REXAHN PHARMACEUTICALS, INC.
Form 10-K/A
March 23, 2011

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

Form 10-K/A
Amendment No. 1

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2010

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number: 001-34079
Rexahn Pharmaceuticals, Inc.
(Exact name of registrant as specified in its charter)

Delaware	11-3516358
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
15245 Shady Grove Road, Suite 455 Rockville, Maryland	20850
(Address of principal executive offices)	(Zip Code)

(240) 268-5300
(Registrant's telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Exchange Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $.0001 par value per share	NYSE AMEX

Securities registered pursuant to Section 12(g) of the Exchange Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes o No x

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

Large accelerated filer o	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company x

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 aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter: As of June 30, 2010, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was $97,940,504 based on the closing price reported on NYSE Amex.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date:

Class	Outstanding at March 23, 2011
Common Stock, $.0001 par value per share	86,779,406 shares

DOCUMENTS INCORPORATED BY REFERENCE

Document	Parts Into Which Incorporated
Portions of the registrant's Proxy Statement for the Annual Meeting of Stockholders to be held on June 6, 2011	Part III

REXAHN PHARMACEUTICALS, INC.

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Explanatory Note – Amendment

Rexahn Pharmaceuticals, Inc. (the "Company") is filing this Amendment No. 1 on Form 10-K/A (this "Form 10-K/A") to the Company's Annual Report on Form 10-K for the year ended December 31, 2010, which was originally filed with the Securities and Exchange Commission on March 16, 2011 (the "Original Filing").

The purpose of this Form 10-K/A is to provide additional disclosure in the footnotes contained in Item 8 and Item 15 of the Form 10-K regarding terms of certain warrants issued by the Company and the Company's (a) total comprehensive loss, (b) uninsured cash balance and (c) diluted earnings per share and diluted shares outstanding. These revised footnote disclosures have no material impact on the financial statements contained in Item 8 and Item 15 of the Form 10-K. Additionally, this Form 10-K/A revises a risk factor regarding timing of FDA approval and adds a risk factor regarding marketing period exclusivity.

Other than as described above, none of the financial statements or other disclosures in the Original Filing have been amended or updated. Among other things, forward looking statements made in the Original Filing have not been revised to reflect events that occurred or facts that became known to the Company after the filing of the Original Filing, and such forward-looking statements should be read in their historical context. Accordingly, this Form 10-K/A should be read in conjunction with the Company's filings with the Securities and Exchange Commission subsequent to the Original Filing. As required by Rule 12b-15 under the Securities and Exchange Act of 1934, new certifications of our principal executive officer, principal financial officer and principal accounting officer are being filed as exhibits to this Form 10-K/A.

Explanatory Note – Original Filing

The Company has restated herein our financial statements for the fiscal year ended December 31, 2009, and the quarters ended March 31, June 30, and September 30, 2010 to reflect management's determination that the Company had misclassified warrants and a put feature on its common stock as equity. Management has determined that these instruments should have been classified as liabilities.

The Company's Original Report reflect warrants to purchase 8,575,243 shares of the Company's common stock as stockholders' equity as of December 31, 2009. These warrant agreements contain a fundamental transaction provision in which the holders may opt for cash settlement upon the occurrence of a Rule 13e-3 transaction, and should have been classified as liabilities in accordance with ASC 480, "Distinguishing Liabilities from Equity" ("ASC 480"). In addition, these warrants were determined not to be indexed to the Company's stock, and therefore, also require liability classification in accordance with ASC 815, "Derivatives and Hedging" ("ASC 815") The resulting impact of this accounting change is a decrease in the Company's net loss of $1,569,151 for the year ended December 31, 2009, a decrease in the Company's accumulated deficit of $789,374 as of January 1, 2009, an increase in the Company's liabilities of $3,099,476 as of December 31 2009, and a decrease in additional paid-in capital of $5,458,001 as of December 31, 2009. The foregoing adjustments reflect non-cash items in the Company's financial statements.

The Company's Original Report also included anti-dilution make whole provisions as stockholders' equity as of December 31, 2009. On December 18, 2007 and March 20, 2008, the Company entered into Securities Purchase Agreements and extended anti-dilution make whole provisions on its common stock in the event the Company sells or issues shares below the effective purchase price paid by these investors. The investors would thereupon receive additional shares in a ratio outlined in the Securities Purchase Agreement. Management has determined that this provision is a written put and requires liability classification in accordance with ASC 480. The resulting impact of this accounting change is a decrease in the Company's net loss of $1,915,179 for the year ended December 31, 2009, a decrease in the Company's accumulated deficit of $302,647 as of January 1, 2009, an increase in the Company's liabilities of $97,713 as of December 31, 2009, and a decrease in additional paid-in capital of $2,315,539 as of

December 31, 2009. The foregoing adjustments reflect non-cash items in the Company's financial statements.

The total impact of these accounting changes is a decrease in the Company's net loss of $3,484,330 for the year ended December 31, 2009, a decrease in the Company's accumulated deficit of $1,092,021 as of January 1, 2009, an increase in the Company's liabilities of $3,197,189 as of December 31, 2009, and a decrease in additional paid-in capital of $7,773,540 as of December 31, 2009.

For a full description of the restatement, see Note 2 "Prior Period Adjustment" of the "Notes to the Financial Statements" that are included in Part II, Item 8 of this Form 10-K.

The Company has concluded that there was a material weakness in internal control over financial reporting as of December 31, 2009. The Company has implemented remedial measures to correct this material weakness as of December 31, 2010.

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PART I

Item 1A. Risk Factors.

You should carefully consider the risks described below together with the other information included in this Form 10-K/A. Our business, financial condition or results of operations could be adversely affected by any of these risks. If any of these risks occur, the value of our common stock could decline.

We currently have no product revenues, have incurred negative cash flows from operations since inception, and will need to raise additional capital to operate our business.

To date, we have generated no product revenues and have incurred negative cash flow from operations. 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. Through the end of 2011, we expect to spend approximately $8.6 million on clinical development for Phase II clinical trials of Archexin, Serdaxin and Zoraxel™, $5.8 million on the development of preclinical compounds, $4.1 million on general corporate expenses and approximately $200,000 on facilities rent. We will need to raise additional money through debt and/or equity offerings in order to continue to develop our drug candidates. If we are not able to raise sufficient additional money, we will have to reduce our research and development activities. We will first reduce research and development activities associated with our preclinical compounds. To the extent necessary, we will then reduce our research and development activities related to some or all of our clinical drugs.

Additionally, 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.

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 December 31, 2010 and 2009 was $45,739,663 and $31,717,556, respectively. For the years ended December 31, 2010 and 2009, we had net losses of $14,022,107 and $2,903,098, respectively, partially as a result of expenses incurred through a combination of research and development activities related to the various technologies under our control and expenses supporting those activities. Even if we succeed in developing and commercializing one or more of our drug candidates, we expect to incur substantial losses for the foreseeable future and may never become profitable. We also expect to continue to incur significant operating and capital expenditures and anticipate that our expenses will increase substantially in the foreseeable future, based on the following considerations:

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

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- 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. Until we have the capacity to generate revenues, we are relying upon outside funding resources to fund our cash flow requirements.

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, drug candidate research and development 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, and we cannot guarantee how long it will take for FDA to review applications for 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 an 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 guarantee that any of our drug candidates will ultimately be approved by the FDA, if they will ultimately be reviewed on an expedited or priority basis by the FDA, or if an expedited or priority review will significantly shorten actual FDA review time. 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 antisense oligonucleotide (ASO) compounds. To date, although applications have been made by other companies, the FDA has not approved any NDAs for any ASO compounds for cancer treatment. In addition, each of Archexin, RX-0201-nano and RX-0047-nano is of a drug class (Akt inhibitor, in the case of Archexin and RX-0201-nano, and HIF inhibitor, in the case of RX-0047) that has not been approved by the FDA to date, nor have we submitted such NDA. 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.

There is no assurance as to the precise scope of our marketing exclusivity afforded under the Orphan Drug Act.

Even if we have orphan drug designation for a particular drug indication, we cannot guarantee that another company also holding orphan drug designation will not receive FDA approval for the same indication before we do. If that were to happen, our applications for that indication may not be approved until the competing company's seven-year period of exclusivity expired. Even if we are the first to obtain FDA approval for an orphan drug indication, there are certain circumstances under which a competing product may be approved for the same indication during our seven-year period of marketing exclusivity, such as if the later product is shown to be clinically superior to the orphan product. Further, the seven-year marketing exclusivity would not prevent other sponsors from obtaining approval of the same compound for other indications or the use of other types of drugs for the same use as the orphan drug.

Our drug candidates are in the stages of clinical trials.

Our drug candidates are in the stage of development and require extensive clinical testing, which are very expensive, time-consuming and difficult to design. Archexin, our oncology drug candidate, is currently in Phase IIa trials for pancreatic cancer. In 2010, we initiated a Phase IIb clinical trial of Serdaxin for depression, with results expected in early 2012. We completed our Phase IIa clinical trial for Zoraxel, a sexual dysfunction drug candidate, and will initiate a Phase IIb clinical trial in the second half of 2011.

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 up to 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;
- change in the standard of care of the indication being studied
- 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.

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.

Additionally, we may have difficulty enrolling patients in our clinical trials. If we experience such difficulties, we may not be able to complete the clinical trial or we may experience significant delays in completing the clinical trial.

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. In addition, standard of care treatments may change which would require additional studies to be done.

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

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

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

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

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

We depend upon independent investigators and collaborators, such as universities and medical institutions, to conduct our pre-clinical and clinical trials and toxicology studies. This business practice is typical for the pharmaceutical industry and companies like us. For example, the Phase I clinical trials of Archexin were conducted at the Lombardi Comprehensive Cancer Center of Georgetown Medical Center and the University of Alabama at Birmingham, with the assistance of Amarex, LLC, a pharmaceutical clinical research service provider who is responsible for creating the reports that will be submitted to the FDA. We also relied on TherImmune Research Corporation (now named Bridge Global Pharmaceutical Services, Inc.), a discovery and pre-clinical service provider, to summarize Archexin's pre-clinical data. While we make every effort internally to oversee their work, these collaborators are not our employees and we cannot control the amount or timing of resources that they devote to our programs. These investigators may not assign priority to our programs or pursue them as diligently as we would if we were undertaking such programs ourselves. If outside collaborators fail to devote sufficient time and resources to our drug-development programs, or if their performance is substandard, the approval of our FDA applications, if any, and our introduction of

new drugs, if any, may be delayed. The risk of completion or delay of these studies is not within our direct control and a program delay may occur due to circumstances outside our control. A delay in any of these programs may not necessarily have a direct impact on our daily operations. However, to the extent that a delay results in additional cost to us, a higher than expected expense may result. These collaborators may also have relationships with other commercial entities, some of which 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 UPM Pharmaceuticals, Inc. to manufacture, supply, store and distribute supplies of our drug candidates for our clinical trials. If any of our drug candidates receive FDA approval, we will rely on these or other third-party contractors to manufacture our drugs. Our reliance on third-party manufacturers exposes us to the following potential risks:

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

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

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

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

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

- A third party manufacturer may gain knowledge from working with us that could be used to supply one of our competitors with a product that competes with ours.

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

Two of our clinical stage product candidates, Serdaxin and Zoraxel, are based on the same active ingredient, and if safety concerns arise with the active ingredient, then it may delay or prevent further development, regulatory approval or successful commercialization of both product candidates.

Two of our clinical stage product candidates, Serdaxin and Zoraxel, contain the same active ingredient. If safety concerns arise or any other material adverse events occur involving the active ingredient, it may result in delays, prevent the further development or adversely impact our ability to obtain necessary FDA and other regulatory approvals and to successfully commercialize both of these product candidates. Any such delay or inability to further develop and commercialize one or both of Serdaxin and Zoraxel would harm our business and our prospects.

Serdaxin and Zoraxel may be subject to early generic competition or early off-label use of the active ingredient shared by both clinical stage product candidates.

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Two of our clinical stage product candidates, Serdaxin and Zoraxel, are based upon the same active ingredient that has previously been approved by the FDA for use in combination with antibiotics. Because we do not have a patent that claims this active ingredient chemical structure and because we are not likely to be able to obtain new chemical entity market exclusivity for this active ingredient, we may be rapidly subject to early generic competition or early off-label use of the active ingredient, which may adversely impact our ability to successfully commercialize one or both of Serdaxin or Zoraxel and may harm our financial condition, results of operations and business.

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 develop global 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 our 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, such as Keryx Biopharmaceuticals, Genta Incorporated and Imclone Systems Incorporated, as well as academic institutions, government agencies and other public and private research organizations. In addition, many of these competitors, either alone or together with their collaborative partners, operate larger research and development programs or have substantially greater financial resources than we do, as well as more experience in:

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

Large pharmaceutical companies such as Bristol-Myers Squibb, Eli-Lilly, Novartis, Pfizer and Glaxo-SmithKline currently sell both generic and proprietary compounds for the treatment of cancer, depression and erectile dysfunction. In addition, companies pursuing different but related fields represent substantial competition. Many of these organizations have substantially greater capital resources, larger research and development staff 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 an active patent protection program that includes filing patent applications on new compounds to treat cancer and other conditions, formulations, delivery systems, and methods of making and using products, and prosecuting these patent applications in the United States and abroad. As patents issue, we also file continuation applications for some of them. Through these actions, we are building a patent portfolio of patents assigned to and licensed to the company. Further, Rexahn is developing proprietary research and platforms to strengthen and expand our innovative pipelines. However, we cannot predict:

- the degree and range of protection any patents will afford us against competitors, including whether third parties find ways to invalidate or otherwise circumvent our licensed patents;
- if and when patents will issue in the United States or any other country;
- whether or not others will obtain patents claiming aspects similar to those covered by our licensed patents and patent applications;
- whether we will need to initiate litigation or administrative proceedings which may be costly whether we win or lose;
- whether our patents will be challenged by our competitors alleging that a patent is invalid or unenforceable and, if opposed or litigated, the outcome of any administrative or court action as to patent validity, enforceability, or scope;
- whether a competitor will develop a similar compound that is outside the scope of protection afforded by a patent or whether the patent scope is inherent in the claims modified due to interpretation of claim scope by a court;
- whether there were activities previously undertaken by a licensor that could limit the scope, validity, or enforceability of licensed patents and intellectual property;
- whether there will be challenges or litigation brought by a licensor alleging breach of a license agreement and its effect on our ability to practice particular technologies and the outcome of any such challenge or litigation; or
- whether a competitor will assert infringement of its patents or intellectual property, whether or not meritorious, and what the outcome of any related litigation or challenge may be.

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

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

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

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

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

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

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

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

In addition to our own internally developed drug candidates, we proactively seek opportunities to license-in the 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, Chief Executive Officer, Chief Science Officer and regulatory expert, could result in delays in product development and diversion of management resources, which could adversely affect our operating results. Dr. Ahn plans to step down as Chief Executive Officer, but will remain with the Company as our Chief

Science Officer. We do not have “key person” life insurance policies for any of our officers.

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

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

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

To date, we have generated no revenues from product sales and only minimal revenues from a research agreement with a minority shareholder, and interest on bank account balances and short-term investments. Our accumulated deficit as of December 31, 2010 and 2009 was $45,739,663 and $31,717,556, respectively. For the years ended December 31, 2010 and 2009, we had net losses of $14,022,107 and $2,903,098, respectively, partially 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;
- changes in our relationships with our licensors or other strategic partners;
- developments concerning intellectual property rights and regulatory approvals;
- variations in our and our competitors' results of operations;
- changes in earnings estimates or recommendations by securities analysts; and
- developments in the biotechnology industry.

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

Some or all of the "restricted" shares of our common stock issued in the merger of CPRD and Rexahn, Corp or held by other stockholders may be offered from time to time in the open market pursuant to Rule 144, and these sales may have a depressive effect on the market for our common stock. In general, an affiliated person who has held restricted shares for a period of six months 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 700,000 shares) during a

three-month period. Non-affiliates may sell restricted securities after six months without any limits on volume.

Our common stock is currently listed on the NYSE AMEX under the trading symbol “RNN”. However, 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 transactions in penny stock are suitable 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 periodic 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.

We may require additional capital funding the receipt of which may impair the value of our common stock.

If we expand more rapidly than currently anticipated or if our working capital needs exceed our current expectations, we may need to raise additional capital through public or private equity offerings or debt financings. Our future capital requirements depend on many factors including our research, development, sales and marketing activities. We do not know whether additional financing will be available when needed, or will be available on terms favorable to us. If we cannot raise needed funds on acceptable terms, we may not be able to develop or enhance our products, take advantage of future opportunities or respond to competitive pressures or unanticipated requirements. To the extent we raise additional capital by issuing equity securities, our stockholders may experience substantial dilution and the new equity securities may have greater rights, preferences or privileges than our existing common stock.

We have not paid dividends to our stockholders in the past, and we do not anticipate paying dividends to our stockholders in the foreseeable future.

We have not declared or paid cash dividends on our common stock. We currently intend to retain all future earnings, if any, to fund the operation of our business, and therefore we do not anticipate paying dividends on our common stock in the foreseeable future.

Our business could be adversely impacted if we have deficiencies in our disclosure controls and procedures or internal control over financial reporting.

Effective internal control over financial reporting and disclosure controls and procedures are necessary in order for us to provide reliable financial and other reports and effectively prevent fraud. These types of controls are designed to provide reasonable assurance regarding the reliability of financial reporting and the proper preparation of our financial statements, as well as regarding the timely reporting of material information. If we cannot maintain effective internal control or disclosure controls and procedures, or provide reliable financial or Securities and Exchange Commission ("SEC") reports or prevent fraud, investors may lose confidence in our reported financial information, our common stock could be subject to delisting on the stock exchange where it is traded, our operating results and the trading price of our common stock could suffer, and we might become subject to litigation.

While our management will continue to review the effectiveness of our internal control over financial reporting and disclosure controls and procedures, there is no assurance that our disclosure controls and procedures or our internal control over financial reporting will be effective in accomplishing all control objectives, including the prevention and

detection of fraud, all of the time. We have determined that there was a material weakness over financial reporting as of December 31, 2009, however, we implemented remedial measures and believe that our internal controls are effective as of December 31, 2010.

PART II

Item 8. Financial Statements and Supplementary Data.

Our financial statements and financial statement schedule and the Report of Independent Registered Public Accounting Firm thereon are filed pursuant to this Item 8 and are included in this Form 10-K/A beginning on page F-1.

PART III

Item 15. Exhibits, Financial Statement Schedules.

(a) The following documents are filed as a part of this Form 10-K/A:
(b)

(1) Financial Statements:

(2)

All schedules for which provision is made in the applicable accounting regulations of the SEC are omitted because the required information is either presented in the financial statements or notes thereto, or is not applicable, required or material.

(3) Exhibits:

The documents listed below are filed with this Form 10-K/A as exhibits:

Exhibit Number	Exhibit Description
23	Consent of ParenteBeard LLC, independent registered public accounting firm.
24	Power of Attorney
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) or Rule 15d-14(a).

31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) or Rule 15d-14(a).
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.

