ending on November 10, 2006. Accordingly, the Revaax license was measured at fair value at the date the licensing agreement was entered into. The fair value of the license component of $356,216 was determined by discounting the stream of future quarterly payments of $46,875 at 6%, the prevailing market rate for a debt instrument of comparable maturity and credit quality. The asset is amortized on a straightline basis over the estimated useful life of 20 years. The discount was accreted over the term of the liability, calculated based on the Company's estimated effective market interest rate of 6%. As at December 31, 2006 the outstanding balance was paid. Amortization expense was $13,575 and $13,358 for the nine months ended September 30, 2007 and 2006, respectively, and $4,453 and $4,561 for the three months ended September 30, 2007 and 2006, respectively. Management does not believe that there is an impairment of intangible assets at September 30, 2007.

5. Deferred Revenue

In 2003, the Company entered into a collaborative research agreement with Rexgene Biotech Co., Ltd. ("Rexgene"), a minority shareholder. Rexgene is engaged in the development of pharmaceutical products in Asia and has agreed to assist the Company with the research, development and clinical trials necessary for registration of the Company's drug candidate, RX-0201, in Asia. This agreement provides Rexgene with exclusive rights to license, sublicense, make, have made, use, sell and import RX-0201 in Asia. A one-time contribution to the joint development and research of RX-0201 of $1,500,000 was paid to the Company in 2003 in accordance with the agreement. The amount of revenue from this contribution is being recognized as income over the term of the agreement which terminates at the later of 20 years or the term of the patent on the licensed product. The Company is using 20 years as its basis for recognition and accordingly $56,250 was included in revenues for the nine months ended September 30, 2007 and 2006. The remaining $1,143,750 at September 30, 2007 (December 31, 2006-$1,200,000) is reflected as deferred revenue on the balance sheet. The Company adopted SAB No. 104, "Revenue Recognition Nonrefundable Up-front Fees" with respect to the accounting for this transaction. These fees are being used in the cooperative funding of the costs of

development of RX-0201. Royalties of 3% of net sales of licensed products will become payable to the Company on a quarterly basis once commercial sales of RX-0201 begin. The product is still under development and commercial sales are not expected to begin until at least 2009.

Table of Contents

6. Common Stock

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

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

b) On August 10, 2001 the Company issued:

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

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

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

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

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

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

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

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

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

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

i) Pursuant to the agreement and plan of merger 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. For purposes of the Statement of Stockholders' Equity, the five-for-one stock split is reflected as a one-line adjustment. All shares and earnings per share information has been retroactively restated in these financial statements.

8

Table of Contents

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

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

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

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

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

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

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.

7. Stock-Based Compensation

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

date, an additional 30% on the second anniversary and the remaining 40% on the third anniversary.

Table of Contents

For grants to non-employee directors and consultants of the Company after September 12, 2005, the vesting period is between 1 to 3 years, subject to the fulfillment of certain conditions in the individual stock option grant agreements, or 100% upon the occurrence of certain events specified in the individual stock option grant agreements. Options authorized for issuance under the plan total 17,000,000 after giving effect to an amendment to the Company's Stock Option Plan approved at the Annual Meeting of the Stockholders of the Company on June 2, 2006 and as of September 30, 2007, 10,695,000 options are available for issuance.

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

Accounting for Employee Awards

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

In adopting SFAS No. 123R, the Company applied the modified prospective approach to transition. Under the modified prospective approach, the provisions of SFAS No. 123R are to be applied to new employee awards and to employee awards modified, repurchased, or cancelled after the required effective date. Additionally, compensation cost for the portion of employee awards for which the requisite service has not been rendered that are outstanding as of the required effective date will be recognized as the requisite service is rendered on or after the required effective date.

The compensation cost for that portion of employee awards will be based on the grant-date fair value of those awards as calculated for either recognition or pro-forma disclosures under SFAS No. 123.

As a result of the adoption of SFAS No. 123R, the Company's results of operations for the three months and nine months periods ended September 30, 2007 include share-based employee compensation expense totaling $144,880 and $447,996 respectively, and for the three months and nine months periods ended September 30, 2006 include $175,336 and $505,131 respectively. Such amounts have been included in the Statements of Operations in general and administrative and research and development expenses.