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SIGNATURES

In accordance with the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the issuer has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on this 23rd day of March 2011.

REXAHN PHARMACEUTICALS, INC.

By: /s/ Chang H. Ahn
Chang H. Ahn
Chairman and Chief Executive Officer

In accordance with the requirement of the Securities Exchange Act of 1934, this report has been signed on the 23rd day of March 2011 by the following persons on behalf of the issuer and in the capacities indicated:

Name	Title
/s/ Chang H. Ahn* Chang H. Ahn	Chairman and Chief Executive Officer (Principal Executive Officer)
/s/ Tae Heum Jeong* Tae Heum Jeong	Chief Financial Officer, Secretary and Director (Principal Financial and Accounting Officer)
/s/ Peter Brandt* Peter Brandt	Director
/s/ David McIntosh* David McIntosh	Director
/s/ Charles Beever* Charles Beever	Director
/s/ Kwang Soo Cheong* Kwang Soo Cheong	Director
/s/ Richard Kivel* Richard Kivel	Director

* By: /s/ Tae Heum Jeong, Attorney-in Fact
Tae Heum Jeong, Attorney-in-Fact**

** By authority of the power of attorney filed as Exhibit 24 hereto.

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EXHIBIT INDEX

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Report of Independent Registered Public Accounting Firm

To the Board of Directors
Rexahn Pharmaceuticals, Inc.
Rockville, Maryland

We have audited the accompanying balance sheet of Rexahn Pharmaceuticals, Inc. (the "Company") (a development stage company) as of December 31, 2010 and 2009, and the related statements of operations, stockholders' equity and comprehensive loss, and cash flows for each of the two years in the period ended December 31, 2010 and the amounts in the cumulative from March 19, 2001 (inception) to December 31, 2010 column in the statements of operations and cash flows. The Company's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of Rexahn Pharmaceuticals, Inc. as of December 31, 2010 and 2009, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2010 and the cumulative period from March 19, 2001 (inception) to December 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Rexahn Pharmaceuticals, Inc. internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 16, 2011 expressed an unqualified opinion.

As discussed in Note 2 to the financial statements, the 2009 financial statements have been restated to correct a material misstatement.

/s/ PARENTEBEARD LLC

New York, New York
March 16, 2011

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

	December 31, 2010	December 31, 2009 (Restated)
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 12,340,239	$ 7,298,032
Marketable securities (note 4)	2,451,620	175,000
Research tax credit receivable (note 16)	145,513	-
Prepaid expenses and other current assets (note 5)	706,649	320,935
Note receivable – current portion (note 6)	28,023	-
Total Current Assets	15,672,044	7,793,967
Restricted Cash Equivalents (note 17)	401,893	2,026,060
Note Receivable (note 6)	18,682	-
Equipment, Net (note 7)	123,565	168,978
Total Assets	$ 16,216,184	$ 9,989,005
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued expenses (note 8)	$ 1,820,900	$ 785,904
Deferred Revenue (note 9)	900,000	975,000
Other Liabilities (note 10)	133,117	128,501
Warrant Liabilities (note 14)	2,966,710	3,099,476
Put Feature on Common Stock (note 15)	-	97,713
Total Liabilities	5,820,727	5,086,594
Commitments and Contingencies (note 17)		
Stockholders' Equity (note 12):		
Preferred stock, par value $0.0001, 100,000,000 authorized shares, none issued and outstanding	-	-
Common stock, par value $0.0001, 500,000,000 authorized shares, 84,175,054 (2009 – 71,938,701) issued and outstanding 84,160,849 (2009 – 71,924,496)	8,418	7,194
Additional paid-in capital	56,157,452	36,641,183
Accumulated other comprehensive loss	(2,340)	-
Accumulated deficit during the development stage	(45,739,663)	(31,717,556)
Treasury stock, 14,205 shares, at cost	(28,410)	(28,410)
Total Stockholders' Equity	10,395,457	4,902,411
Total Liabilities and Stockholders' Equity	$ 16,216,184	$ 9,989,005

(See accompanying notes to financial statements.)

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

	For the Year Ended December 31,		Cumulative from March 19, 2001 (Inception) to December 31,
	2010	2009 (Restated)	2010 (Restated)
Revenues:			
Research	$ 75,000	$ 75,000	$ 600,000
Expenses:			
General and administrative	5,990,624	2,944,103	23,799,166
Research and development	4,009,701	3,251,971	20,493,516
Patent fees	329,925	303,220	1,554,978
Depreciation and amortization	50,659	41,604	595,467
Total Expenses	10,380,909	6,540,898	46,443,127
Loss from Operations	(10,305,909)	(6,465,898)	(45,843,127)
Other Income (Expense)			
Realized gain (loss) on marketable securities .	-	11,025	(9,341)
Interest income	133,268	67,445	1,312,067
Interest expense	-	-	(301,147)
Other income	56,047	-	56,047
Unrealized (loss) gain on fair value of warrants	(3,823,146)	1,793,101	(1,102,345)
Unrealized gain on fair value of put feature on common stock	97,713	1,915,179	2,315,539
Financing expense	(180,080)	(223,950)	(542,356)
Beneficial conversion feature	-	-	(1,625,000)
Total Other Income (Expense)	(3,716,198)	3,562,800	103,464
Net Loss Before Provision for Income Taxes	(14,022,107)	(2,903,098)	(45,739,663)
Provision for Income Taxes	-	-	-
Net Loss	$ (14,022,107)	$ (2,903,098)	$ (45,739,663)
Net loss per share, basic and diluted	$ (0.18)	$ (0.05)	
Weighted average number of shares outstanding, basic and diluted	78,662,495	61,411,442	

(See accompanying notes to financial statements.)

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REXAHN PHARMACEUTICALS, INC.
(A Development Stage Company)
Statements of Stockholders' Equity (Deficit) and Comprehensive Loss
Period from March 19, 2001 (Inception) to December 31, 2010 (Restated)

	Common Stock		Additional	Accumulated Deficit During the	Treasury Stock		Accumulated Other	Total Stockholders'
	Number of shares	Amount	Paid in Capital	Development Stage	Number of stock	Amount	Comprehensive Loss	Equity (Deficit)
Opening balance, March 19, 2001	-	$ -	$ -	$ -	-	$ -	$ -	$ -
Common stock issued	7,126,666	71,266	4,448,702	-	-	-	-	4,519,968
Net loss	-	-	-	(625,109)	-	-	-	(625,109)
Balances at, December 31, 2001	7,126,666	71,266	4,448,702	(625,109)	-	-	-	3,894,859
Net loss	-	-	-	(1,181,157)	-	-	-	(1,181,157)
Balances at, December 31, 2002	7,126,666	71,266	4,448,702	(1,806,266)	-	-	-	2,713,702
Common stock issued	500,000	5,000	1,995,000	-	-	-	-	2,000,000
Stock option compensation	-	-	538,074	-	-	-	-	538,074
Net loss	-	-	-	(2,775,075)	-	-	-	(2,775,075)
Balances at, December 31, 2003	7,626,666	76,266	6,981,776	(4,581,341)	-	-	-	2,476,701
Common stock issued	1,500	15	1,785	-	-	-	-	1,800
Stock option compensation	-	-	230,770	-	-	-	-	230,770
Net loss	-	-	-	(3,273,442)	-	-	-	(3,273,442)
Balances at, December 31, 2004	7,628,166	76,281	7,214,331	(7,854,783)	-	-	-	(564,171)
Stock split (5 for 1)	30,512,664	(72,467)	72,467	-	-	-	-	-
Common stock issued in connection with merger	3,397,802	340	(340)	-	-	-	-	-
Common stock issued for cash	4,175,000	417	8,349,565	-	-	-	-	8,349,982

Common stock issued on conversion of convertible debt	650,000	65	1,299,935	-	-	-	-	1,300,000
Exercise of stock options	40,000	4	9,596	-	-	-	-	9,600
Common stock issued in exchange for services	7,000	1	21,876	-	-	-	-	21,877
Beneficial conversion feature	-	-	1,625,000	-	-	-	-	1,625,000
Stock option compensation	-	-	436,748	-	-	-	-	436,748
Net loss	-	-	-	(6,349,540)	-	-	-	(6,349,540)
Balances at, December 31, 2005	46,410,632	4,641	19,029,178	(14,204,323)	-	-	-	4,829,496
Exercise of stock options	61,705	6	14,802	-	-	-	-	14,808
Common stock issued on conversion of convertible debt	3,850,000	385	3,849,615	-	-	-	-	3,850,000
Purchase of treasury stock	-	-	-	-	14,205	(28,410)	-	(28,410)
Stock option compensation	-	-	1,033,956	-	-	-	-	1,033,956
Net loss	-	-	-	(6,486,003)	-	-	-	(6,486,003)
Balances at, December 31, 2006	50,322,337	$ 5,032	$ 23,927,551	$ (20,690,326)	14,205	$ (28,410)	$ -	$ 3,213,847

(See accompanying notes to financial statements.)

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REXAHN PHARMACEUTICALS, INC.
(A Development Stage Company)
Statements of Stockholders' Equity (Deficit) and Comprehensive Loss (Continued)
Period from March 19, 2001 (Inception) to December 31, 2010 (Restated)

	Common Stock		Additional	Accumulated Deficit During the	Treasury Stock		Accumulated Other	Total Stockholders'
	Number of shares	Amount	Paid-in Capital	Development Stage	Number of shares	Amount	Comprehensive Loss	Equity (Deficit)
Balances at December 31, 2006	50,322,337	$ 5,032	$ 23,927,551	$ (20,690,326)	14,205	$ (28,410)	-	$ 3,213,847
Common stock issued	4,857,159	486	6,799,538	-	-	-	-	6,800,024
Stock options exercised	127,500	12	59,988	-	-	-	-	60,000
Stock option compensation	-	-	1,121,646	-	-	-	-	1,121,646
Stock issuance costs	-	-	(139,674)	-	-	-	-	(139,674)
Net loss	-	-	-	(4,304,005)	-	-	-	(4,304,005)
Balances at December 31, 2007	55,306,996	5,530	31,769,049	(24,994,331)	14,205	(28,410)	-	6,751,838
Common stock issued	642,858	65	899,936	-	-	-	-	900,001
Stock options exercised	90,000	9	31,191	-	-	-	-	31,200
Stock option compensation	-	-	484,684	-	-	-	-	484,684
Net loss	-	-	-	(4,912,148)	-	-	-	(4,912,148)
Unrealized loss on securities available-for -sale	-	-	-	-	-	-	(550,480)	(550,480)
Balances at December 31, 2008	56,039,854	5,604	33,184,860	(29,906,479)	14,205	(28,410)	(550,480)	2,705,095
Prior period adjustment (Note 2)	-	-	(6,399,805)	1,092,021	-	-	-	(5,307,784)
Balances at January 1, 2009, as adjusted	56,039,854	5,604	26,785,055	(28,814,458)	14,205	(28,410)	(550,480)	(2,602,689)
Issuance of common stock and units	15,883,847	1,588	9,996,015	-	-	-	-	9,997,603
	15,000	2	3,600	-	-	-	-	3,602

Stock options exercised								
Stock issuance costs	-	-	(641,018)	-	-	-	-	(641,018)
Stock option compensation	-	-	497,531	-	-	-	-	497,531
Net loss	-	-	-	(2,903,098)	-	-	-	(2,903,098)
Reversal of unrealized loss on securities available-for-sale	-	-	-	-	-	-	550,480	550,480
Balances at December 31, 2009	71,938,701	7,194	36,641,183	(31,717,556)	14,205	(28,410)	-	4,902,411
Issuance of common stock and units	6,666,667	667	8,198,534	-	-	-	-	8,199,201
Stock issuance costs	-	-	(681,773)	-	-	-	-	(681,773)
Common stock issued in exchange for services	1,700,000	170	2,107,830	-	-	-	-	2,108,000
Stock options exercised	155,500	16	107,224	-	-	-	-	107,240
Stock warrants exercised	3,714,186	371	9,199,797	-	-	-	-	9,200,168
Stock option compensation	-	-	584,657	-	-	-	-	584,657
Net loss	-	-	-	(14,022,107)	-	-	-	(14,022,107)
Unrealized loss on securities available-for -sale	-	-	-	-	-	-	(2,340)	(2,340)
Balances at December 31, 2010	84,175,054	$ 8,418	$ 56,157,452	$ (45,739,663)	14,205	$ (28,410)	$ (2,340)	$ 10,395,457

(See accompanying notes to financial statements.)

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

	For the Year Ended December 31,		Cumulative From March 19, 2001 (Inception) to December 31,
	2010	2009	2010
Cash Flows from Operating Activities:		(Restated)	(Restated)
Net loss	$ (14,022,107)	$ (2,903,098)	$ (45,739,663)
Adjustments to reconcile net loss to net cash used in operating activities:			
Beneficial conversion feature	-	-	1,625,000
Compensatory stock	2,108,000	-	2,129,877
Depreciation and amortization	50,659	41,604	595,467
Stock option compensation	584,657	497,531	4,939,022
Amortization of deferred revenue	(75,000)	(75,000)	(600,000)
Note receivable	(46,705)	-	(46,705)
Realized (gains) losses on marketable securities	-	(11,025)	9,341
Amortization of deferred lease incentive	(20,000)	(10,000)	(30,000)
Unrealized loss (gain) on fair value of warrants	3,823,146	(1,793,101)	1,102,345
Unrealized gain on fair value of put feature on common stock	(97,713)	(1,915,179)	(2,315,539)
Financing expense	180,080	223,950	542,356
Deferred lease expenses	24,616	38,501	63,117
Loss on impairment of intangible assets	-	286,132	286,132
Changes in assets and liabilities:			
Prepaid expenses and other current assets	(385,714)	45,830	(706,649)
Research tax credit receivable	(145,513)	-	(145,513)
Accounts payable and accrued expenses	1,034,996	427,010	1,820,900
Net Cash Used in Operating Activities	(6,986,598)	(5,146,845)	(36,470,512)
Cash Flows from Investing Activities:			
Restricted cash equivalents	1,624,167	(2,026,060)	(401,893)
Purchase of equipment	(5,246)	(18,370)	(548,948)
Purchase of marketable securities	(2,353,960)	(1,371,824)	(13,123,960)
Proceeds from sales of marketable securities	75,000	4,758,079	10,660,659
Payment of licensing fees	-	-	(356,216)
Net Cash Provided by (Used in) Investing Activities	(660,039)	1,341,825	(3,770,358)
Cash Flows from Financing Activities:			
Issuance of common stock and units, net of issuance costs	9,318,228	10,730,320	42,585,301
Proceeds from exercise of stock options	107,240	3,602	110,842
Proceeds from exercise of stock warrants	3,263,376	-	3,263,376
Proceeds from long-term debt	-	-	5,150,000
Proceeds from research contribution	-	-	1,500,000
Purchase of treasury stock	-	-	(28,410)

Net Cash Provided by Financing Activities	12,688,844	10,733,922	52,581,109
Net Increase in Cash and Cash Equivalents	5,042,207	6,928,902	12,340,239
Cash and Cash Equivalents - beginning of period	7,298,032	369,130	-
Cash and Cash Equivalents - end of period	$ 12,340,239	$ 7,298,032	$ 12,340,239

(See accompanying notes to financial statements.)

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

	For the Year Ended December 31,		Cumulative From March 19, 2001 (Inception) to December 31,
	2010	2009 (Restated)	2010 (Restated)
Supplemental Cash Flow Information			
Interest paid	$ -	$ -	$ 301,147
Non-cash financing and investing activities:			
Warrants issued	$ 1,980,880	$ 4,565,821	$ 8,130,094
Put feature on common stock issued	$ -	$ -	$ 4,954,738
Dilutive issuances of common stock	$ -	$ 2,639,199	$ 2,639,199
Warrant liability extinguishment from exercise of warrants	$ 5,936,792	$ -	$ 5,936,792
Leasehold improvement incentive	$ -	$ 100,000	$ 100,000
Settlement of lawsuit	$ 43,953	$ -	$ 43,953

(See accompanying notes to financial statements.)

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REXAHN PHARMACEUTICALS, INC.
(A Development Stage Company)
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1. Operations and Organization

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 Company has not yet generated commercial sales revenue and has been able to fund its operating losses to date through the sale of its common stock, issuance of long-term debt, and proceeds from reimbursed research and development costs. The Company believes that its existing cash and cash equivalents and marketable securities will be sufficient to cover its cash flow requirements for 2011. Management has the capability of managing the Company's operations within existing cash and marketable securities available by reducing its research and development activities. This may result in slowing down clinical studies, but will conserve the Company's cash to allow it to operate for the next twelve months.

Reverse Merger Acquisition

Pursuant to an Agreement and Plan of Merger by and among Rexahn, Corp ("Rexahn"), Corporate Road Show.Com Inc. ("CRS"), a New York corporation and predecessor corporation of the Company, CRS Merger Sub, Inc., a Delaware corporation and wholly owned subsidiary of CRS ("Merger Sub"), CRS Delaware, Inc., a Delaware corporation and wholly owned subsidiary of CRS, immediately after giving effect to a 1-for-100 reverse stock split and the reincorporation of CRS as a Delaware corporation under the name Rexahn Pharmaceuticals, Inc. ("Rexahn Pharmaceuticals"), on May 13, 2005, Merger Sub merged with and into Rexahn, with Rexahn surviving as a wholly owned subsidiary of Rexahn Pharmaceuticals (the "Acquisition Merger"). In the Acquisition Merger, (i) each share of the issued and outstanding common stock of Rexahn (other than dissenting shares) was converted into the right to receive five shares of Rexahn Pharmaceuticals common stock; and (ii) each issued, outstanding and unexercised option to purchase a share of Rexahn common stock was converted into an option to purchase five shares of Rexahn Pharmaceuticals common stock.

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

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

Merger of Subsidiary

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

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2. Prior Period Adjustment

The financial statements of the Company as of and for the year ended December 31, 2009 have been restated as a result of management's determination that the Company had misclassified warrants issued to investors from offerings occurring in December 2007, March 2008, June 2009, October 2009 and December 2009. The warrants were previously reported as equity, but further review by management concluded that these warrants should have been classified as liabilities at inception due to provisions within the warrant agreement, and should be reported at fair value at the balance sheet date.

Management also determined that the Anti-dilution make whole provision (the "Anti-dilution provision"), which is a put on the common stock, issued in the 2007 and 2008 offerings were also misclassified as equity. The Anti-dilution provision, whereby additional shares and warrants would be issued to investors if the Company, within two years of the date of the offering, issued equity instruments at prices lower than the individual unit offering prices is a put on the common stock and therefore should have been reported as a liability at fair value at inception.

The restatement of these errors reduces the Company's net loss, as originally reported for the year ended December 31, 2009 by $3,484,330 ($.05 per basic and diluted share) to a loss of $2,903,098. The restatement also reduced the Company's accumulated deficit by $1,092,021 due to the prior period adjustment from the Company's offerings in 2007 and 2008 as of January 1, 2009. The restated balances at January 1, 2009 also include a reduction of additional paid-in capital of $6,399,805, and an increase in warrant liabilities and the put feature on common stock liability of $655,693 and $4,652,091, respectively. The restatement had no effect on the Company's cash, loss from operations or net cash used in operating activities for the year ended December 31, 2009. After reviewing the circumstances leading up to the restatement, management believes that the errors were inadvertent and unintentional. In addition, following the discovery of these errors, the Company began implementing procedures intending to strengthen its internal control processes and prevent a recurrence of these errors.

The effects of the restatement on the Company's balance sheet as of December 31, 2009 and statement of operations and cash flows for the year then ended is as follows:

(All amounts in U.S. dollars)

BALANCE SHEET AS OF DECEMBER 31, 2009

	As previously reported	Effect of Restatement	As restated
Warrant liabilities	-	3,099,476	3,099,476
Put feature on common stock	-	97,713	97,713
Total liabilities	1,889,405	3,197,189	5,086,594
Additional paid-in capital	44,414,723	(7,773,540)	36,641,183
Accumulated deficit during the development stage	(36,293,907)	4,576,351	(31,717,556)
Total stockholders' equity	8,099,600	(3,197,189)	4,902,411

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2. Prior Period Adjustment, (cont'd)

STATEMENT OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2009

	As previously reported	Effect of Restatement	As restated
Unrealized gain on fair value of put feature on common stock	-	1,915,179	1,915,179
Unrealized gain on fair value of warrants	-	1,793,101	1,793,101
Financing expense	-	(223,950)	(223,950)
Total other income	78,470	3,484,330	3,562,800
Net loss before provision for income taxes	(6,387,428)	3,484,330	(2,903,098)
Net loss	(6,387,428)	3,484,330	(2,903,098)
Net loss per share, basic and diluted	(0.10)	(0.05)	(0.05)

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2009

	As previously reported	Effect of Restatement	As restated
Cash Flows from Operating Activities:			
Net loss	(6,387,428)	3,484,330	(2,903,098)
Unrealized gain on fair value of put feature on common stock	-	(1,915,179)	(1,915,179)
Unrealized gain on fair value of warrants	-	(1,793,101)	(1,793,101)
Financing expense	-	223,950	223,950
Net cash used in operating activities	(5,146,845)	-	(5,146,845)

3. Summary of Significant Accounting Policies

a) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and short-term investments purchased with remaining maturities of three months or less at acquisition.

b) Marketable Securities

Marketable securities are considered "available-for-sale" in accordance with Financial Statement Accounting Board ("FASB") Accounting Standard Codification ("ASC") 320, "Debt and Equity Securities", and thus are reported at fair value in our accompanying balance sheet, with unrealized gains and losses excluded from earnings and reported as a separate component of stockholders' equity. Realized gains and losses are accounted for on the basis of specific identification and are included in other income or expense in the statement of operations. The Company classifies such investments as current on the balance sheet as the investments are readily marketable and available for use in our current operations. Accumulated other comprehensive loss for the years ended December 31, 2010 and 2009 was $2,340 and $0, respectively. The Company's total comprehensive loss was $14,024,447 and $2,352,618 for the years ended December 31, 2010 and 2009, respectively.

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

c) Equipment

Equipment is stated at cost less accumulated depreciation. Depreciation, based on the lesser of the term of the lease or the estimated useful life of the assets, is provided as follows:

	Life	Depreciation Method
Furniture and fixtures	7 years	straight line
Office equipment	5 years	straight line
Lab equipment	5-7 years	straight line
Computer equipment	5 years	straight line
Leasehold improvements	3-5 years	straight line

During the year ended December 31, 2010, the Company changed the depreciation method for furniture and fixtures, office equipment, and lab equipment from double declining balance to straight line as it concluded that the straight line method matched the expense throughout the useful lives of the assets. The Company determined that the impact of the change in depreciation method was immaterial.

d) Research and Development

Research and development costs are expensed as incurred. Research and development expenses consist primarily of third party service costs under research and development agreements, salaries and related personnel costs, as well as stock compensation related to these 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 licensing rights to technology in the research and development stage that have no alternative future uses and are for unapproved product compounds are expensed as incurred.

e) Use of Estimates

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

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

f) Fair Value of Financial Instruments

The carrying amounts reported in the accompanying financial statements for cash and cash equivalents, note receivable, prepaid expenses and other current assets and accounts payable and accrued expenses approximate fair value because of the short-term maturity of these financial instruments. The fair values for marketable securities, warrant liabilities and the put feature on common stock is discussed in footnotes 4, 14, and 15, respectively.

g) Income Taxes

The Company accounts for income taxes in accordance with ASC 740, "Income Taxes". Deferred tax assets and liabilities are recorded for differences between the financial statement and tax basis of the assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates. ASC 740 requires that a valuation allowance be established when it is more likely than not that all portions of a deferred tax asset will not be realized. A review of all positive and negative evidence needs to be considered, including a company's current and past performance, the market environment in which the company operates, length of carryback and carryforward periods and existing contracts that will result in future profits. Income tax expense is recorded for the amount of income tax payable or refundable for the period, increased or decreased by the change in deferred tax assets and liabilities during the period.

As a result of the Company's significant cumulative losses, we determined that it was appropriate to establish a valuation allowance for the full amount of our deferred tax assets.

The calculation of our tax liabilities involves the inherent uncertainty associated with the application of complex tax laws. We are subject to examination by various taxing authorities. We believe that as a result of our losses sustained to date, any examination would result in a reduction of our net operating losses rather than a tax liability. As such, we have not provided for additional taxes estimated under ASC 740.

h) Loss Per Share

The Company accounts for loss per share pursuant to ASC 260, "Earnings per Share", which requires disclosure on the financial statements of "basic" and "diluted" loss per share. Basic loss per share is computed by dividing net loss by the weighted average number of common shares outstanding for the year. Diluted loss per share is computed by dividing net loss by the weighted average number of common shares outstanding plus potentially dilutive securities outstanding for each year. Potentially dilutive securities include stock options and warrants. Diluted loss per share for the years ended December 31, 2010 and 2009 is the same as basic loss per share due to the fact that the Company incurred losses for all periods presented and the inclusion of common share equivalents would be antidilutive. The following securities, presented on a common share equivalent basis, have been excluded from the per share computations:

	December 31, 2010	December 31, 2009
Stock Options	8,076,795	7,715,795

Warrants	5,624,583	8,575,243

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

i) Stock-Based Compensation

In accordance with ASC 718 "Stock Compensation" compensation costs related to share-based payment transactions, including employee stock options, are to be recognized in the financial statements. In addition, the Company adheres to the guidance set forth within Securities and Exchange Commission ("SEC") Staff Accounting Bulletin ("SAB") No. 107, which provides the Staff's views regarding the interaction between ASC 718 and certain SEC rules and regulations, and provides interpretations with respect to the valuation of share-based payments for public companies.

j) Impairment of Long-Lived Assets

In accordance with ASC 360, "Property, Plant and Equipment", long-lived assets to be held and used are analyzed for impairment whenever events or changes in circumstances indicate that the related carrying amounts may not be recoverable. The Company evaluates at each balance sheet date whether events and circumstances have occurred that indicate possible impairment. If there are indications of impairment, the Company uses future undiscounted cash flows of the related asset or asset grouping over the remaining life in measuring whether the assets are recoverable. In the event such cash flows are not expected to be sufficient to recover the recorded asset values, the assets are written down to their estimated fair value. Management determined that an impairment of intangible assets occurred in 2009 and wrote-off the assets remaining carrying value of $286,132, which is reflected in research and development expenses in the Company's statement of operations for the year ended December 31, 2009.

k) Concentration of Credit Risk

The Company does not have significant off-balance sheet risk or credit concentration. The Company maintains cash and short-term investments with major financial institutions. From time to time the Company has funds on deposit with commercial banks that exceed federally insured limits. The balances are insured by either the Federal Deposit Insurance Corporation or the Securities Investor Protection Corporation up to $250,000. At December 31, 2010, the Company's uninsured cash balance was $12,287,487.

l) Reclassification

Certain amounts in the prior year's financial statements have been reclassified to conform with the current year presentation with no net effect on the financial statements.

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

l) Recent Accounting Pronouncements Affecting the Company

Fair Value Measurements

In January, 2010, the FASB issued guidance which requires, in both interim and annual financial statements, for assets and liabilities that are measured at fair value on a recurring basis, disclosures regarding the valuation techniques and inputs used to develop those measurements. It also requires separate disclosures of significant amounts transferred in and out of Level 1 and Level 2 fair value measurements and a description of the reasons for the transfers. This guidance is effective for the Company beginning January 1, 2011 and is required to be applied prospectively to new or significantly modified revenue arrangements. Management currently believes that the adoption of this guidance will not have a material impact on the Company's financial statements.

Milestone Method of Revenue Recognition

In April, 2010, the FASB issued guidance on defining a milestone and determining when it may be appropriate to apply the milestone method of revenue recognition for research and development transactions. Consideration that is contingent on achievement of a milestone in its entirety may be recognized as revenue in the period in which the milestone is achieved only if the milestone is judged to meet certain criteria to be considered substantive. Milestones should be considered substantive in their entirety and may not be bifurcated. An arrangement may contain both substantive and nonsubstantive milestones, and each milestone should be evaluated individually to determine if it is substantive. This guidance is effective on a prospective basis for milestones in fiscal years and interim periods within those years, beginning on or after June 15, 2010, with early adoption permitted. The Company is evaluating the impact this guidance may have on its financial statements.

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4. Marketable Securities

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

Securities available-for-sale	Cost Basis	Gross Unrealized Losses	Fair Value
December 31, 2010:			
State and municipal obligations	$ 2,453,960	$ (2,340)	$ 2,451,620
December 31, 2009:			
State and municipal obligations	$ 175,000	$ -	$ 175,000

Amortized cost and fair value at December 31, 2010 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because the Company may redeem certain securities at par.

Maturity	Cost Basis	Gross Unrealized Losses	Fair Value
1 year or less	$ 503,960	$ (2,340)	$ 501,620
10 years or more	1,950,000	-	$ 1,950,000
	$ 2,453,960	$ (2,340)	$ 2,451,620

5. Prepaid Expenses and Other Current Assets

	December 31, 2010	December 31, 2009
Deposits on contracts	$ 564,074	$ 245,476
Other assets	142,575	75,459
	$ 706,649	$ 320,935

Deposits on contracts consist of deposits on research and development contracts for services that have not yet been incurred. Other assets include prepaid general and administrative expenses such as insurance, rent, and consulting services.

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6. Note Receivable

On June 16, 2010, Amarex, LLC ("Amarex") executed a note payable to the Company in settlement of a contract dispute. The Company settled the case with Amarex for $100,000 less a balance owed of $43,953. The principal sum of the note was $56,047, and is included in other income in the Company's statement of operations. Monthly payments of $2,335 began on September 1, 2010 and will continue until August 1, 2012 at which time the balance is expected to be paid in full. The note does not bear interest. Pursuant to the note, Amarex shall pay a late charge of five percent (5%) of any past due installment payments if any installment payment is not paid within 10 days of its due date. As of December 31, 2010, all payments were made as scheduled.

As of December 31, 2010, the principal amortization of the note is shown below:

Principal Amortization	Expected Payment
Within 1 year	$ 28,023
1 year to Maturity Date (August 1, 2012)	18,682
	$ 46,705

7. Equipment, Net

	December 31, 2010	December 31, 2009
Furniture and fixtures	$ 32,169	$ 32,169
Office equipment	77,032	72,385
Lab and computer equipment	429,415	428,816
Leasehold improvements	110,713	110,713
	649,329	644,083
Less Accumulated depreciation	(525,764)	(475,105)
Net carrying amount	$ 123,565	$ 168,978

Depreciation expense was $50,659 and $41,604 for the years ended December 31, 2010 and 2009, respectively.

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8. Accounts Payable and Accrued Expenses

	December 31, 2010	December 31, 2009
Trade payables	$ 489,527	$ 132,212
Accrued expenses	18,466	85,470
Accrued research and development contract costs	1,239,233	427,189
Payroll liabilities	73,674	141,033
	$ 1,820,900	$ 785,904

9. Deferred Revenue

In 2003, the Company entered into a collaborative research agreement with Rexgene Biotech Co., Ltd. (“Rexgene”), a shareholder. Rexgene is engaged in the development of pharmaceutical products in Asia and has agreed to assist the Company with the research, development and clinical trials necessary for registration of the Company’s drug candidate, Archexin, in Asia. This agreement provides Rexgene with exclusive rights to license, sublicense, make, have made, use, sell and import Archexin in Asia. A one-time contribution to the joint development and research of Archexin 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 $75,000 was included in revenues for the years ended December 31, 2010 and 2009. The remaining $900,000 and $975,000 at December 31, 2010 and 2009, respectively, is reflected as deferred revenue on the balance sheet. The contribution is being used in the cooperative funding of the costs of development of Archexin. Royalties of 3% of net sales of licensed products will become payable to the Company on a quarterly basis once commercial sales of Archexin begin. The product is still under development and commercial sales are not expected to begin until at least 2012.

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10. Other Liabilities

Deferred Lease Incentive

On June 29, 2009, the Company entered into a five year office lease agreement as discussed in note 17. The lessor agreed to grant a leasehold improvement allowance of $100,000 to the Company to be used for the construction cost of improvements, architectural and engineering fees, government agency plan check, permit and other fees, sales and use taxes, testing and inspection costs, construction fees and telephone and data cabling and wiring in the premises. The full amount of leasehold improvement allowance had been used up by the Company by December 31, 2009. The Company accounts for the benefit of the leasehold improvement allowance on a straight line basis as a reduction of rental expense over the 5 year lease term.

The following table sets forth the deferred lease incentive:

	December 31, 2010	December 31, 2009
Deferred lease incentive	$ 100,000	$ 100,000
Less accumulated amortization	(30,000)	(10,000)
Balance	$ 70,000	$ 90,000

Deferred Office Lease Expense

The office lease agreement, discussed above, requires an initial annual base rent of $76,524 with annual increases over the next five years. The Company recognizes rental expense on a straight-line basis over the term of the lease, which resulted in a deferred rent liability of $63,117 and $31,670 as of December 31, 2010, and 2009, respectively.

Deferred Lab Lease Expense

On May 21, 2009, the Company entered into a one year agreement to use lab space commencing on July 1, 2009. The lessor granted free rent to the Company for the period from July 1, 2009 to September 30, 2009. The Company recognizes rental expense on a straight-line basis over the term of the lease, which resulted in a deferred rent liability of $6,831 as of December 31, 2009. The lease was renewed for one year on June 28, 2010. There was no deferred rent liability for the lab lease as of December 31, 2010.

11. Net Loss per Common Share

We compute basic loss per share by dividing net loss by the weighted average number of common shares outstanding and excluding any potential dilution. Net loss per common share assuming dilution was computed by reflecting potential dilution from the exercise of stock options and warrants. As of December 31, 2010 and 2009, there were stock options and warrants to acquire 13,701,378 and 16,291,038 shares of our common stock, respectively. These shares were excluded from the computations of diluted loss per share because their effect would be anti-dilutive.

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12. Common Stock

The following transactions occurred from March 19, 2001 (inception) to December 31, 2010:

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. All shares and earnings per share information have been retroactively restated in these financial statements.

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12. Common Stock (cont'd)

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.

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12. Common Stock (cont'd)

w) On December 18, 2007, the Company issued 4,857,159 units at a price $1.40 per share for total gross proceeds of $6,800,023. Investors also were issued one warrant for every five shares purchased. One warrant will entitle the holder to purchase an additional share of common stock at a purchase price of $1.80 at any time over a period of three years from the date of the closing. The Company has recorded the warrants as liabilities at fair value as discussed in footnote 14.Private placement closing costs of $139,675 were recorded as a reduction of the issuance proceeds. Private placement costs also consist of 107,144 warrants, valued at $138,326, and were recorded as a financing expense. The Company extended anti-dilutive protection to the investors. The anti-dilution protection provision is structured in a way that is designed to protect a holder's position from being diluted and contains a price protection based on a mathematical calculation, and is recorded as a liability at fair value, as discussed in footnote 15. The Company revalues these liabilities each reporting period, with the unrealized gain (loss) recorded as other income (expense).

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

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

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

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12. Common Stock (cont'd)

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

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

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

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

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

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

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12. Common Stock (cont'd)

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

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

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

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

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

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

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

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

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

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

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12. Common Stock (cont'd)

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

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

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

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

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

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12. Common Stock (cont'd)

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

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

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

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

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

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

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

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

an) In May 2010, warrant holders exercised 890,051 cashless warrants to obtain shares of Company's common stock and the Company issued an aggregate of 547,674 shares.

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12. Common Stock (cont'd)

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

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

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

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

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13. Stock-Based Compensation

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

For grants to non-employee consultants of the Company after September 12, 2005, the vesting period is between one to three years, subject to the fulfillment of certain conditions in the individual stock option grant agreements, or 100% upon the occurrence of certain events specified in the individual stock option grant agreements. Options authorized for issuance under the Plan total 17,000,000 after giving effect to an amendment to the Plan approved at the Annual Meeting of the Stockholders of the Company on June 2, 2006. At December 31, 2010, 8,426,000 shares of common stock were available for issuance.

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

Accounting for Employee Awards

The Company's results of operations for the years ended December 31, 2010 and 2009 include share-based employee compensation expense totaling $470,366, and $565,150 respectively. Such amounts have been included in the statement of operations in general and administrative and research and development expenses. No income tax benefit has been recognized in the statement of operations for share-based compensation arrangements as the Company has provided for a 100% valuation allowance on its deferred tax assets.

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

Accounting for Non-Employee Awards

Stock compensation expenses related to non-employee options were $114,291 and $(67,619) for the years ended December 31, 2010 and 2009, respectively. Such amounts have been included in the statement of operations in general and administrative and research and development expenses.

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13. Stock-Based Compensation (cont'd)

Summary of Stock Compensation Expense Recognized

Total stock-based compensation recognized by the Company in the years ended December 31, 2010 and 2009, and the period from inception (March 19, 2001) to December 31, 2010, all of which relates to stock options is as follows:

	Year Ended December 31,		Inception (March 19, 2001) to December 31, 2010
	2010	2009	
Statement of operations line item:			
General and administrative:			
Payroll	$ 393,425	$ 443,013	$ 1,993,516
Consulting and other professional fees	93,581	(67,644)	759,957
Research and development:			
Payroll	76,941	122,137	876,296
Consulting and other professional fees	20,710	25	1,309,253
Total	$ 584,657	$ 497,531	$ 4,939,022

Summary of Stock Option Transactions

There were a total of 725,000 stock options granted with exercise prices ranging from $1.17-$1.33, fair value on the date of grant of $616,000, and a weighted average grant date fair value of $0.85 during the year ended December 31, 2010. A total of 180,000 stock options were granted with exercise prices ranging from $0.73 - $1.28, grant date fair value of $134,917, and a weighted average grant date fair value of $0.75 during the year ended December 31, 2009. The fair value of options at the date of grant was estimated using the Black-Scholes option pricing model. The expected volatility is based upon historical volatility of the Company's stock. The expected term is based upon the simplified method as allowed under SAB 107.