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

Accounting for Non-Employee Awards

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

Stock compensation expense related to non-employee options were $69,188 and $338,098 for the three months and nine months periods ended September 30, 2007, respectively, and $329,062 and $807,586 for the three months and nine months periods ended September 30, 2006, respectively.

Table of Contents

Such amounts have been included in the Statements of Operations in general and administrative and research and development expenses.

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

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2007	2006	**2007**	2006
Black-Scholes Weighted Average Assumptions:				
Expected dividend	**0**	0	**0**	0
Expected volatility	**100%**	100%	**100%**	100%
Risk free interest rate	**2.67-4.99%**	4.59%	**2.67-4.99%**	4.59%
Expected term (in years)	**0.3- 5 years**	5 years	**0.3- 5 years**	5 years

	2007		2006	
	Shares Subject to Options	**Weighted Avg. Option Prices**	**Shares Subject to Options**	**Weighted Avg. Option Prices**
Outstanding at January 1	6,123,295	$ 0.94	5,770,000	$ 0.84
Granted	425,000	1.44	1,045,000	1.20
Exercised	(52,500)	0.80	(19,205)	0.24
Cancelled	(352,500)	1.35	(525,000)	0.80
Outstanding at September 30	**6,143,295**	**$ 0.95**	6,270,795	$ 0.90

	Shares Subject to Options	**Weighted Avg. Option Prices**	**Weighted Avg. Remaining Contractual Term**
Outstanding at September 30, 2007	**6,143,295**	**$ 0.95**	**7.1 years**
Exercisable at September 30, 2007	**3,093,420**	**$ 0.84**	**6.9 years**

Table of Contents

	Shares Subject to Options	Weighted Avg. Option Prices	Weighted Avg. Remaining Contractual Term
Outstanding at September 30, 2006	6,270,795	$ 0.90	8.2 years
Exercisable at September 30, 2006	2,937,129	$ 0.82	7.7 years

As of September 30, 2007 and 2006, there was $1,883,885 and $3,506,296 of total unrecognized compensation cost, respectively, net of estimated forfeitures, related to all unvested stock options, which is expected to be recognized over a weighted average vesting period of 1.2 years and 1.75 years, respectively.

8. Commitments and Contingencies

a) The Company has contracted with various vendors to provide research and development services. The terms of these agreements usually require an initiation fee and monthly or periodic payments over the terms of the agreement, ranging from 6 months to 24 months. The costs to be incurred are estimated and are subject to revision. As of September 30, 2007, the total value of these agreements was approximately $2,273,406 and the Company had made payments totaling $1,370,061 under the terms of the agreements as at September 30, 2007. All of these agreements may be terminated by either party upon appropriate notice as stipulated in the respective agreements.

b) On September 12, 2005 the Company and three of its key executives entered into employment agreements. One of the three agreements with an annual commitment of $200,000 expired in September 2006. Another one of the three agreements was renewed on September 12, 2007 and results in an annual commitment of $160,000 and expires September 12, 2009. One agreement expires on September 12, 2010 and results in an annual commitment of $350,000.

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

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

Remainder of 2007	$ 54,841
2008	222,655
2009	112,973
	$ 390,469

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

material respects with currently applicable rules and regulations.

Table of Contents

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

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

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

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

OVERVIEW

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

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

13

Table of Contents

CRITICAL ACCOUNTING POLICIES

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

Use of Estimates

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

Stock-Based Compensation

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

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

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

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

Our results include non-cash compensation expense as a result of stock option grants. For stock-based awards prior to January 1, 2006, we accounted for stock-based employee compensation arrangements in accordance with the provisions of APB Opinion No. 25, "Accounting for Stock Issued to Employees" and comply with the disclosure provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"). Compensation

expense for options granted to employees represents the difference between the fair market value of our common stock and the exercise price of the options at the date of grant. This amount is being recorded over the respective vesting periods of the individual stock options. We expect to record additional non-cash compensation expense in the future, which may be significant. Compensation for options granted to non-employees has been determined in accordance with SFAS No. 123 and EITF 96-18, "Accounting for Equity Instruments that are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services," as the fair value of the equity instruments issued.

Table of Contents

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

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

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

RECENTLY ISSUED ACCOUNTING STANDARDS

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

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

Table of Contents

RESULTS OF OPERATIONS

Comparison of the Three Months and Nine Months Ended September 30, 2007 and 2006:

Total Revenues

For the three months and nine months ended September 30, 2007, we recorded revenue of $18,750 and $56,250, respectively, compared to $18,750 and $56,250, respectively, in the same period last year. Revenues result from the amortization of deferred revenue from a $1,500,000 contribution made in 2003 to us under a collaborative research agreement with Rexgene Biotech Co., Ltd., a minority shareholder.