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

	Year Ended December 31,	
	2010	2009
Black-Scholes weighted average assumptions		
Expected dividend yield	0%	0%
Expected volatility	103 - 107%	100 - 108%
Risk free interest rate	0.26 – 2.40%	0.51 - 2.55%

Expected term (in years)	1 - 5 years	1 - 5 years

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13. Stock-Based Compensation (cont'd)

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

	2010		2009	
	Shares Subject to Options	Weighted Avg. Exercise Prices	Shares Subject to Options	Weighted Avg. Exercise Prices
Outstanding at January 1	7,715,795	$ 0.98	7,760,795	$ 1.01
Granted	725,000	$ 1.26	180,000	$ 1.09
Exercised	(155,500)	$ 0.68	(15,000)	$ 0.24
Cancelled	(208,500)	$ 1.19	(210,000)	$ 1.71
Outstanding at December 31	8,076,795	$ 1.01	7,715,795	$ 0.98

The following table summarizes information about stock options outstanding as of December 31, 2010 and 2009:

	Shares Subject to Options	Weighted Avg. Exercise Prices	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2010	8,076,795	$ 1.01	5.4 years	$ 2,198,790
Exercisable at December 31, 2010	6,762,795	$ 1.00	4.8 years	$ 2,023,980
Outstanding at December 31, 2009	7,715,795	$ 0.98	6.1 years	$ 352,350
Exercisable at December 31, 2009	6,289,295	$ 0.99	5.3 years	$ 352,350

The total intrinsic value of the options exercised was $239,560 and $9,300, respectively, for the years ended December 31, 2010 and 2009, respectively. The weighted average fair value of the options vested was $0.76 and $0.54 for the years ended December 31, 2010, and 2009, respectively.

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13. Stock-Based Compensation (cont'd)

A summary of the Company's unvested shares as of December 31, 2010 and changes during the year ended December 31, 2010 is presented below:

	2010	
	Subject to Options	Weighted Average Fair Value at Grant Date
Unvested at January 1, 2010	1,426,500	$ 0.72
Granted	725,000	$ 0.85
Vested	(675,500)	$ 0.76
Cancelled	(162,000)	$ 0.87
Unvested at December 31, 2010	1,314,000	$ 0.77

As of December 31, 2010 and 2009, there was $685,636 and $877,048 of total unrecognized compensation cost, respectively, related to all unvested stock options, which is expected to be recognized over a weighted average vesting period of 1.4 years and 1.7 years, respectively.

14. Warrants

As at December 31, 2010, warrants to purchase 5,624,583 shares were outstanding, having exercise prices ranging from $0.82 to $1.90 and expiration dates ranging from March 20, 2011 and October 19, 2014.

	2010		2009	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Balance at January 1	8,575,243	$ 1.10	1,207,151	$ 1.80
Issued during the period	2,200,000	$ 1.90	9,590,314	$ 1.14
Exercised during the period	(5,150,660)	$ 1.01	-	$ -
Expired during the period	-	$ -	(2,222,222)	$ 1.05
Balance at December 31	5,624,583	$ 1.48	8,575,243	$ 1.10

At December 31, 2010 and 2009, the average remaining contractual life of the outstanding warrants was 3.4 years and 2.7 years, respectively.

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14. Warrants (cont'd)

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

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

Significant assumptions are determined as follows:

Trading market values—Published trading market values;
Exercise price—Stated exercise price;
Term—Remaining contractual term of the warrant;
Volatility—Historical trading volatility for periods consistent with the remaining terms;
Risk-free rate—Yields on zero coupon government securities with remaining terms consistent with the remaining terms of the warrants.

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

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14. Warrants (cont'd)

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

The following table summarizes the fair value of the warrants as of the balance sheet date:

Fair Values:	December 31, 2010	December 31, 2009	At transaction date
December 18, 2007 financing	$ -	$ 830,978	$ 1,392,476
March 20, 2008 financing	123,558	104,752	190,917
June 5, 2009 financing:			
Series I warrants	-	-	707,111
Series II warrants	-	509,973	1,315,626
Series III warrants	751,022	559,689	1,306,200
Warrants to placement agent	69,032	54,157	122,257
October 23, 2009 financing:			
Warrants to institutional investors	694,377	944,923	1,012,934
Warrants to placement agent	111,241	95,004	101,693
June 30, 2010 financing	1,217,480	-	1,980,880
Total:	$ 2,966,710	$ 3,099,476	$ 8,130,094

Warrants issued to the placement agents in the December 18, 2007 and June 30, 2010 financings are included with the warrants to investors as they have identical exercise prices and terms. Warrants issued to the placement agents in the June 5, 2009 and October 23, 2009 offerings have different exercise prices and terms than the warrants issued to the investors and are therefore disclosed separately.

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14. Warrants (cont'd)

The following table summarizes the number of shares indexed to the warrants as of the balance sheet date:

Number of Shares indexed:	December 31, 2010	December 31, 2009	At transaction date
December 18, 2007 financing	-	2,357,834	1,078,579
March 20, 2008 financing	281,065	281,065	128,572
June 5, 2009 financing:			
Series I warrants	-	-	2,222,222
Series II warrants	-	1,866,666	1,866,666
Series III warrants	1,555,555	1,555,555	1,555,555
Warrants to placement agent	132,143	142,857	142,857
October 23, 2009 financing:			
Warrants to institutional investors	1,228,333	2,125,334	2,125,334
Warrants to placement agent	227,487	245,932	245,932
June 30, 2010 financing	2,200,000	-	2,200,000
Total:	5,624,583	8,575,243	11,565,717

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

December 18, 2007 financing:	December 31, 2010	December 31, 2009	At transaction date
Trading market prices	$ -	$ 0.68	$ 1.75
Estimated future volatility	-	102%	143%
Dividend	-	-	-
Estimated future risk-free rate	-	0.47%	3.27%
Equivalent volatility	-	100%	106%
Equivalent risk-free rate	-	0.15%	3.26%
Estimated additional shares to be issued upon dilutive event	-	629,264	98,838

March 20, 2008 financing:	December 31, 2010	December 31, 2009	At transaction date
Trading market prices	$ 1.12	$ 0.68	$ 2.14
Estimated future volatility	75%	132%	142%
Dividend	-	-	-
Estimated future risk-free rate	0.47%	0.47%	1.95%
Equivalent volatility	42%	96%	97%
Equivalent risk-free rate	0.12%	0.24%	1.31%
Estimated additional shares to be issued upon dilutive event	25,462	75,011	7,479

June 5, 2009 financing:	December 31, 2010	December 31, 2009	At transaction date
Trading market prices	$ 1.12	$ 0.68	$ 1.14
Estimated future volatility	94-100%	89-100%	100%
Dividend	-	-	-
Estimated future risk-free rate	1.84-4.18%	1.81-4.18%	0.63-4.31%
Equivalent volatility	72-73%	91-95%	103-117%
Equivalent risk-free rate	0.52%	0.58-1.11%	.20-1.44%

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14. Warrants (cont'd)

October 23, 2009 financing:	December 31, 2010	December 31, 2009	At transaction date
Trading market prices	$ 1.12	$ 0.68	$ 0.69
Estimated future volatility	100%	74-100%	100%
Dividend	-	-	-
Estimated future risk-free rate	1.84%	2.82-4.18%	2.63-3.80%
Equivalent volatility	65-74%	95-96%	98-99%
Equivalent risk-free rate	0.38-.58%	0.86-1.27%	.93-1.16%

June 30, 2010 financing:	December 31, 2010	December 31, 2009	At transaction date
Trading market prices	$ 1.12	$ -	$ 1.43
Estimated future volatility	67%%	-	100%
Dividend	-	-	-
Estimated future risk-free rate	1.84%	-	1.78%
Equivalent volatility	89%	-	98%
Equivalent risk-free rate	0.52%	-	0.59%

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

	Year Ended December 31, 2010	Year Ended December 31, 2009	Cumulative from March 19, 2001 (Inception) to December 31, 2010
December 18, 2007 financing	$ (510,776)	$ (243,841)	$ 50,722
March 20, 2008 financing	(18,806)	(36,196)	67,359
June 5, 2009 financing:			
Series I warrants	-	707,111	707,111
Series II warrants	(2,996,828)	805,653	(2,191,175)
Series III warrants	(191,333)	746,511	555,178
Warrants to placement agent	(29,255)	68,100	38,845
Derivative loss at inception	-	(328,937)	(328,937)
October 23, 2009 financing:			
Warrants to institutional investors	(798,694)	68,011	(730,683)
Warrants to placement agent	(40,854)	6,689	(34,165)

June 30, 2010 financing	763,400	-	763,400
Total:	$ (3,823,146)	$ 1,793,101	$ (1,102,345)

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15. Put Feature on Common Stock

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

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

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

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

Fair Values:	December 31, 2010	December 31, 2009	At transaction date
December 18, 2007 financing	$ -	$ -	$ 4,401,169
March 20, 2008 financing	-	97,713	553,569
Total:	$ -	$ 97,713	$ 4,954,738

The following table summarizes the number of shares indexed to the Anti-dilution provision at the balance sheet date:

Number of Shares indexed:	December 31, 2010	December 31, 2009	At transaction date
December 18, 2007 financing	-	-	4,857,159

March 20, 2008 financing	-	642,858	642,858
Total:	-	642,858	5,500,017

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15. Put Feature on Common Stock (cont'd)

Since the Anti-dilution provisions expired on December 18, 2009 and March 20, 2010, there is no liability as of December 31, 2010.

The assumptions used in calculating the fair values of the Anti-dilution provision were as follows:

December 18, 2007 financing:	December 31, 2010	December 31, 2009	At transaction date
Trading market prices	-	-	$ 1.75
Estimated future stock price	-	-	$ 0.98-$1.75
Estimated future volatility	-	-	143%
Dividend	-	-	-
Estimated future risk-free rate	-	-	3.14%

March 20, 2008 financing:	December 31, 2010	December 31, 2009	At transaction date
Trading market prices	-	$ 0.68	$ 2.14
Estimated future stock price	-	$ 0.68	$ 1.36-$2.10
Estimated future volatility	-	37%	142%
Dividend	-	-	-
Estimated future risk-free rate	-	0.06%	1.85%

Changes in the fair value of the Anti-dilution provision, carried at fair value, as reported as "unrealized gain (loss) on fair value of put" in the statement of operations:

	Year Ended December 31, 2010	Year Ended December 31, 2009	Cumulative from March 19, 2001 (Inception) to December 31, 2010
December 18, 2007 financing	$ -	$ 1,794,554	$ 2,148,418
March 20, 2008 financing	97,713	120,625	167,121
Total:	$ 97,713	$ 1,915,180	$ 2,315,539

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REXAHN PHARMACEUTICALS, INC.
(A Development Stage Company)
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December 31, 2010 and 2009

16. Income Taxes

No provision for Federal and State income taxes was required for the years ended December 31, 2010 and 2009, due to the Company's operating losses and increased deferred tax asset valuation allowance. At December 31, 2010 and 2009, the Company has unused net operating loss carry-forwards of approximately $46,283,000 and $36,254,000 which expire at various dates through 2030. Some of this amount may be subject to annual limitations under certain provisions of the Internal Revenue Code related to "changes in ownership".

As of December 31, 2010 and 2009, the deferred tax assets related to the aforementioned carry-forwards have been fully offset by valuation allowances, since significant utilization of such amounts is not presently expected in the foreseeable future.

Deferred tax assets and valuation allowances consist of:

	2010	2009
Net operating loss carry-forwards	$ 18,050,380	$ 14,138,900
Valuation allowance	(18,050,380)	(14,138,900)
Net deferred tax assets	$ -	$ -

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

The Company was awarded a refundable tax credit of $822,137 in 2010 from the federal government through the Qualified Therapeutic Discovery Project Program enacted from the Patient Protection and Affordable Care Act of 2010. The Company was eligible for this tax credit based upon its expenses for qualified projects in 2009 and 2010. Qualified projects include defined projects which treat preventable diseases and conditions by conducting pre-clinical activities, clinical trials, or carrying out research protocols. The tax credit is reflected as a reduction to research and development expenses. As of December 31, 2010, $676,624 of the credit had been received by the Company. The remaining $145,513 is included as a receivable and was received in January 2011.

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REXAHN PHARMACEUTICALS, INC.
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17. Commitments and Contingencies

a) The Company has contracted with various vendors to provide research and development services. The terms of these agreements usually require an initial fee and monthly or periodic payments over the term of the agreement, ranging from 2 months to 36 months. The costs to be incurred are estimated and are subject to revision. As of December 31, 2010, the total estimated cost to be incurred under these agreements was approximately $17,422,893 and the Company had made payments totaling $4,353,620 under the terms of the agreements as of December 31, 2010. All of these agreements may be terminated by either party upon appropriate notice as stipulated in the respective agreements.

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

c) On June 22, 2009, the Company entered into a License Agreement with Korea Research Institute of Chemical Technology (“KRICT”) to acquire the rights to all intellectual properties related to Quinoxaline-Piperazine derivatives that were synthesized under a Joint Research Agreement. The initial license fee was $100,000, all of which was paid by December 31, 2009. The agreement with KRICT calls for a one-time milestone payment of $1,000,000 within 30 days after the first achievement of marketing approval of the first commercial product arising out of or in connection with the use of KRICT’s intellectual properties. As of December 31, 2010, this milestone has not yet occurred.

d) On June 29, 2009, the Company signed a five year lease for 5,466 square feet of office space in Rockville, Maryland commencing on June 29, 2009. The lease requires annual base rents of $76,524 with increases over the next five years. Under the leasing agreement, the Company pays its allocable portion of real estate taxes and common area operating charges. Rent paid under the Company’s lease during the years ended December 31, 2010 and 2009 was $108,418 and $112,973, respectively.

Future rental payments over the next four years are as follows:

2011	$ 148,593
2012	158,835
2013	162,806
2014	82,408
	$ 552,642

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

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REXAHN PHARMACEUTICALS, INC.
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17. Commitments and Contingencies (cont'd)

e) On September 21, 2009, the Company closed on a securities purchase agreement with Teva Pharmaceutical Industries Limited ("Teva"), under which Teva purchased 3,102,837 shares of our common stock for $3.5 million. Contemporaneous with the execution and delivery of this agreement, the parties executed a research and exclusive license option agreement ("RELO") pursuant to which the Company agreed to use $2,000,000 from the gross proceeds of the issuance and sale of shares to Teva to fund a research and development program for the pre-clinical development of RX-3117. At December 31, 2010, the Company has proceeds remaining of $351,893 and has included this amount in restricted cash equivalents. The Company will be eligible to receive royalties on net sales of RX-3117 worldwide.

f) The Company established a 401(k) plan for its employees where the Company matches 100% of the first 3% of the employee's deferral plus 50% of an additional 2% of the employee's deferral The expense related to this matching contribution aggregated $65,019 and $49,519 for the years ended December 31, 2010 and 2009 respectively.

g) On June 28, 2010, the Company signed a one year renewal to use lab space commencing on July 1, 2010. The lease requires monthly rental payments of $4,554. Rent paid under the Company's lease during the years ended December 31, 2010 and 2009 was $54,648 and $13,662, respectively.

18. Fair Value Measurements

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

The three levels are described below:

Level 1 Inputs —	Unadjusted quoted prices in active markets for identical assets or liabilities that is accessible by the Company;
Level 2 Inputs —	Quoted prices in markets that are not active or financial instruments for which all significant inputs are observable, either directly or indirectly;
Level 3 Inputs —	Unobservable inputs for the asset or liability including significant assumptions of the Company and other market participants.

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REXAHN PHARMACEUTICALS, INC.
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18. Fair Value Measurements (cont'd)

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

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

	Fair Value Measurements at December 31, 2009			
	Total	Level 1	Level 2	Level 3
Assets:				
Restricted cash equivalents	$ 2,026,060	$ 1,925,012	$ 101,048	-
Marketable Securities	175,000	175,000	-	-
Total Assets:	$ 2,201,060	$ 2,100,012	$ 101,048	-
Liabilities:				
Warrant liabilities	$ 3,099,476	-	-	$ 3,099,476
Put feature on common stock	97,713	-	-	97,713
Total Liabilities:	$ 3,197,189	-	-	$ 3,197,189

As of December 31, 2010 and 2009, the Company's restricted cash equivalents are comprised of the following:

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

b) Certificate of deposit valued based upon the underlying terms of a letter of credit, as discussed in note 17, and classified within level 2 of the fair value hierarchy.

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

The fair value methodology for the warrant liabilities and put feature on common stock is discussed in footnotes 14 and 15, respectively.

The following table sets forth a reconciliation of changes in the year ended December 31, 2010 and 2009 in the fair value of the liabilities classified as level 3 in the fair value hierarchy:

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REXAHN PHARMACEUTICALS, INC.
(A Development Stage Company)
Notes to the Financial Statements
December 31, 2010 and 2009

18. Fair Value Measurements (cont'd)

	Warrant Liabilities	Put Feature on Common Stock	Total Level 3 Liabilities
Balance at January 1, 2010	$ 3,099,476	$ 97,713	$ 3,197,189
Additions, fair value of warrants issued in June 2010	1,980,880	-	1,980,880
Unrealized losses (gains)	3,823,146	(97,713)	3,725,433
Transfers out of level 3	(5,936,792)	-	(5,936,792)
Balance at December 31, 2010	$ 2,966,710	$ -	$ 2,966,710

	Warrant Liabilities	Put Feature on Common Stock	Total Level 3 Liabilities
Balance at January 1, 2009	$ 655,693	$ 4,652,091	$ 5,307,784
Additions, fair value of warrants issued in 2009, net of inception loss of $328,937	4,236,884	-	4,236,884
Unrealized gains	(1,793,101)	(1,915,179)	(3,708,280)
Transfers out of level 3	-	(2,639,199)	(2,639,199)
Balance at December 31, 2009	$ 3,099,476	$ 97,713	$ 3,197,189

Transfers out of Level 3 for warrant liabilities consist of warrant exercises. Transfers out of Level 3 for the put feature on common stock consist of dilutive issuances when the Company issued shares to investors at a lower price than the shares issued to the investors in the December 18, 2007 and March 20, 2008 financings. The Company's policy is to recognize transfers in and transfers out as of the actual date of the event or change in circumstance that caused the transfer.

19. Subsequent Event

On January 19, 2011, The Company and TEVA entered into a second amendment to the Securities Purchase Agreement closed in September, 2009, as discussed in note 17. Pursuant to the terms of the amendment, TEVA purchased 2,334,515 shares of the Company's common stock in a private offering for net proceeds of $3.95 million. The investment by TEVA is restricted to further supporting the research and development program for the pre-clinical development of RX-3117.

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Rexahn Pharmaceuticals, Inc.

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

	September 30, 2010 (Restated) (unaudited)	December 31, 2009 (Restated)
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 15,829,783	$ 7,298,032
Marketable securities	604,275	175,000
Prepaid expenses and other current assets	481,048	320,935
Note receivable – current portion	28,023	-
Total Current Assets	16,943,129	7,793,967
Restricted Cash Equivalents	1,183,606	2,026,060
Note Receivable	25,688	-
Equipment, Net	137,879	168,978
Total Assets	$ 18,290,302	$ 9,989,005
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued expenses	$ 1,341,172	$ 785,904
Deferred Revenue	918,750	975,000
Other Liabilities	138,229	128,501
Warrant Liabilities (note 3)	4,127,250	3,099,476
Put Feature on Common Stock (note 4)	-	97,713
Total Liabilities	6,525,401	5,086,594
Commitments and Contingencies		
Stockholders' Equity (note 5):		
Preferred stock, par value $0.0001, 100,000,000 authorized shares, none issued and outstanding	-	-
Common stock, par value $0.0001, 500,000,000 authorized shares, 83,401,368 (2009 – 71,938,701) issued and outstanding 83,387,163 (2009 – 71,924,496)	8,339	7,194
Additional paid-in capital	54,913,988	36,641,183
Accumulated other comprehensive income	315	-
Accumulated deficit during the development stage	(43,129,331)	(31,717,556)
Treasury stock, 14,205 shares, at cost	(28,410)	(28,410)
Total Stockholders' Equity	11,764,901	4,902,411
Total Liabilities and Stockholders' Equity	$ 18,290,302	$ 9,989,005

(See accompanying notes to condensed financial statements.)

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

	Three Months Ended September 30,		Nine Months Ended September 30,		Cumulative from March 19, 2001 (Inception) to September 30,
	2010 (Restated)	2009 (Restated)	2010 (Restated)	2009 (Restated)	2010 (Restated)
Revenues:					
Research	$ 18,750	$ 18,750	$ 56,250	$ 56,250	$ 581,250
Expenses:					
General and administrative	1,561,377	724,067	4,423,376	2,285,804	22,231,918
Research and development	690,089	424,609	2,509,600	2,018,766	18,993,415
Patent fees	123,147	107,618	238,089	258,421	1,463,142
Depreciation and amortization	11,663	17,292	34,843	41,638	579,651
Total Expenses	2,386,276	1,273,586	7,205,908	4,604,629	43,268,126
Loss from Operations	(2,367,526)	(1,254,836)	(7,149,658)	(4,548,379)	(42,686,876)
Other Income (Expense)					
Realized gain (loss) on marketable securities .	-	-	-	11,025	(9,341)
Interest income	49,418	17,407	97,699	32,309	1,276,498
Interest expense	-	-	-	-	(301,147)
Other income	-	-	56,047	-	56,047
Unrealized gain (loss) on fair value of warrants	2,536,999	477,747	(4,333,496)	1,074,714	(1,612,695)
Unrealized gain on fair value of put feature on common stock	-	952,362	97,713	2,077,965	2,315,539
Financing expense	-	-	(180,080)	(122,257)	(542,356)
Beneficial conversion feature	-	-	-	-	(1,625,000)
Total Other Income (Expense)	2,586,417	1,447,516	(4,262,117)	3,073,756	(442,455)
Net Income (Loss) Before Provision for Income Taxes	218,891	192,680	(11,411,775)	(1,474,623)	(43,129,331)
Provision for Income Taxes	-	-	-	-	-
Net Income (Loss)	$ 218,891	$ 192,680	$ (11,411,775)	$ (1,474,623)	$ (43,129,331)
Net income (loss) per share, basic and diluted	$ 0.00	$ 0.00	$ (0.15)	$ (0.03)	

Weighted average number of shares outstanding, basic and diluted (Note 6)	83,063,250	61,027,293	76,932,814	58,440,503

(See accompanying notes to condensed financial statements.)

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

	Nine Months Ended September 30,		Cumulative From March 19, 2001 (Inception) to September 30,
	2010 (Restated)	2009 (Restated)	2010 (Restated)
Cash Flows from Operating Activities:			
Net loss	$ (11,411,775)	$ (1,474,623)	$ (43,129,331)
Adjustments to reconcile net loss to net cash used in operating activities:			
Beneficial conversion feature	-	-	1,625,000
Compensatory stock	1,663,999	-	1,685,876
Depreciation and amortization	34,843	41,638	579,651
Stock option compensation	435,305	489,094	4,789,670
Amortization of deferred revenue	(56,250)	(56,250)	(581,250)
Note receivable	(53,711)	-	(53,711)
Realized (gains) losses on marketable securities	-	(11,025)	9,341
Unrealized (gain) loss on fair value of warrants	4,333,496	(1,074,714)	1,612,695
Unrealized (gain) loss on fair value of put feature on common stock	(97,713)	(2,077,965)	(2,315,539)
Financing expense	180,080	122,257	542,356
Amortization of deferred lease incentive	(15,000)	(5,000)	(25,000)
Deferred lease expenses	24,728	26,171	63,229
Loss on impairment of intangible assets	-	-	286,132
Changes in assets and liabilities:			
Prepaid expenses and other current assets	(160,113)	146,482	(481,048)
Accounts payable and accrued expenses	555,268	115,395	1,341,172
Net Cash Used in Operating Activities	(4,566,843)	(3,758,540)	(34,050,757)
Cash Flows from Investing Activities:			
Restricted cash equivalents	842,454	(2,100,533)	(1,183,606)
Purchase of equipment	(3,744)	(15,805)	(547,446)
Purchase of marketable securities	(503,960)	(1,196,824)	(11,273,960)
Proceeds from sales of marketable securities	75,000	4,758,079	10,660,659
Payment of licensing fees	-	-	(356,216)
Net Cash Provided by (Used in) Investing Activities	409,750	1,444,917	(2,700,569)
Cash Flows from Financing Activities:			
Issuance of common stock and units, net of issuance costs	9,318,228	6,085,851	42,585,301
Proceeds from exercise of stock options	107,240	-	110,842
Proceeds from exercise of stock warrants	3,263,376	-	3,263,376
Proceeds from long-term debt	-	-	5,150,000
Proceeds from research contribution	-	-	1,500,000
Purchase of treasury stock	-	-	(28,410)

Net Cash Provided by Financing Activities	12,688,844	6,085,851	52,581,109
Net Increase in Cash and Cash Equivalents	8,531,751	3,772,228	15,829,783
Cash and Cash Equivalents - beginning of period	7,298,032	369,130	-
Cash and Cash Equivalents - end of period	$ 15,829,783	$ 4,141,358	$ 15,829,783

(See accompanying notes to condensed financial statements.)

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

	Nine Months Ended September 30,		Cumulative From March 19, 2001 (Inception) to September 30,
	2010 Restated)	2009 (Restated)	2010 (Restated)
Supplemental Cash Flow Information			
Interest paid	$ -	$ -	$ 301,147
Non-cash financing and investing activities:			
Warrants issued	$ 1,980,880	$ 3,451,194	$ 8,130,094
Put feature on common stock issued	$ -	$ -	$ 4,954,738
Dilutive issuances of common stock	$ -	$ 1,494,311	$ 2,639,199
Warrant liability extinguishment from exercise of warrants	$ 5,286,602	$ -	$ 5,286,602
Leasehold improvement incentive	$ -	$ -	$ 100,000
Settlement of lawsuit	$ 43,953	$ -	$ 43,953

(See accompanying notes to condensed financial statements.)

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REXAHN PHARMACEUTICALS, INC.
(A Development Stage Company)
Notes to Condensed Financial Statements
Nine Months Ended September 30, 2010 and 2009
(Unaudited)

1. Prior Period Adjustment

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

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

The restatement had no effect on the Company's cash, loss from operations or net cash used in operating activities for the three and nine months ended September 30, 2010 and 2009. After reviewing the circumstances leading up to the restatement, management believes that the errors were inadvertent and unintentional. In addition, following the discovery of these errors, the Company began implementing procedures intending to strengthen its internal control processes and prevent a recurrence of these errors.

The effects of the restatement on the Company's balance sheet as of September 30, 2010 and December 31, 2009 and statement of operations and cash flows for the three and nine months then September 30, 2010 and 2009 is as follows:

(All amounts in U.S. dollars)
BALANCE SHEET AS OF SEPTEMBER 30, 2010

	As previously reported	Effect of Restatement	As restated
Warrant liabilities	-	4,127,250	4,127,250
Total liabilities	2,398,151	4,127,250	6,525,401
Additional paid-in capital	59,201,726	(4,287,738)	54,913,988
Accumulated deficit during the development stage	(43,289,819)	(160,488)	(43,129,331)
Total stockholders' equity	15,892,151	(4,127,250)	11,764,901

BALANCE SHEET AS OF DECEMBER 31, 2009

	As previously reported	Effect of Restatement	As restated
Warrant liabilities	-	3,099,476	3,099,476
Put feature on common stock	-	97,713	97,713

Total liabilities	1,889,405	3,197,189	5,086,594
Additional paid-in capital	44,414,723	(7,773,540)	36,641,183
Accumulated deficit during the development stage	(36,293,907)	4,756,351	(31,717,556)
Total stockholders' equity	8,099,600	(3,197,189)	4,903,697

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REXAHN PHARMACEUTICALS, INC.
(A Development Stage Company)
Notes to Condensed Financial Statements
Nine Months Ended September 30, 2010 and 2009
(Unaudited)

1. Prior Period Adjustment (cont'd)

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

	As previously reported	Effect of Restatement	As restated
Unrealized gain on fair value of warrants	-	2,536,999	2,536,999
Financing expense	-	-	-
Total other income (expense)	49,418	2,536,999	2,586,417
Net (loss) income before provision for income taxes	(2,318,108)	2,536,999	218,891
Net (loss) income	(2,318,108)	2,536,999	218,891
Net (loss) income per share, basic and diluted	(0.03)	0.03	0.00

STATEMENT OF OPERATIONS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2009

	As previously reported	Effect of Restatement	As restated
Unrealized gain on fair value of put feature on common stock	-	952,362	952,362
Unrealized gain on fair value of warrants	-	477,747	477,747
Total other income	17,407	1,430,109	1,447,516
Net (loss) income before provision for income taxes	(1,237,429)	1,430,109	192,680
Net (loss) income	(1,237,429)	1,430,109	192,680
Net (loss) income per share, basic and diluted	(0.02)	0.02	0.00

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

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

STATEMENT OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2009

	As previously reported	Effect of Restatement	As restated

Unrealized gain on fair value of put feature on common stock	-	2,077,965	2,077,965
Unrealized gain on fair value of warrants	-	1,074,714	1,074,714
Financing expense	-	(122,257)	(122,257)
Total other income (expense)	43,334	3,030,422	3,073,756
Net loss before provision for income taxes	(4,505,045)	3,030,422	(1,474,623)
Net loss	(4,505,045)	3,030,422	(1,474,623)
Net loss per share, basic and diluted	(0.08)	0.05	(0.03)

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

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

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REXAHN PHARMACEUTICALS, INC.
(A Development Stage Company)
Notes to Condensed Financial Statements
Nine Months Ended September 30, 2010 and 2009
(Unaudited)

1. Prior Period Adjustment (cont'd)

STATEMENT OF CASH FLOWS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2009

	As previously reported	Effect of Restatement	As restated
Net loss	(4,505,045)	3,030,422	(1,474,623)
Unrealized gain on fair value of put feature on common stock	-	(2,077,965)	(2,077,965)
Unrealized gain on fair value of warrants	-	(1,074,714)	(1,074,714)
Financing expense	-	122,257	122,257
Net cash used in operating activities	(3,758,540)	-	(3,758,540)

STATEMENT OF OPERATIONS FROM MARCH 19, 2001 (INCEPTION) TO SEPTEMBER 30, 2010

	As previously reported	Effect of Restatement	As restated
Unrealized gain on fair value of put feature on common stock	-	2,315,539	2,315,539
Unrealized loss on fair value of warrants	-	(1,612,695)	(1,612,695)
Financing expense	-	(542,356)	(542,356)
Total other income (expense)	(602,943)	160,488	(442,455)
Net loss before provision for income taxes	(43,289,819)	160,488	(43,129,331)
Net loss	(43,289,819)	160,488	(43,129,331)

STATEMENT OF CASH FLOWS FROM MARCH 19, 2001 (INCEPTION) TO SEPTEMBER 30, 2010

	As previously reported	Effect of Restatement	As restated
Net loss	(43,289,819)	160,488	(43,129,331)
Unrealized gain on fair value of put feature on common stock	-	(2,315,539)	(2,315,539)
Unrealized loss on fair value of warrants	-	1,612,695	1,612,695
Financing Expense	-	542,356	542,356
Net cash used in operating activities	(34,050,757)	-	(34,050,757)

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2. Fair Value Measurements (restated)

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

The three levels are described below:

Level 1 Inputs —	Unadjusted quoted prices in active markets for identical assets or liabilities that is accessible by the Company;
Level 2 Inputs —	Quoted prices in markets that are not active or financial instruments for which all significant inputs are observable, either directly or indirectly;
Level 3 Inputs —	Unobservable inputs for the asset or liability including significant assumptions of the Company and other market participants.

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

	Fair Value Measurements at September 30, 2010			
	Total	Level 1	Level 2	Level 3
Assets:				
Restricted Cash equivalents	$ 1,183,606	$ 1,133,606	$ 50,000	-
Marketable Securities	604,275	604,275	-	-
Total Assets:	$ 1,787,881	$ 1,737,881	$ 50,000	-
Liabilities:				
Warrant Liabilities	$ 4,127,250	-	-	$ 4,127,250

	Fair Value Measurements at December 31, 2009			
	Total	Level 1	Level 2	Level 3
Assets:				
Restricted Cash equivalents	$ 2,026,060	$ 1,925,012	$ 101,048	-
Marketable Securities	175,000	175,000	-	-
Total Assets:	$ 2,201,060	$ 2,100,012	$ 101,048	-
Liabilities:				
Warrant Liabilities	$ 3,099,476	-	-	$ 3,099,476

Put Feature on Common Stock	97,713	-	-	97,713
Total Liabilities:	$ 3,197,189	-	-	$ 3,197,189

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2. Fair Value Measurements (restated) (cont'd)

As of September 30, 2010 and December 31, 2009, the Company's restricted cash equivalents are comprised of the following:

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

b) Certificate of deposit valued based upon the underlying terms of a letter of credit, as discussed in note 16, and classified within level 2 of the fair value hierarchy.

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

The fair value methodology for the warrant liabilities and put feature on common stock is discussed in footnotes 3 and 4, respectively.

The following table sets forth a reconciliation of changes for the nine months ended September 30, 2010 and 2009 in the fair value of the liabilities classified as level 3 in the fair value hierarchy

	Warrant Liabilities	Put Feature on Common Stock	Total Level 3 Liabilities
Balance at January 1, 2010	$ 3,099,476	$ 97,713	$ 3,197,189
Additions, fair value of warrants issued in June 2010	1,980,880	-	1,980,880
Unrealized losses (gains)	4,333,496	(97,713)	4,235,783
Transfers out of Level 3	(5,286,602)	-	(5,286,602)
Balance at September 30, 2010	$ 4,127,250	$ -	$ 4,127,250

	Warrant Liabilities	Put Feature on Common Stock	Total Level 3 Liabilities
Balance at January 1, 2009	$ 655,693	$ 4,652,091	$ 5,307,784
Additions, fair value of warrants issued in 2009, net of derivative loss of $328,937	3,122,257	-	3,122,257
Unrealized gains	(1,074,714)	(2,077,965)	(3,152,679)
Transfers out of Level 3	-	(1,494,311)	(1,494,311)
Balance at September 30, 2009	$ 2,703,236	$ 1,079,815	$ 3,783,051

Transfers out of Level 3 for warrant liabilities consist of warrant exercises. Transfers out of Level 3 for the put feature consist of dilutive issuances when the Company issued shares to investors at a lower price than the shares issued to the

investors in the December 18, 2007 and March 20, 2008 financings. The Company's policy is to recognize transfers in and transfers out as of the actual date of the event or change in circumstance that caused the transfer.

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3. Warrants (restated)

As at September 30, 2010, warrants to purchase 7,092,366 shares were outstanding, having exercise prices ranging from $0.82 to $1.90 and expiration dates ranging from December 18, 2010 and October 19, 2014.

	2010		2009	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Balance, January 1	8,575,243	$ 1.10	1,207,151	$ 1.80
Issued during the period	2,200,000	$ 1.90	6,649,546	$ 1.22
Exercised during the period	(3,682,877)	$ (0.89)	-	$ -
Expired during the period	-	$ -	(2,222,222)	$ 1.05
Balance at September 30	7,092,366	$ 1.35	5,634,475	$ 1.41

At September 30, 2010 the average remaining contractual life of the outstanding warrants was 2.9 years.

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

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

Significant assumptions are determined as follows:

Trading market values—Published trading market values;
Exercise price—Stated exercise price;

Term—Remaining contractual term of the warrant;
Volatility—Historical trading volatility for periods consistent with the remaining terms;
Risk-free rate—Yields on zero coupon government securities with remaining terms consistent with the remaining terms of the warrants.

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

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3. Warrants (restated) (cont'd)

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

The following table summarizes the fair value of the warrants record at fair value as warrant liabilities:

Fair Values:	September 30, 2010	December 31, 2009	At transaction date
December 18, 2007 financing	$ 650,190	$ 830,978	$ 1,392,476
March 20, 2008 financing	121,071	104,752	190,917
June 5, 2009 financing:			
Series I warrants	-	-	707,111
Series II warrants	-	509,973	1,315,626
Series III warrants	965,377	559,689	1,306,200
Warrants to placement agent	86,052	54,157	122,257
October 23, 2009 financing:			
Warrants to institutional investors	913,880	944,923	1,012,934
Warrants to placement agent	140,200	95,004	101,693
June 30, 2010 financing	1,250,480	-	1,980,880
Total:	$ 4,127,250	$ 3,099,476	$ 8,130,094

Warrants issued to the placement agents in the December 18, 2007 and June 30, 2010 financings are included with the warrants to investors as they have identical exercise prices and terms. Warrants issued to the placement agents in the June 5, 2009 and October 23, 2009 offerings have different exercise prices and terms than the warrants issued to the investors and are therefore disclosed separately.