General and Administrative Expenses

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

General and administrative expenses decreased $447,405 and $690,865, respectively, or 45% and 26%, respectively, from $1,004,030 and $2,662,756, respectively, for the three months and nine months ended September 30, 2006 to $555,625 and $1,971,891, respectively, for the three months and nine months ended September 30, 2007. The decreases were primarily due to lower stock option compensation expenses. Higher general and administrative expenses during the 2006 periods were attributable to stock option compensation expense of $311,387 and $810,397 respectively, for the three months and nine months ended September 30, 2006 compared to $115,565 and $421,487, respectively, for the three months and nine months ended September 30, 2007.

Research and Development Expenses

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

Research and development expenses decreased $169,113 and $1,751,438, respectively, or 27% and 55%, respectively, from $635,047 and $3,192,663, respectively, for the three months and nine months ended September 30, 2006 to $465,934 and $1,441,225, respectively, for the three months and nine months ended September 30, 2007. The decreases were due primarily to the fact that several of our drug candidates underwent clinical trials in 2006 and we had taken preliminary steps to prepare other drug candidates for clinical trials during that time. Dependent upon the Company raising sufficient capital, we expect that research and development expenses will increase as additional drug candidates move into the clinical trials phases of development. Higher research and development expenses during the 2006 periods were also attributable to stock option compensation expense of $193,011 and $502,319, respectively, for the three months and nine months ended September 30, 2006 compared to $98,506 and $364,607, respectively, for the three months and nine months ended September 30, 2007.

Patent Fees

Our patent fees decreased $54,913 and $44,364, respectively, or 55% and 27%, respectively, from $100,611and $164,900, respectively, for the three months and nine months ended September 30, 2006 to $45,698 and $120,536, respectively, for the three months and nine months ended September 30, 2007. The decrease during the three months and nine months ended September 30, 2007 were due primarily to a decrease in the number of patent filings made

during three and nine months ended September 30, 2007 compared to the same periods last year.

Table of Contents

Interest Expense

Interest expense decreased $3,998, and $95,019, respectively, or 100% and 100%, respectively, from $3,998 and $95,019, respectively, for the three months and nine months ended September 30, 2006 to $0, for the three months and nine months ended September 30, 2007. The decreases during the three months and nine months ended September 30, 2007 were primarily due to conversion of $3,850,000 of principal amount of the Company's convertible notes into common stock in May 2006.

Interest Income

Interest income decreased $47,492 and $153,878, respectively, or 67% and 57%, respectively, from $71,098 and $270,377, respectively, for the nine months ended September 30, 2006 to $23,606 and $116,499, respectively, for the three months and nine months ended September 30, 2007. The decreases during the three month and nine month periods ended September 30, 2007 were primarily due to higher cash and cash equivalent balances in the same periods last year.

Depreciation and Amortization

Depreciation and amortization expenses decreased $40,342 and $50,869, respectively, or 74% and 52%, respectively, from $54,817 and $97,081 respectively, for the three months and nine months ended September 30, 2006 to $14,475 and $46,212, respectively, for the three months and nine months ended September 30, 2007. The decreases were due primarily to amortization of fixed assets.

Net Loss

As a result of the above, the net loss for the three months and nine months ended September 30, 2007 was $1,039,376 and $3,407,115, respectively, or $0.02 and $0.07, per share, respectively, compared to a net loss of $1,708,655 and $5,855,792, or $0.03 and $0.12 per share, respectively, for the three months and nine months ended September 30, 2006.

Research and Development Projects

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

We have allocated direct and indirect costs to each program based on certain assumptions and our review of the status of each program, payroll-related expenses and other overhead costs based on estimated usage by each program. Each of our lead drug candidates is in various stages of completion as described below. As we expand our clinical studies, we will enter into additional development agreements. Significant additional expenditures will be required if we complete our clinical trials, start new trials, apply for regulatory approvals, continue development of our technologies, expand our operations and bring our products to market. The eventual total cost of each clinical trial is dependent on a number of uncertainties such as trial design, the length of the trial, the number of clinical sites and the number of patients. The process of obtaining and maintaining regulatory approvals for new therapeutic products is lengthy,

expensive and uncertain. Because the successful development of our most advanced drug candidates, Archexin, Serdaxin and Zoraxel, is uncertain, and because RX-0047 and RX-5902 are in early-stage development, we are unable to estimate the costs of completing our research and development programs, the timing of bringing such programs to market and, therefore, when material cash inflows could commence from the sale of these drug candidates.