The following table summarizes the number of shares indexed to the warrants as of the balance sheet date:

Number of Shares indexed:	September 30,	December 31,	At transaction

	2010	2009	date
December 18, 2007 financing	1,467,783	2,357,834	1,078,579
March 20, 2008 financing	281,065	281,065	128,572
June 5, 2009 financing:			
Series I warrants	-	-	2,222,222
Series II warrants	-	1,866,666	1,866,666
Series III warrants	1,555,555	1,555,555	1,555,555
Warrants to placement agent	132,143	142,857	142,857
October 23, 2009 financing:			
Warrants to institutional investors	1,228,333	2,125,334	2,125,334
Warrants to placement agent	227,487	245,932	245,932
June 30, 2010 financing	2,200,000	-	2,200,000
Total:	7,092,366	8,575,243	11,565,717

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3. Warrants (restated) (cont'd)

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

December 18, 2007 financing:	September 30, 2010	December 31, 2009	At transaction date
Trading market prices	$ 1.16	$ 0.68	$ 1.75
Estimated future volatility	92%	102%	143%
Dividend	-	-	-
Estimated future risk-free rate	0.16%	0.47%	3.27%
Equivalent volatility	39%	100%	106%
Equivalent risk-free rate	0.16%	0.15%	3.26%
Estimated additional shares to be issued upon dilutive event	84,405	629,264	98,838

March 20, 2008 financing:	September 30, 2010	December 31, 2009	At transaction date
Trading market prices	$ 1.16	$ 0.68	$ 2.14
Estimated future volatility	225%	132%	142%
Dividend	-	-	-
Estimated future risk-free rate	0.19%	0.47%	1.95%
Equivalent volatility	36%	96%	97%
Equivalent risk-free rate	0.16%	0.24%	1.31%
Estimated additional shares to be issued upon dilutive event	16,163	75,011	7,479

June 5, 2009 financing:	September 30, 2010	December 31, 2009	At transaction date
Trading market prices	$ 1.16	$ 0.68	$ 1.14
Estimated future volatility	70%	89-100%	100%
Dividend	-	-	-
Estimated future risk-free rate	1.08%	1.81-4.18%	0.63-4.31%
Equivalent volatility	84%	91-95%	103-117%
Equivalent risk-free rate	0.39%	0.58-1.11%	.20-1.44%

October 23, 2009 financing:	September 30, 2010	December 31, 2009	At transaction date
Trading market prices	$ 1.16	$ 0.68	$ 0.69

Estimated future volatility	70-75%	74-100%	100%
Dividend	-	-	-
Estimated future risk-free rate	1.08%	2.82-4.18%	2.63-3.80%
Equivalent volatility	78-84%	95-96%	98-99%
Equivalent risk-free rate	0.32-0.41%	0.86-1.27%	.93-1.16%

June 30, 2010 financing:	September 30, 2010	December 31, 2009	At transaction date
Trading market prices	$ 1.16	-	$ 1.43
Estimated future volatility	70%	-	100%
Dividend	-	-	-
Estimated future risk-free rate	1.08%	-	1.78%
Equivalent volatility	85%	-	98%
Equivalent risk-free rate	0.39%	-	0.59%

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3. Warrants (restated) (cont'd)

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

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009
December 18, 2007 financing	$ 601,900	$ 145,188
March 20, 2008 financing	128,848	36,949
June 5, 2009 financing:	-	
Series I warrants	-	286,222
Series II warrants	-	9,520
Series III warrants	627,978	311
Warrants to placement agent	52,315	(443)
October 23, 2009 financing:		
Warrants to institutional investors	277,849	-
Warrants to placement agent	117,709	-
June 30, 2010 financing	730,400	-
Total:	$ 2,536,999	$ 477,747

	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009	Cumulative from March 19, 2001 (Inception) to September 30, 2010
December 18, 2007 financing	$ (510,776)	$ (213,864)	$ 50,722
March 20, 2008 financing	(16,319)	(31,967)	69,846
June 5, 2009 financing:	-		
Series I warrants	-	707,111	707,111
Series II warrants	(2,996,828)	476,933	(2,191,175)
Series III warrants	(405,688)	426,067	340,823
Warrants to placement agent	(46,275)	39,371	21,825
Derivative loss at inception	-	(328,937)	(328,937)
October 23, 2009 financing:			
Warrants to institutional investors	(1,018,197)	-	(950,186)
Warrants to placement agent	(69,813)	-	(63,124)
June 30, 2010 financing	730,400	-	730,400

Total:	$ (4,333,496)	$ 1,074,714	$ (1,612,695)

4. Put Feature on Common Stock

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

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4. Put Feature on Common Stock (cont'd)

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

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

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

Fair Values:	September 30, 2010	December 31, 2009	At transaction date
December 18, 2007 financing	$ -	$ -	$ 4,401,169
March 20, 2008 financing	-	97,713	553,569
Total:	$ -	$ 97,713	$ 4,954,738

The following table summarizes the number of shares indexed to the Anti-dilution provision at the balance sheet date:

Number of Shares indexed:	September 30, 2010	December 31, 2009	At transaction date
December 18, 2007 financing	-	-	4,857,159
March 20, 2008 financing	-	642,858	642,858
Total:	-	642,858	5,500,017

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4. Put Feature on Common Stock (cont'd)

The assumptions used in calculating the fair values of the Anti-dilution provision were as follows:

December 18, 2007 financing:	September 30, 2010	December 31, 2009	At transaction date
Trading market prices	-	-	$ 1.75
Estimated future stock price	-	-	$ 0.98-1.73
Estimated future volatility	-	-	143%
Dividend	-	-	-
Estimated future risk-free rate	-	-	3.14%

March 20, 2008 financing:	September 30, 2010	December 31, 2009	At transaction date
Trading market prices	-	$ 0.68	$ 2.14
Estimated future stock price	-	$ 0.68	$ 1.36-2.10
Estimated future volatility	-	37%	142%
Dividend	-	-	-
Estimated future risk-free rate	-	0.06%	1.85%

Since the Anti-dilution provisions expired on December 18, 2009 and March 20, 2010, there is no liability as of September 30, 2010.

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

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009
December 18, 2007 financing	$ -	$ 872,102
March 20, 2008 financing	-	80,260
Total:	$ -	$ 952,362

	Nine Months Ended September	Nine Months Ended September	Cumulative from March 19, 2001 (Inception)

	30, 2010	30, 2009	to September 30, 2010
December 18, 2007 financing	$ -	$ 1,923,269	$ 2,148,418
March 20, 2008 financing	97,713	154,696	167,121
Total:	$ 97,713	$ 2,077,965	$ 2,135,539

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5. Common Stock (restated)

The following transactions occurred from March 19, 2001 (inception) to December 31, 2010:

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.

iv) 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. All shares and earnings per share information have been retroactively restated in these financial statements.

j) On August 8, 2005, the Company issued, in a transaction exempt from registration under the Securities Act, 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.

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5. Common Stock (restated) (cont'd)

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.

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5. Common Stock (restated) (cont'd)

w) On December 18, 2007, the Company issued 4,857,159 units at a price $1.40 per share for total gross proceeds of $6,800,023. Investors also were issued one warrant for every five shares purchased. One warrant will entitle the holder to purchase an additional share of common stock at a purchase price of $1.80 at any time over a period of three years from the date of the closing. The Company has recorded the warrants as liabilities at fair value in accordance with ASC Topic 480, "Distinguishing Liabilities from Equity" ("ASC 480"). Private placement closing costs of $139,675 were recorded as a reduction of the issuance proceeds. Private placement costs also consist of 107,144 warrants, valued at $138,326, and were recorded as a financing expense. The Company extended anti-dilutive protection to the investors. The anti-dilution protection provision is structured in a way that is designed to protect a holder's position from being diluted and contains a price protection based on a mathematical calculation, and is recorded as a liability at fair value in accordance with ASC Topic 480. The Company revalues these liabilities each reporting period, with the unrealized gain (loss) recorded as other income (expense).

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

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

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

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REXAHN PHARMACEUTICALS, INC.
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5. Common Stock (restated) (cont'd)

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

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

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

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

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

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

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5. Common Stock (restated) (cont'd)

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

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

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

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

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

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

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

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

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

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

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REXAHN PHARMACEUTICALS, INC.
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5. Common Stock (restated) (cont'd)

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

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

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

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

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

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

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

Date of Issuance	Number of Shares Issued	Market Value Per Share	Total Market Value of Share Issuance

February 12, 2010	300,000	$ 1.22	$ 366,000
May 24, 2010	200,000	1.40	280,000
June 15, 2010	200,000	1.15	230,000
August 2, 2010	400,000	1.37	548,000
September 21, 2010	200,000	1.20	240,000
Total	1,300,000		$ 1,664,000

The market value of these shares was recorded as an expense and is reflected in general and administrative expenses in the Company’s statement of operations.

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5. Common Stock (restated) (cont'd)

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

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

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

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

an) In May 2010, warrant holders exercised 890,051 cashless warrants to obtain shares of Company's common stock and the Company issued an aggregate of 547,674 shares.

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

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

6. Diluted Earnings Per Share

The Company did not disclose diluted earnings per share and the diluted shares outstanding for the quarters ended September 30, 2010 and 2009 since the impact is immaterial and the Company had a net loss for the nine months ended September 30, 2010 and 2009.

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

	June 30, 2010 (Restated) (unaudited)	December 31, 2009 (Restated)
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 17,814,799	$ 7,298,032
Marketable securities	100,000	175,000
Prepaid expenses and other current assets	588,974	320,935
Note receivable – current portion	23,353	-
Total Current Assets	18,527,126	7,793,967
Restricted Cash Equivalents	1,292,506	2,026,060
Note Receivable	32,694	-
Equipment, Net	148,795	168,978
Total Assets	$ 20,001,121	$ 9,989,005
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued expenses	$ 1,609,939	$ 785,904
Deferred Revenue	937,500	975,000
Other Liabilities	143,340	128,501
Warrant Liabilities (note 3)	6,664,249	3,099,476
Put Feature on Common Stock (note 4)	-	97,713
Total Liabilities	9,355,028	5,086,594
Commitments and Contingencies		
Stockholders' Equity (note 5):		
Preferred stock, par value $0.0001, 100,000,000 authorized shares, none issued and outstanding	-	-
Common stock, par value $0.0001, 500,000,000 authorized shares, 82,801,368 (2009 – 71,938,701) issued and outstanding 82,787,163 (2009 – 71,924,496)	8,280	7,194
Additional paid-in capital	54,014,445	36,641,183
Accumulated deficit during the development stage	(43,348,222)	(31,717,556)
Treasury stock, 14,205 shares, at cost	(28,410)	(28,410)
Total Stockholders' Equity	10,646,093	4,902,411
Total Liabilities and Stockholders' Equity	$ 20,001,121	$ 9,989,005

(See accompanying notes to condensed financial statements.)

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

	Three Months Ended June 30,		Six Months Ended June 30,		Cumulative from March 19, 2001 (Inception) to June 30, 2010 (Restated)
	2010 (Restated)	2009 (Restated)	2010 (Restated)	2009 (Restated)	
Revenues:					
Research	$ 18,750	$ 18,750	$ 37,500	$ 37,500	$ 562,500
Expenses:					
General and administrative	1,805,534	838,630	2,861,999	1,561,737	20,670,541
Research and development	1,328,389	872,231	1,819,511	1,594,157	18,303,326
Patent fees	62,208	96,666	114,942	150,803	1,339,995
Depreciation and amortization	11,633	12,355	23,180	24,346	567,988
Total Expenses	3,207,764	1,819,882	4,819,632	3,331,043	40,881,850
Loss from Operations	(3,189,014)	(1,801,132)	(4,782,132)	(3,293,543)	(40,319,350)
Other Income (Expense)					
Realized gain (loss) on marketable securities .	-	11,025	-	11,025	(9,341)
Interest income	26,267	7,293	48,281	14,902	1,227,080
Interest expense	-	-	-	-	(301,147)
Other income	56,047	-	56,047	-	56,047
Unrealized (loss) gain on fair value of warrants	(310,290)	466,857	(6,870,495)	596,967	(4,149,694)
Unrealized gain on fair value of put feature on common stock	-	797,183	97,713	1,125,603	2,315,539
Financing expense	(180,080)	(122,257)	(180,080)	(122,257)	(542,356)
Beneficial conversion feature	-	-	-	-	(1,625,000)
Total Other Income (Expense)	(408,056)	1,160,101	(6,848,534)	1,626,240	(3,028,872)
Net Loss Before Provision for Income Taxes	(3,597,070)	(641,031)	(11,630,666)	(1,667,303)	(43,348,222)
Provision for Income Taxes	-	-	-	-	-
Net Loss	$ (3,597,070)	$ (641,031)	$ (11,630,666)	$ (1,667,303)	$ (43,348,222)
Net loss per share, basic and diluted	$ (0.05)	$ (0.01)	$ (0.16)	$ (0.03)	

Weighted average number of shares outstanding, basic and diluted	74,247,302	58,214,542	73,875,701	57,120,095

(See accompanying notes to condensed financial statements.)

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

	Six Months Ended June 30,		Cumulative From March 19, 2001 (Inception) to June 30,
	2010 (Restated)	2009 (Restated)	2010 (Restated)
Cash Flows from Operating Activities:			
Net loss	$ (11,630,666)	$ (1,667,303)	$ (43,348,222)
Adjustments to reconcile net loss to net cash used in operating activities:			
Beneficial conversion feature	-	-	1,625,000
Compensatory stock	876,000	-	897,877
Depreciation and amortization	23,180	24,346	567,988
Stock option compensation	323,702	342,029	4,678,067
Amortization of deferred revenue	(37,500)	(37,500)	(562,500)
Note receivable	(56,047)	-	(56,047)
Realized (gains) losses on marketable securities	-	(11,025)	9,341
Unrealized loss (gain) on fair value of warrants	6,870,495	(596,967)	4,149,694
Unrealized gain on put feature on common stock	(97,713)	(1,125,603)	(2,315,539)
Financing expense	180,080	122,257	542,356
Amortization of deferred lease incentive	(10,000)	-	(20,000)
Deferred lease expenses	24,839	-	63,340
Loss on impairment of intangible assets	-	-	286,132
Changes in assets and liabilities:			
Prepaid expenses and other current assets	(268,039)	137,747	(588,974)
Accounts payable and accrued expenses	824,035	409,796	1,609,939
Net Cash Used in Operating Activities	(2,977,634)	(2,402,223)	(32,461,548)
Cash Flows from Investing Activities:			
Restricted cash equivalents	733,554	(100,000)	(1,292,506)
Purchase of equipment	(2,997)	(9,547)	(546,699)
Purchase of marketable securities	-	(1,196,824)	(10,770,000)
Proceeds from sales of marketable securities	75,000	4,758,079	10,660,659
Payment of licensing fees	-	-	(356,216)
Net Cash Provided by (Used in) Investing Activities	805,557	3,451,708	(2,304,762)
Cash Flows from Financing Activities:			
Issuance of common stock and units, net of issuance costs	9,318,228	2,775,000	42,585,301
Proceeds from exercise of stock options	107,240	-	110,842
Proceeds from exercise of stock warrants	3,263,376	-	3,263,376
Proceeds from long-term debt	-	-	5,150,000
Proceeds from research contribution	-	-	1,500,000

Purchase of treasury stock	-	-	(28,410)
Net Cash Provided by Financing Activities	12,688,844	2,775,000	52,581,109
Net Increase in Cash and Cash Equivalents	10,516,767	3,824,485	17,814,799
Cash and Cash Equivalents - beginning of period	7,298,032	369,130	-
Cash and Cash Equivalents - end of period	$ 17,814,799	$ 4,193,615	$ 17,814,799

(See accompanying notes to condensed financial statements.)

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

	Six Months Ended June 30,		Cumulative From March 19, 2001 (Inception) to June 30,
	2010 (Restated)	2009 (Restated)	2010 (Restated)
Supplemental Cash Flow Information			
Interest paid	$ -	$ -	$ 301,147
Non-cash financing and investing activities:			
Warrants issued	$ 1,980,880	$ 3,451,194	$ 8,130,094
Put feature on common stock issued	$ -	$ -	$ 4,954,738
Dilutive issuances of common stock	$ -	$ 1,494,311	$ 2,639,199
Warrant liability extinguishment from exercise of warrants	$ 5,286,602	$ -	$ 5,286,602
Leasehold improvement incentive	$ -	$ -	$ 100,000
Settlement of lawsuit	$ 43,953	$ -	$ 43,953

(See accompanying notes to condensed financial statements.)

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REXAHN PHARMACEUTICALS, INC.
(A Development Stage Company)
Notes to Condensed Financial Statements
Six Months Ended June 30, 2010 and 2009
(Unaudited)

1. Prior Period Adjustment

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

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

The restatement had no effect on the Company's cash, loss from operations or net cash used in operating activities for the three and six months ended June 30, 2010 and 2009. After reviewing the circumstances leading up to the restatement, management believes that the errors were inadvertent and unintentional. In addition, following the discovery of these errors, the Company began implementing procedures intending to strengthen its internal control processes and prevent a recurrence of these errors.

The effects of the restatement on the Company's balance sheet as of June 30, 2010 and December 31, 2009 and statement of operations and cash flows for the three and six months ended June 30, 2010 and 2009 is as follows:

(All amounts in U.S. dollars)
BALANCE SHEET AS OF JUNE 30, 2010

	As previously reported	Effect of Restatement	As restated
Warrant liabilities	-	6,664,249	6,664,249
Total liabilities	2,690,779	6,664,249	9,355,028
Additional paid-in capital	58,302,183	(4,287,738)	54,014,445
Accumulated deficit during the development stage	(40,971,711)	(2,376,511)	(43,348,222)
Total stockholders' equity	17,310,342	(6,664,249)	10,646,093

BALANCE SHEET AS OF DECEMBER 31, 2009

	As previously reported	Effect of Restatement	As restated
Warrant liabilities	-	3,099,476	3,099,476
Put feature on common stock	-	97,713	97,713
Total liabilities	1,889,405	3,197,189	5,086,594

Additional paid-in capital	44,414,723	(7,773,540)	36,641,183
Accumulated deficit during the development stage	(36,293,907)	4,576,351	(31,717,556)
Total stockholders' equity	8,099,600	(3,197,189)	4,902,411

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

	As previously reported	Effect of Restatement	As restated
Unrealized loss on fair value of warrants	-	(310,290)	(310,290)
Financing expense	-	(180,080)	(180,080)
Total other income (expense)	82,314	(490,370)	(408,056)
Net loss before provision for income taxes	(3,106,700)	(490,370)	(3,597,070)
Net loss	(3,106,700)	(490,370)	(3,597,070)
Net loss per share, basic and diluted	(0.04)	(0.01)	(0.05)

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REXAHN PHARMACEUTICALS, INC.
(A Development Stage Company)
Notes to Condensed Financial Statements
Six Months Ended June 30, 2010 and 2009
(Unaudited)

1. Prior Period Adjustment (cont'd)

STATEMENT OF OPERATIONS FOR THE THREE MONTHS ENDED JUNE 30, 2009

	As previously reported	Effect of Restatement	As restated
Unrealized gain on fair value of put feature on common stock	-	797,183	797,183
Unrealized gain on fair value of warrants	-	466,857	466,857
Financing expense	-	(122,257)	(122,257)
Total other income (expense)	18,318	1,141,783	1,160,101
Net loss before provision for income taxes	(1,782,814)	1,141,783	(641,037)
Net loss	(1,782,814)	1,141,783	(641,037)
Net loss per share, basic and diluted	(0.03)	0.02	(0.01)

STATEMENT OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 2010

	As previously reported	Effect of Restatement	As restated
Unrealized gain on fair value of put feature on common stock	-	97,713	97,713
Unrealized loss on fair value of warrants	-	(6,870,495)	(6,870,495)
Financing expense	-	(180,080)	(180,080)
Total other income (expense)	104,328	(6,952,862)	(6,848,534)
Net loss before provision for income taxes	(4,677,804)	(6,952,862)	(11,630,666)
Net loss	(4,677,804)	(6,952,862)	(11,630,666)
Net loss per share, basic and diluted	(0.06)	(0.10)	(0.16)

STATEMENT OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 2009

	As previously reported	Effect of Restatement	As restated
Unrealized gain on fair value of put feature on common stock	-	1,125,603	1,125,603
Unrealized gain on fair value of warrants	-	596,967	596,967
Financing expense	-	(122,257)	(122,257)
Total other income (expense)	25,927	1,600,313	1,626,240
Net loss before provision for income taxes	(3,267,616)	1,600,313	(1,667,303)
Net loss	(3,267,616)	1,600,313	(1,667,303)
Net loss per share, basic and diluted	(0.06)	0.03	(0.03)

STATEMENT OF CASH FLOWS FOR THE SIX MONTHS ENDED JUNE 30, 2010

	As previously reported	Effect of Restatement	As restated
Net loss	(4,677,804)	(6,952,862)	(11,630,666)

Unrealized gain on fair value of put feature on common stock	-	(97,713)	(97,713)
Unrealized loss on fair value of warrants	-	6,870,495	6,870,495
Financing expense	-	180,080	180,080
Net cash used in operating activities	(2,977,634)	-	(2,977,634)

STATEMENT OF CASH FLOWS FOR THE SIX MONTHS ENDED JUNE 30, 2009

	As previously reported	Effect of Restatement	As restated
Net loss	(3,267,616)	1,600,313	(1,667,303)
Unrealized gain on fair value of put feature on common stock	-	(1,125,603)	(1,125,603)
Unrealized gain on fair value of warrants	-	(596,967)	(596,967)
Financing expense	-	122,257	122,257
Net cash used in operating activities	(2,402,223)	-	(2,402,223)

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REXAHN PHARMACEUTICALS, INC.
(A Development Stage Company)
Notes to Condensed Financial Statements
Six Months Ended June 30, 2010 and 2009
(Unaudited)

1. Prior Period Adjustment (cont'd)

STATEMENT OF OPERATIONS FROM MARCH 19, 2001 (INCEPTION) TO JUNE 30, 2010

	As previously reported	Effect of Restatement	As restated
Unrealized gain on fair value of put feature on common stock	-	2,315,539	2,315,539
Unrealized loss on fair value of warrants	-	(4,149,694)	(4,149,694)
Financing expense	-	(542,356)	(542,356)
Total other income (expense)	(652,361)	(2,376,511)	(3,028,872)
Net loss before provision for income taxes	(40,971,711)	(2,376,511)	(43,348,222)
Net loss	(40,971,711)	(2,376,511)	(43,348,222)

STATEMENT OF CASH FLOWS FROM MARCH 19, 2001 (INCEPTION) TO JUNE 30, 2010

	As previously reported	Effect of Restatement	As restated
Net loss	(40,971,711)	(2,376,511)	(43,348,222)
Unrealized gain on fair value of put feature on common stock	-	(2,315,539)	(2,315,539)
Unrealized loss on fair value of warrants	-	4,149,694	4,149,694
Financing Expense	-	542,356	542,356
Net cash used in operating activities	(32,461,548)	-	(32,461,548)

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REXAHN PHARMACEUTICALS, INC.
(A Development Stage Company)
Notes to Condensed Financial Statements
Six Months Ended June 30, 2010 and 2009
(Unaudited)

2. Fair Value Measurements (restated)

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

The three levels are described below:

Level 1 Inputs —	Unadjusted quoted prices in active markets for identical assets or liabilities that is accessible by the Company;
Level 2 Inputs —	Quoted prices in markets that are not active or financial instruments for which all significant inputs are observable, either directly or indirectly;
Level 3 Inputs —	Unobservable inputs for the asset or liability including significant assumptions of the Company and other market participants.

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

	Fair Value Measurements at June 30, 2010			
	Total	Level 1	Level 2	Level 3
Assets:				
Restricted Cash equivalents	$ 1,292,506	$ 1,190,406	$ 102,100	-
Marketable Securities	100,000	100,000	-	-
Total Assets:	$ 1,392,506	$ 1,290,406	$ 102,100	-
Liabilities:				
Warrant Liabilities	$ 6,664,249	-	-	$ 6,664,249

	Fair Value Measurements at December 31, 2009			
	Total	Level 1	Level 2	Level 3
Assets:				
Restricted Cash equivalents	$ 2,026,060	$ 1,925,012	$ 101,048	-
Marketable Securities	175,000	175,000	-	-
Total Assets:	$ 2,201,060	2,100,012	$ 101,048	-
Liabilities:				
Warrant Liabilities	$ 3,099,476	-	-	$ 3,099,476

Put Feature on Common Stock	97,713	-	-	97,713
Total Liabilities:	$ 3,197,189	-	-	$ 3,197,189

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2. Fair Value Measurements restated (cont'd)

As of June 30, 2010 and December 31, 2009, the Company's restricted cash equivalents are comprised of the following:

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

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

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

The fair value methodology for the warrant liabilities and put feature on common stock is discussed in footnotes 3 and 4, respectively.

The following table sets forth a reconciliation of changes in the six months ended June 30, 2010 and 2009 in the fair value of the liabilities classified as level 3 in the fair value hierarchy.

	Warrant Liabilities	Put Feature on Common Stock	Total Level 3 Liabilities
Balance at January 1, 2010	$ 3,099,476	$ 97,713	$ 3,197,189
Additions, fair value of warrants issued in June 2010	1,980,880	-	1,980,880
Unrealized losses (gains)	6,870,495	(97,713)	6,772,782
Transfers out of Level 3	(5,286,602)	-	(5,286,602)
Balance at June 30, 2010	$ 6,664,249	$ -	$ 6,664,249

	Warrant Liabilities	Put Feature on Common Stock	Total Level 3 Liabilities
Balance at January 1, 2009	$ 655,693	$ 4,652,091	$ 5,307,784
Additions, fair value of warrants issued in 2009, net of derivative loss of $328,937	3,122,257	-	3,122,257
Unrealized gains	(596,967)	(1,125,603)	(1,722,570)
Transfers out of Level 3	-	(1,494,311)	(1,494,311)
Balance at June 30, 2009	$ 3,180,983	$ 2,032,177	$ 5,213,160

Transfers out of Level 3 for warrant liabilities consist of warrant exercises. Transfers out of Level 3 for the put feature consist of dilutive issuances when the Company issued shares to investors at a lower price than the shares issued to the investors in the December 18, 2007 and March 20, 2008 financings. The Company's policy is to recognize transfers in

and transfers out as of the actual date of the event or change in circumstance that caused the transfer.

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3. Warrants (restated)

As of June 30, 2010, warrants to purchase 7,092,366 shares were outstanding, having exercise prices ranging from $0.82 to $1.90 and expiration dates ranging from December 18, 2010 and October 19, 2014.

	2010		2009	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Balance at January 1	8,575,243	$ 1.10	1,207,151	$ 1.80
Issued during the period	2,200,000	$ 1.90	6,649,546	$ 1.22
Exercised during the period	(3,682,877)	$ (0.89)	-	$ -
Expired during the period	-	$ -	-	$ -
Balance at June 30	7,092,366	$ 1.35	7,856,697	$ 1.26

At June 30, 2010 the average remaining contractual life of the outstanding warrants was 3.2 years.

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

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

Significant assumptions are determined as follows:

Trading market values—Published trading market values;
Exercise price—Stated exercise price;
Term—Remaining contractual term of the warrant;
Volatility—the Company uses the historical trading volatility for periods consistent with the remaining terms;

Risk-free rate—the Company uses yields on zero coupon government securities with remaining terms consistent with the remaining terms of the warrants.

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

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3. Warrants (restated) (cont'd)

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

The following table summarizes the fair value of the warrants record at fair value as warrant liabilities:

Fair Values:	June 30, 2010	December 31, 2009	At transaction date
December 18, 2007 financing	$ 1,252,090	$ 830,978	$ 1,392,476
March 20, 2008 financing	249,919	104,752	190,917
June 5, 2009 financing:			
Series I warrants	-	-	707,111
Series II warrants	-	509,973	1,315,626
Series III warrants	1,593,355	559,689	1,306,200
Warrants to placement agent	138,367	54,157	122,257
October 23, 2009 financing:			
Warrants to institutional investors	1,191,729	944,923	1,012,934
Warrants to placement agent	257,909	95,004	101,693
June 30, 2010 financing	1,980,880	-	1,980,880
Total:	$ 6,664,249	$ 3,099,476	$ 8,130,094

Warrants issued to the placement agents in the December 18, 2007 and June 30, 2010 financings are included with the warrants to investors as they have identical exercise prices and terms. Warrants issued to the placement agents in the June 5, 2009 and October 23, 2009 offerings have different exercise prices and terms than the warrants issued to the investors and are therefore disclosed separately

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3. Warrants (restated) (cont'd)

The following table summarizes the number of shares indexed to the warrants as of the balance sheet date:

Number of Shares indexed:	June 30, 2010	December 31, 2009	At transaction date
December 18, 2007 financing	1,467,783	2,357,834	1,078,579
March 20, 2008 financing	281,065	281,065	128,572
June 5, 2009 financing:			
Series I warrants	-	-	2,222,222
Series II warrants	-	1,866,666	1,866,666
Series III warrants	1,555,555	1,555,555	1,555,555
Warrants to placement agent	132,143	142,857	142,857
October 23, 2009 financing:			
Warrants to institutional investors	1,228,333	2,125,334	2,125,334
Warrants to placement agent	227,487	245,932	245,932
June 30, 2010 financing	2,200,000	-	2,200,000
Total:	7,092,366	8,575,243	11,565,717

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

December 18, 2007 financing:	June 30, 2010	December 31, 2009	At transaction date
Trading market prices	$ 1.43	$ 0.68	$ 1.75
Estimated future volatility	168%	102%	143%
Dividend	-	-	-
Estimated future risk-free rate	0.22%	0.47%	3.27%
Equivalent volatility	131%	100%	106%
Equivalent risk-free rate	0.19%	0.15%	3.26%
Estimated additional shares to be issued upon dilutive event	84,405	629,264	98,838

March 20, 2008 financing:	June 30, 2010	December 31, 2009	At transaction date
Trading market prices	$ 1.43	$ 0.68	$ 2.14
Estimated future volatility	223%	132%	142%
Dividend	-	-	-
Estimated future risk-free rate	0.32%	0.47%	1.95%
Equivalent volatility	122%	96%	97%
Equivalent risk-free rate	0.20%	0.24%	1.31%
Estimated additional shares to be issued upon dilutive event	16,163	75,011	7,479

June 5, 2009 financing:	June 30, 2010	December 31, 2009	At transaction date
Trading market prices	$ 1.43	$ 0.68	$ 1.14
Estimated future volatility	100%	89-100%	100%
Dividend	-	-	-
Estimated future risk-free rate	1.78%	1.81-4.18%	0.63-4.31%
Equivalent volatility	108%	91-95%	103-117%
Equivalent risk-free rate	0.59%	0.58-1.11%	.20-1.44%

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3. Warrants (restated) (cont'd)

October 23, 2009 financing:	June 30, 2010	December 31, 2009	At transaction date
Trading market prices	$ 1.43	$ 0.68	$ 0.69
Estimated future volatility	100%	74-100%	100%
Dividend	-	-	-
Estimated future risk-free rate	1.78-2.98%	2.82-4.18%	2.63-3.80%
Equivalent volatility	98-112%	95-96%	98-99%
Equivalent risk-free rate	0.50-0.63%	0.86-1.27%	.93-1.16%

June 30, 2010 financing:	June 30, 2010	December 31, 2009	At transaction date
Trading market prices	$ 1.43	-	$ 1.43
Estimated future volatility	100%	-	100%
Dividend	-	-	-
Estimated future risk-free rate	1.78%	-	1.78%
Equivalent volatility	98%	-	98%
Equivalent risk-free rate	0.59%	-	0.59%

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

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009
December 18, 2007 financing	$ 565,643	$ (464,416)
March 20, 2008 financing	49,267	(93,662)
June 5, 2009 financing:		
Series I warrants	-	420,889
Series II warrants	(1,627,142)	467,413
Series III warrants	267,400	425,756
Warrants to placement agent	21,839	39,814
Derivative loss at inception	-	(328,937)
October 23, 2009 financing:		
Warrants to institutional investors	402,078	-
Warrants to placement agent	10,625	-
June 30, 2010 financing	-	-
Total:	$ (310,290)	$ 466,857

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3. Warrants (restated) (cont'd)

	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009	Cumulative from March 19, 2001 (Inception) to June 30, 2010
December 18, 2007 financing	$ (1,112,676)	$ (359,052)	$ (551,178)
March 20, 2008 financing	(145,167)	(68,916)	(59,002)
June 5, 2009 financing:			
Series I warrants	-	420,889	707,111
Series II warrants	(2,996,828)	467,413	(2,191,175)
Series III warrants	(1,033,666)	425,756	(287,155)
Warrants to placement agent	(98,590)	39,814	(30,490)
Derivative loss at inception	-	(328,937)	(328,937)
October 23, 2009 financing:			
Warrants to institutional investors	(1,296,046)	-	(1,228,035)
Warrants to placement agent	(187,522)	-	(180,833)
June 30, 2010 financing	-	-	-
Total:	$ (6,870,495)	$ 596,697	$ (4,149,694)

4. Put Feature on Common Stock

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

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4. Put Feature on Common Stock (cont'd)

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

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

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

Fair Values:	June 30, 2010	December 31, 2009	At transaction date
December 18, 2007 financing	$ -	$ -	$ 4,401,169
March 20, 2008 financing	-	97,713	553,569
Total:	$ -	$ 97,713	$ 4,954,738

The following table summarizes the number of shares indexed to the Anti-dilution provision at the balance sheet date:

Number of Shares indexed:	June 30, 2010	December 31, 2009	At transaction date
December 18, 2007 financing	-	-	4,857,159
March 20, 2008 financing	-	642,858	642,858
Total:	-	642,858	5,500,017

The Anti-dilution provision was valued using a lattice model. The assumptions used in calculating the fair values of the Anti-dilution provision were as follows:

December 18, 2007 financing:	June 30,

	2010	December 31, 2009	At transaction date
Trading market prices	-	-	$ 1.75
Estimated future stock price	-	-	$ 0.98-1.73
Estimated future volatility	-	-	143%
Dividend	-	-	-
Estimated future risk-free rate	-	-	3.14%

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4. Put Feature on Common Stock (cont'd)

March 20, 2008 financing:	June 30, 2010	December 31, 2009	At transaction date
Trading market prices	-	$ 0.68	$ 2.14
Estimated future stock price	-	$ 0.68	$ 1.36-2.10
Estimated future volatility	-	37%	142%
Dividend	-	-	-
Estimated future risk-free rate	-	0.06%	1.85%

Since the Anti-dilution provisions expired on December 18, 2009 and March 20, 2010, there is no liability as of June 30, 2010.

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

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009
December 18, 2007 financing	$ -	$ 720,563
March 20, 2008 financing	-	76,620
Total:	$ -	$ 797,183

	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009	Cumulative from March 19, 2001 (Inception) to June 30, 2010
December 18, 2007 financing	$ -	$ 1,051,167	$ 2,148,418
March 20, 2008 financing	97,713	74,436	167,121
Total:	$ 97,713	$ 1,125,603	$ 2,135,539

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5. Common Stock (restated)

The following transactions occurred from March 19, 2001 (inception) to December 31, 2010:

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.

v) 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. All shares and earnings per share information have been retroactively restated in these financial statements.

j) On August 8, 2005, the Company issued, in a transaction exempt from registration under the Securities Act, 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.

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5. Common Stock (restated) (cont'd)

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.

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5. Common Stock (restated) (cont'd)

w) On December 18, 2007, the Company issued 4,857,159 units at a price $1.40 per share for total gross proceeds of $6,800,023. Investors also were issued one warrant for every five shares purchased. One warrant will entitle the holder to purchase an additional share of common stock at a purchase price of $1.80 at any time over a period of three years from the date of the closing. The Company has recorded the warrants as liabilities at fair value in accordance with ASC Topic 480, "Distinguishing Liabilities from Equity" ("ASC 480"). Private placement closing costs of $139,675 were recorded as a reduction of the issuance proceeds. Private placement costs also consist of 107,144 warrants, valued at $138,326, and were recorded as a financing expense. The Company extended anti-dilutive protection to the investors. The anti-dilution protection provision is structured in a way that is designed to protect a holder's position from being diluted and contains a price protection based on a mathematical calculation, and is recorded as a liability at fair value in accordance with ASC Topic 480. The Company revalues these liabilities each reporting period, with the unrealized gain (loss) recorded as other income (expense).

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

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

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

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5. Common Stock (restated) (cont'd)

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

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

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

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

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

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

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5. Common Stock (restated) (cont'd)

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

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

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

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

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

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

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

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

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

ae)

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

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REXAHN PHARMACEUTICALS, INC.
Notes to Condensed Financial Statements
Six Months Ended June 30, 2010 and 2009
(Unaudited)

5. Common Stock (restated) (cont'd)

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

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

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

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

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

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

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

Date of Issuance	Number of Shares Issued	Market Value Per Share	Total Market Value of Share Issuance
February 12, 2010	300,000	$ 1.22	$ 366,000
May 24, 2010	200,000	1.40	280,000

June 15, 2010	200,000	1.15	230,000
Total	700,000	$	876,000

The market value of these shares was recorded as an expense and is reflected in general and administrative expenses in the Company’s statement of operations

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REXAHN PHARMACEUTICALS, INC.
Notes to Condensed Financial Statements
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(Unaudited)

5. Common Stock (restated) (cont'd)

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

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

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

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

an) In May 2010, warrant holders exercised 890,051 cashless warrants to obtain shares of Company's common stock and the Company issued an aggregate of 547,674 shares.

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

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

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

	March 31, 2010 (Restated) (unaudited)	December 31, 2009 (Restated)
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 7,682,191	$ 7,298,032
Marketable securities	175,000	175,000
Prepaid expenses and other current assets	491,923	320,935
Total Current Assets	8,349,114	7,793,967
Restricted Cash Equivalents	1,909,827	2,026,060
Equipment, Net	158,701	168,978
Total Assets	$ 10,417,642	$ 9,989,005
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued expenses	$ 917,356	$ 785,904
Deferred Revenue	956,250	975,000
Other Liabilities	135,921	128,501
Warrant Liabilities (note 3)	8,357,981	3,099,476
Put Feature on Common Stock (note 4)	-	97,713
Total Liabilities	10,367,508	5,086,594
Commitments and Contingencies		
Stockholders' Equity (note 5):		
Preferred stock, par value $0.0001, 100,000,000 authorized shares, none issued and outstanding	-	-
Common stock, par value $0.0001, 500,000,000 authorized shares, 73,483,702 (2009 – 71,938,701) issued and outstanding 73,469,497 (2009 – 71,924,496)	7,349	7,194
Additional paid-in capital	39,822,347	36,641,183
Accumulated deficit during the development stage	(39,751,152)	(31,717,556)
Treasury stock, 14,205 shares, at cost	(28,410)	(28,410)
Total Stockholders' Equity	50,134	4,902,411
Total Liabilities and Stockholders' Equity	$ 10,417,642	$ 9,989,005

(See accompanying notes to condensed financial statements.)