Table of Contents

Archexin

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

The Phase I clinical trial of Archexin, which took place at Georgetown University's Lombardi Cancer Center beginning in September 2004 and at the University of Alabama at Birmingham beginning in August 2005, was primarily to determine the safety and tolerability of the drug in patients with advanced cancer. We expect to file a complete final report of Phase I results with the Food and Drug Administration this year. As the main purpose of the clinical trial was to establish the safety of Archexin, the parameters that determined the completion of this project were a direct function of the safety profile of this compound in humans. As this was the first time that Archexin had been administered to humans, the safety profile in humans was unknown and therefore, the number of doses required to determine the dosage at which the FDA safety endpoints would be met was estimated.

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

Serdaxin and Zoraxel

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

RX-0047 and RX-5902

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

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

18

Table of Contents

LIQUIDITY AND CAPITAL RESOURCES

Cash used in operating activities was $2,708,259 for the nine months ended September 30, 2007 compared to cash used in operating activities of $4,874,591 for the same period ended September 30, 2006. The operating cash flows during the nine months ended September 30, 2007 reflect our loss from operations of $3,407,115, offset by non-cash charges of $776,056 and a net decrease in cash components of working capital of $77,200. Non-cash charges consist of depreciation and amortization of $46,212, stock option compensation expense of $786,094 and amortization of deferred revenue of $(56,250). The decrease in working capital primarily consists of a $143,056 decrease in accounts payable and accrued expenses and a decrease of $65,856 of prepaid and other assets.

There was no cash provided by or used in investing activities during the nine months ended September 30, 2007 and $48,911 used in 2006.

Cash provided by financing activities was $42,000 for the nine months ended September 30, 2007 compared to cash used in financing activities of $154,371 for the same period ended September 30, 2006. The cash provided by financing activities during the nine months ended September 30, 2007 consists of issuance of common stock. The increase in cash flows from financing activities is mainly due to principal payments on long-term debt of $28,410 and payment of licensing fees of $130,570 in the nine month period ended September 30, 2006. There were no such costs incurred in the current period.

For the nine months ended September 30, 2007, and the year ended December 31, 2006, we experienced net losses of $3,407,115 and $6,486,003, respectively. Our accumulated deficit as of September 30, 2007, and December 31, 2006 and 2005 was $24,097,441, $20,690,326 and $14,204,323, respectively.

We have financed our operations since inception primarily through equity and convertible debt financings and interest income from investments of cash and cash equivalents. During the nine months ended September 30, 2007, we had a net decrease in cash and cash equivalents of $2,666,259 resulting from the cash used in operating activities. Total cash and cash equivalents as of September 30, 2007 were $1,367,801 compared to $4,034,060 as of December 31, 2006.

The Company is negotiating and has received term sheets for $4,000,000 of equity with two private investors. If finalized, the Company believes it will have sufficient cash to operate for at least twelve months. The Company's ability to continue as a going concern is contingent upon its ability to maintain the financing and strategic alliances necessary to complete product development, attain the necessary licensing for its products and attain profitable operations. Although the Company is in clinical trials, there can be no assurance of the success of the clinical trials or of the marketability of the drug. The Company has entered into negotiations on strategic alliances including research funding collaborations, as well as equity financing with international pharmaceutical companies and other investors in the United States, Europe and Asia. The Company also plans to pursue additional financing. There can be no assurance that the Company will be able to secure financing when needed or to obtain such financing on terms satisfactory to the Company, if at all.

CONTRACTUAL OBLIGATIONS

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

Table of Contents

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

Remainder of	2007	$ 54,841
	2008	222,655
	2009	112,973
		$ 390,469

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

On January 6, 2006, we contracted with Amarex, LLC to conduct Phase II clinical studies for Archexin. In accordance with the agreement, the estimated contract duration is 24 months for a total cost of $596,244 plus pass through expenses. The service costs are payable in 24 monthly payments of $18,633 plus an initiation fee of $149,061 due upon signing. We paid $167,693 and $361,973 towards the cost of the study in the nine months ended September 30, 2007 and in the year ended December 31, 2006, respectively.

On April 3, 2006, we contracted with UPM Pharmaceuticals, Inc. to develop a short-acting extended release formulation for Serdaxin and Zoraxel. In accordance with the agreement, the estimated contract duration is seven months for an estimated cost of $443,975 plus pass through expenses, of which $0 and $112,124 was paid during the nine months ended September 30, 2007 and the year ended December 31, 2006, respectively. The service costs are payable based upon a payment schedule related to certain milestones. On January 4, 2007, the Company signed a one year agreement with Interventure Co. Ltd ("Interventure") engaging Interventure to provide financial and business consulting services to the Company. The Company agreed to pay Interventure $20,000 upon closing of over $1,000,000 of financing secured by Interventure. In addition, in the event that additional financing is arranged by Interventure and successfully consummated by the Company, the Company agreed to pay Interventure a success fee of 3% of such financing.

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

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

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

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

The Company also has agreements with other companies to perform clinical studies with various remaining terms from two months to three years. The total cost for these agreements is approximately $120,000, of which $58,000 has been expended. These agreements may be terminated upon written notice to the other party.

20

Table of Contents

Although we currently believe that our cash and cash equivalents will be sufficient to meet our minimum planned operating needs for the next 3 months, including the amounts payable under the contractual commitments described above, as our drug candidates move into the clinical trials phase of development, we expect to enter into additional agreements of the same type, which may require additional contractual commitments. These additional commitments may have a negative impact on our future cash flows. For the foreseeable future, we will have to fund all of our operations and capital expenditures from the net proceeds of equity or debt offerings we may have, cash on hand, licensing fees and grants. Although we have plans to pursue additional financing, there can be no assurance that we will be able to secure financing when needed or obtain such financing on terms satisfactory to us, if at all, or that any additional funding we do obtain will be sufficient to meet our needs in the long term. If additional funding cannot be obtained, we will review alternative courses of action to conserve our cash flow.

CURRENT AND FUTURE FINANCING NEEDS

We have incurred negative cash flow from operations since we started our business. We have spent, and expect to continue to spend, substantial amounts in connection with implementing our business strategy, including our planned product development efforts, our clinical trials, and our research and development efforts. Based on our current plans and our capital resources (but without giving effect the $4,000,000 financing for which we have received term sheets and are currently negotiating), we believe that our cash and cash equivalents will be sufficient to enable us to meet our minimum planned operating needs for at least the next three months, which would entail focusing our resources on Phase II clinical trials of Archexin. Over the next 12 months we expect to spend a minimum of approximately $500,000 on clinical development for Phase II clinical trials of Archexin, $2 million on general corporate expenses, and approximately $219,000 on facilities rent. We plan to initiate, subject to obtaining sufficient additional financing, Phase II clinical trials of Serdaxin and Zoraxel beginning in the winter of 2007 at an additional cost of up to approximately $3 million. We may seek additional financing to implement and fund other drug candidate development, clinical trial and research and development efforts to the maximum extent of our operating plan, including in-vivo animal and pre-clinical studies and Phase I clinical trials for RX-0047 and RX-5902, Phase II clinical trials for new product candidates, as well as other research and development projects, which together with the minimum operating plan for the next 12 months, could aggregate up to $7 million through the third quarter of 2008.

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

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

21

Table of Contents

IMPACT OF INFLATION

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

OFF-BALANCE SHEET ARRANGEMENTS

We do not have any off-balance sheet arrangements.

CERTAIN BUSINESS RISKS

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

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

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

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

We are not currently profitable and may never become profitable.

We have generated no revenues to date from product sales. Our accumulated deficit as of September 30, 2007 and December 31, 2006 was $24,097,441 and $20,690,326, respectively. For the nine months ended September 30, 2007 and the year ended December 31, 2006, we had net losses of $3,407,115 and $6,486,003, respectively, primarily as a result of expenses incurred through a combination of research and development activities related to the various technologies under our control and expenses supporting those activities. Even if we succeed in developing and commercializing one or more of our drug candidates, we expect to incur substantial losses for the foreseeable future and may never become profitable. We also expect to continue to incur significant operating and capital expenditures and anticipate that our expenses will increase substantially in the foreseeable future, based on the following considerations:

- continued pre-clinical development and clinical trials for our current and new drug candidates;

Table of Contents

- efforts to seek regulatory approvals for our drug candidates;
- implementing additional internal systems and infrastructure;
- licensing in additional technologies to develop; and
- hiring additional personnel.

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

We have a limited operating history.

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

- conducting pre-clinical and clinical trials;
- participating in regulatory approval processes;
- formulating and manufacturing products; and
- conducting sales and marketing activities.

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

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

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

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

Table of Contents

Our drug candidates are in early stages of clinical trials.

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

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

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

- unforeseen safety issues;
- determination of dosing issues;
- lack of effectiveness during clinical trials;
- reliance on third party suppliers for the supply of drug candidate samples;
- slower than expected rates of patient recruitment;
- inability to monitor patients adequately during or after treatment;
- inability or unwillingness of medical investigators and institutional review boards to follow our clinical protocols; and
- lack of sufficient funding to finance the clinical trials.

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

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

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

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

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

- awareness of the drug's availability and benefits;

Table of Contents

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

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

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

- developing drugs;

- undertaking pre-clinical testing and human clinical trials;

- obtaining FDA and other regulatory approvals of drugs;

- formulating and manufacturing drugs; and
- launching, marketing and selling drugs.

Table of Contents

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

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

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

- the degree and range of protection any patents will afford us against competitors, including whether third parties will find ways to invalidate or otherwise circumvent our licensed patents;
- if and when patents will be issued;
- whether or not others will obtain patents claiming aspects similar to those covered by our licensed patents and patent applications; or
- whether we will need to initiate litigation or administrative proceedings which may be costly whether we win or lose.

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

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

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

Table of Contents

- obtain licenses, which may not be available on commercially reasonable terms, if at all;
- redesign our products or processes to avoid infringement;
- stop using the subject matter claimed in the patents held by others, which could cause us to lose the use of one or more of our drug candidates;
- pay damages; or
- defend litigation or administrative proceedings which may be costly whether we win or lose, and which could result in a substantial diversion of our management resources.

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

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

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

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

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

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

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

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

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

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

Table of Contents

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

To date, we have generated no revenues from product sales and only minimal revenues from a research agreement with a minority shareholder, and interest on bank account balances and short-term investments. Our accumulated deficit as of September 30, 2007 and December 31, 2006 was $24,097,441 and $20,690,326, respectively. For nine months ended September 30, 2007 and the year ended December 31, 2006, we had net losses of $3,407,115 and $6,486,003, respectively, primarily as a result of expenses incurred through a combination of research and development activities related to the various technologies under our control and expenses supporting those activities. Until we receive approval from the FDA and other regulatory authorities for our drug candidates, we cannot sell our drugs and will not have product revenues.

The market price of our common stock may fluctuate significantly.

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

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

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

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

Trading of our common stock is limited.

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

29

Table of Contents

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

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

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

Item 3. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

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

Table of Contents

PART II – OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

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

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

None.

Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None

Item 5. OTHER INFORMATION

None

Item 6. EXHIBITS

Exhibit Number	Description
31.1	Certification of Chief Executive Officer of Periodic Report Pursuant to Rule 13a-15(e) or Rule 15d-15(e)
31.2	Certification of Chief Financial Officer of Periodic Report Pursuant to Rule 13a-15(e) or Rule 15d-15(e)
32.1	Certification of Chief Executive Officer of Periodic Report Pursuant to 18 U.S.C. Section 1350
32.2	Certification of Chief Financial Officer of Periodic Report Pursuant to 18 U.S.C. Section 1350

Table of Contents

SIGNATURES

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

REXAHN PHARMACEUTICALS, INC.
/s/ Ted T. H. Jeong
Name: Ted T. H. Jeong
Title: Chief Financial Officer and Secretary
Date: November 14, 2007

Table of Contents

EXHIBIT INDEX

Number	Description
31.1	Certification of Chief Executive Officer of Periodic Report Pursuant to Rule 13a-15(e) or Rule 15d-15(e)
31.2	Certification of Chief Financial Officer of Periodic Report Pursuant to Rule 13a-15(e) or Rule 15d-15(e)
32.1	Certification of Chief Executive Officer of Periodic Report Pursuant to 18 U.S.C. Section 1350
32.2	Certification of Chief Financial Officer of Periodic Report Pursuant to 18 U.S.C. Section 1350