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

	Three Months Ended March 31,		Cumulative from March 19, 2001 (Inception) to March 31,
	2010 (Restated)	2009 (Restated)	2010 (Restated)
Revenues:			
Research	$ 18,750	$ 18,750	$ 543,750
Expenses:			
General and administrative	1,056,465	723,107	18,865,007
Research and development	491,122	721,926	16,974,937
Patent fees	52,734	54,137	1,277,787
Depreciation and amortization	11,547	11,991	556,355
Total Expenses	1,611,868	1,511,161	37,674,086
Loss from Operations	(1,593,118)	(1,492,411)	(37,130,336)
Other Income (Expense)			
Realized loss on marketable securities .	-	-	(9,341)
Interest income	22,014	7,609	1,200,813
Interest expense	-	-	(301,147)
Unrealized (loss) gain on fair value of warrants	(6,560,205)	130,110	(3,839,404)
Unrealized gain on fair value of put feature on common stock	97,713	328,420	2,315,539
Financing expense	-	-	(362,276)
Beneficial conversion feature	-	-	(1,625,000)
Total Other Income (Expense)	(6,440,478)	466,139	(2,620,816)
Net Loss Before Provision for Income Taxes	(8,033,596)	(1,026,272)	(39,751,152)
Provision for Income Taxes	-	-	-
Net Loss	$ (8,033,596)	$ (1,026,272)	$ (39,751,152)
Net loss per share, basic and diluted	$ (0.11)	$ (0.02)	
Weighted average number of shares outstanding, basic and diluted	72,271,780	55,025,649	

(See accompanying notes to condensed financial statements.)

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

	Three Months Ended March 31,		Cumulative From March 19, 2001 (Inception) to March 31
	2010 (Restated)	2009 (Restated)	2010 (Restated)
Cash Flows from Operating Activities:			
Net loss	$ (8,033,596)	$ (1,026,272)	$ (39,751,152)
Adjustments to reconcile net loss to net cash used in operating activities:			
Beneficial conversion feature	-	-	1,625,000
Compensatory stock	366,000	-	387,877
Depreciation and amortization	11,547	11,991	556,355
Stock option compensation	195,378	134,910	4,549,743
Amortization of deferred revenue	(18,750)	(18,750)	(543,750)
Realized losses on marketable securities	-	-	9,341
Unrealized loss (gain) on fair value of warrants	6,560,205	(130,110)	3,839,404
Unrealized gain on fair value of put feature on common stock	(97,713)	(328,420)	(2,315,539)
Financing expense	-	-	362,276
Amortization of deferred lease incentive	(5,000)	-	(15,000)
Deferred lease expenses	12,420	-	50,921
Loss on impairment of intangible assets	-	-	286,132
Changes in assets and liabilities:			
Prepaid expenses and other current assets	(170,988)	184,186	(491,923)
Accounts payable and accrued expenses	131,452	115,494	917,356
Net Cash Used in Operating Activities	(1,049,045)	(1,056,971)	(30,532,959)
Cash Flows from Investing Activities:			
Restricted cash equivalents	116,233	-	(1,909,827)
Purchase of equipment	(1,270)	(835)	(544,972)
Purchase of marketable securities	-	(1,001,345)	(10,770,000)
Proceeds from sales of marketable securities	-	3,550,001	10,585,659
Payment of licensing fees	-	-	(356,216)
Net Cash Provided by (Used in) Investing Activities	114,963	2,547,821	(2,995,356)
Cash Flows from Financing Activities:			
Issuance of common stock and units, net of issuance costs	-	-	33,267,073
Proceeds from exercise of stock options	21,240	-	24,842
Proceeds from exercise of stock warrants	1,297,001	-	1,297,001
Proceeds from long-term debt	-	-	5,150,000
Proceeds from research contribution	-	-	1,500,000
Purchase of treasury stock	-	-	(28,410)
Net Cash Provided by Financing Activities	1,318,241	-	41,210,506
Net Increase in Cash and Cash Equivalents	384,159	1,490,850	7,682,191
Cash and Cash Equivalents - beginning of period	7,298,032	369,130	-
Cash and Cash Equivalents - end of period	$ 7,682,191	$ 1,859,980	$ 7,682,191

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

	Three Months Ended March 31,		Cumulative From March 19, 2001 (Inception) to March 31
	2010 (Restated)	2009 (Restated)	2010 (Restated)
Interest paid	$ -	$ -	$ 301,147
Non-cash financing and investing activities:			
Warrants issued	$ -	$ -	$ 6,149,214
Put feature on common stock issued	$ -	$ -	$ 4,954,743
Dilutive issuances of common stock	$ -	$ -	$ 2,639,199
Warrant liability extinguishment from exercise of warrants	$ 1,301,700	$ -	$ 1,301,700
Leasehold improvement incentive	$ -	$ -	$ 100,000

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REXAHN PHARMACEUTICALS, INC.
(A Development Stage Company)
Notes to Condensed Financial Statements
Three Months Ended March 31, 2010 and 2009
(Unaudited)

1. Prior Period Adjustment

The financial statements of the Company as of and for the three months ended March 31, 2010 have been restated as a result of management's determination that the Company had misclassified warrants issued to investors through offerings occurring in December 2007, March 2008, June 2009, October 2009, and June, 2010. The warrants were previously reported as equity, but further review by management concluded that these warrants should have been classified as liabilities at inception due to provisions within the warrant agreement, and should be reported at fair value at the balance sheet date.

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

The restatement had no effect on the Company's cash, loss from operations or net cash used in operating activities for the three months ended March 31, 2010 and 2009. After reviewing the circumstances leading up to the restatement, management believes that the errors were inadvertent and unintentional. In addition, following the discovery of these errors, the Company began implementing procedures intending to strengthen its internal control processes and prevent a recurrence of these errors.

The effects of the restatement on the Company's balance sheet as of March 31, 2010 and December 31, 2009 and statement of operations and cash flows for the three months ended March 31, 2010 and 2009 is as follows:

(All amounts in U.S. dollars)
BALANCE SHEET AS OF MARCH 31, 2010

	As previously reported	Effect of Restatement	As restated
Warrant liabilities	-	8,357,981	8,357,981
Total liabilities	2,009,527	8,357,981	10,367,508
Additional paid-in capital	46,294,187	(6,471,840)	39,822,347
Accumulated deficit during the development stage	(37,865,011)	(1,886,141)	(39,751,152)
Total stockholders' equity	8,408,115	(8,357,981)	50,134

BALANCE SHEET AS OF DECEMBER 31, 2009

	As previously reported	Effect of Restatement	As restated
Warrant liabilities	-	3,099,476	3,099,476
Put feature on common stock	-	97,713	97,713
Total liabilities	1,889,405	3,197,189	5,086,594

Additional paid-in capital	44,414,723	(7,773,540)	36,641,183
Accumulated deficit during the development stage	(36,293,907)	4,756,351	(31,717,556)
Total stockholders' equity	8,099,600	(3,197,189)	4,902,411

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REXAHN PHARMACEUTICALS, INC.
(A Development Stage Company)
Notes to Condensed Financial Statements
Three Months Ended March 31, 2010 and 2009
(Unaudited)

1. Prior Period Adjustment (cont'd)

STATEMENT OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2010

	As previously reported	Effect of Restatement	As restated
Unrealized loss on fair value of warrants	-	(6,560,205)	(6,560,205)
Unrealized gain on fair value of put feature on common stock	-	97,713	97,713
Total other income (expense)	22,014	(6,462,492)	(6,440,478)
Net loss before provision for income taxes	(1,571,104)	(6,462,492)	(8,033,596)
Net loss	(1,571,104)	(6,462,492)	(8,033,596)
Net loss per share, basic and diluted	$ (0.02)	$ (0.09)	$ (0.11)

STATEMENT OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2009

	As previously reported	Effect of Restatement	As restated
Unrealized gain on fair value of put feature on common stock	-	328,420	328,420
Unrealized gain on fair value of warrants	-	130,110	130,110
Total other income (expense)	7,609	458,530	466,139
Net loss before provision for income taxes	(1,484,802)	458,530	(1,026,272)
Net loss	(1,484,802)	458,530	(1,026,272)
Net income (loss) per share, basic and diluted	$ (0.03)	$ 0.01	$ (0.02)

STATEMENT OF CASH FLOWS FOR THE THREE MONTHS ENDED MARCH 31, 2010

	As previously reported	Effect of Restatement	As restated
Net loss	(1,571,104)	(6,462,492)	(8,033,596)
Unrealized gain on fair value of put feature on common stock	-	(97,713)	(97,713)
Unrealized loss on fair value of warrants	-	6,560,205	6,560,205
Net cash used in operating activities	(1,049,045)	-	(1,049,045)

STATEMENT OF CASH FLOWS FOR THE THREE MONTHS ENDED MARCH 31, 2009

	As previously reported	Effect of Restatement	As restated
Net loss	(1,484,802)	458,530	(1,026,272)
Unrealized gain on fair value of put feature on common stock	-	(328,420)	(328,420)
Unrealized gain on fair value of warrants	-	(130,110)	(130,110)
Net cash used in operating activities	(1,056,971)	-	(1,056,971)

STATEMENT OF OPERATIONS FROM MARCH 19, 2001 (INCEPTION) TO MARCH 31, 2010

	As previously reported	Effect of Restatement	As restated
Unrealized gain on fair value of put feature on common stock	-	2,315,539	2,315,539
Unrealized loss on fair value of warrants	-	(3,839,404)	(3,839,404)
Financing expense	-	(362,276)	(362,276)
Total other income (expense)	(734,675)	(1,886,141)	(2,620,816)
Net loss before provision for income taxes	(37,865,011)	(1,886,141)	(39,751,152)
Net loss	(37,865,011)	(1,886,141)	(39,751,152)

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REXAHN PHARMACEUTICALS, INC.
(A Development Stage Company)
Notes to Condensed Financial Statements
Three Months Ended March 31, 2010 and 2009
(Unaudited)

1. Prior Period Adjustment(cont'd)

STATEMENT OF CASH FLOWS FROM MARCH 19, 2001 (INCEPTION) TO MARCH 31, 2010

	As previously reported	Effect of Restatement	As restated
Net loss	(37,865,011)	(1,886,141)	(39,751,152)
Unrealized gain on fair value of put feature on common stock	-	(2,315,539)	(2,315,539)
Unrealized loss on fair value of warrants	-	3,839,404	3,839,404
Financing Expense	-	362,276	362,276
Net cash used in operating activities	(30,532,959)	-	(30,532,959)

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REXAHN PHARMACEUTICALS, INC.
(A Development Stage Company)
Notes to Condensed Financial Statements
Three Months Ended March 31, 2010 and 2009
(Unaudited)

2. Fair Value Measurements (restated)

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

The three levels are described below:

Level 1 Inputs —	Unadjusted quoted prices in active markets for identical assets or liabilities that is accessible by the Company;
Level 2 Inputs —	Quoted prices in markets that are not active or financial instruments for which all significant inputs are observable, either directly or indirectly;
Level 3 Inputs —	Unobservable inputs for the asset or liability including significant assumptions of the Company and other market participants.

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

	Fair Value Measurements at March 31, 2010			
	Total	Level 1	Level 2	Level 3
Assets:				
Restricted Cash equivalents	$ 1,909,827	$ 1,808,261	$ 101,156	-
Marketable Securities	175,000	175,000	-	-
Total Assets:	$ 2,084,827	$ 1,983,261	$ 101,156	-
Liabilities:				
Warrant Liabilities	$ 8,357,981	-	-	$ 8,357,981

	Fair Value Measurements at December 31, 2009			
	Total	Level 1	Level 2	Level 3
Assets:				
Restricted Cash equivalents	$ 2,026,060	$ 1,925,012	$ 101,048	-
Marketable Securities	175,000	175,000	-	-
Total Assets:	$ 2,201,060	2,100,012	$ 101,048	-
Liabilities:				
Warrant Liabilities	$ 3,099,476	-	-	$ 3,099,476
Put Feature on Common Stock	97,713	-	-	97,713

Total Liabilities:	$ 3,197,189	-	-	$ 3,197,189

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REXAHN PHARMACEUTICALS, INC.
(A Development Stage Company)
Notes to Condensed Financial Statements
Three Months Ended March 31, 2010 and 2009
(Unaudited)

2. Fair Value Measurements (restated) (cont'd)

As of March 31, 2010 and December 31, 2009, the Company's restricted cash equivalents are comprised of the following:

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

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

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

The fair value methodology for the warrant liabilities and put feature on common stock is discussed in footnotes 3 and 4, respectively.

The following table sets forth a reconciliation of changes in the three months ended March 31, 2010 and 2009 in the fair value of the liabilities classified as level 3 in the fair value hierarchy:

	Warrant Liabilities	Put Feature on Common Stock	Total Level 3 Liabilities
Balance at January 1, 2010	$ 3,099,476	$ 97,713	$ 3,197,189
Additions	-	-	-
Unrealized gains	6,560,205	(97,713)	6,462,492
Transfers out of level 3	(1,301,700)	-	(1,301,700)
Balance at March 31, 2010	$ 8,357,981	$ -	$ 8,357,981

	Warrant Liabilities	Put Feature on Common Stock	Total Level 3 Liabilities
Balance at January 1, 2009	$ 655,693	$ 4,652,091	$ 5,307,784
Additions	-	-	-
Unrealized gains	(130,110)	(328,420)	(458,530)
Transfers out of level 3	-	-	-
Balance at March 31, 2009	$ 525,583	$ 4,323,671	$ 4,849,254

Transfers out of Level 3 for warrant liabilities consist of warrant exercises. The Company's policy is to recognize transfers in and transfers out as of the actual date of the event or change in circumstance that caused the transfer.

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REXAHN PHARMACEUTICALS, INC.
(A Development Stage Company)
Notes to Condensed Financial Statements
Three Months Ended March 31, 2010 and 2009
(Unaudited)

3. Warrants (restated)

As of March 31, 2010, warrants to purchase 7,378,242 shares were outstanding, having exercise prices ranging from $0.82 to $1.90 and expiration dates ranging from December 18, 2010 and October 19, 2014.

	2010		2009	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Balance at January 1	8,575,243	$ 1.10	1,207,151	$ 1.80
Issued during the period	-	$ -	-	$ -
Exercised during the period	(1,197,001)	$ (1.08)	-	$ -
Expired during the period	-	$ -	-	$ -
Balance at March 31	7,378,242	$ 1.10	1,207,151	$ 1.80

At March 31, 2010 the average remaining contractual life of the outstanding warrants was 2.2 years.

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

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

Significant assumptions are determined as follows:

Trading market values—Published trading market values;

Exercise price—Stated exercise price;
Term—Remaining contractual term of the warrant;
Volatility—Historical trading volatility for periods consistent with the remaining terms;
Risk-free rate—Yields on zero coupon government securities with remaining terms consistent with the remaining terms of the warrants.

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

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REXAHN PHARMACEUTICALS, INC.
(A Development Stage Company)
Notes to Condensed Financial Statements
Three Months Ended March 31, 2010 and 2009
(Unaudited)

3. Warrants (restated) (cont'd)

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

The following table summarizes the fair value of the warrants record at fair value as warrant liabilities:

Fair Values:	March 31, 2010	December 31, 2009	At transaction date
December 18, 2007 financing	$ 2,509,297	$ 830,978	$ 1,392,476
March 20, 2008 financing	299,186	104,752	190,917
June 5, 2009 financing:			
Series I warrants	-	-	707,111
Series II warrants	1,483,679	509,973	1,315,626
Series III warrants	1,860,755	559,689	1,306,200
Warrants to placement agent	174,586	54,157	122,257
October 23, 2009 financing:			
Warrants to institutional investors	1,737,327	944,923	1,012,934
Warrants to placement agent	293,151	95,004	101,693
Total:	$ 8,357,981	$ 3,099,476	$ 6,149,214

Warrants issued to the placement agents in the December 18, 2007 financing is included with the warrants to investors as they have identical exercise prices and terms. Warrants issued to the placement agents in the June 5, 2009 and October 23, 2009 offerings have different exercise prices and terms than the warrants issued to the investors and are therefore disclosed separately.

The following table summarizes the number of shares indexed to the warrants as of the balance sheet date:

Number of Shares indexed:	March 31, 2010	December 31, 2009	At transaction date

December 18, 2007 financing	2,357,834	2,357,834	1,078,579
March 20, 2008 financing	281,065	281,065	128,572
June 5, 2009 financing:			
Series I warrants	-	-	2,222,222
Series II warrants	1,466,666	1,866,666	1,866,666
Series III warrants	1,555,555	1,555,555	1,555,555
Warrants to placement agent	142,857	142,857	142,857
October 23, 2009 financing:			
Warrants to institutional investors	1,328,333	2,125,334	2,125,334
Warrants to placement agent	245,932	245,932	245,932
Total:	7,378,242	8,575,243	9,365,717

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3. Warrants (restated) (cont'd)

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

December 18, 2007 financing:	March 31, 2010	December 31, 2009	At transaction date
Trading market prices	$ 1.62	$ 0.68	$ 1.75
Estimated future volatility	101%	102%	143%
Dividend	-	-	-
Estimated future risk-free rate	0.19%	0.47%	3.27%
Equivalent volatility	101%	100%	106%
Equivalent risk-free rate	0.19%	0.15%	3.26%
Estimated additional shares to be issued upon dilutive event	213,597	629,264	98,838

March 20, 2008 financing:	March 31, 2010	December 31, 2009	At transaction date
Trading market prices	$ 1.62	$ 0.68	$ 2.14
Estimated future volatility	108%	132%	142%
Dividend	-	-	-
Estimated future risk-free rate	0.41%	0.47%	1.95%
Equivalent volatility	100%	96%	97%
Equivalent risk-free rate	0.23%	0.24%	1.31%
Estimated additional shares to be issued upon dilutive event	16,163	75,011	7,479

June 5, 2009 financing:	March 31, 2010	December 31, 2009	At transaction date
Trading market prices	$ 1.62	$ 0.68	$ 1.14
Estimated future volatility	100%	89-100%	100%
Dividend	-	-	-
Estimated future risk-free rate	1.63-3.98%	1.81-2.69%	0.63-4.31%
Equivalent volatility	105-106%	91-95%	103-117%
Equivalent risk-free rate	0.49-1.02%	0.58-1.11%	.20-1.44%

October 23, 2009 financing:	March 31, 2010	December 31, 2009	At transaction date
Trading market prices	$ 1.62	$ 0.68	$ 0.69
Estimated future volatility	100%	74-100%	100%
Dividend	-	-	-

Estimated future risk-free rate	2.76-3.98%	2.82-4.18%	2.63-3.80%
Equivalent volatility	103-106%	95-96%	98-99%
Equivalent risk-free rate	0.80-1.11%	0.86-1.27%	.93-1.16%

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3. Warrants (restated) (cont'd)

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

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009	Cumulative from March 19, 2001 (Inception) to March 31, 2010
December 18, 2007 financing	$ (1,678,319)	$ 105,365	$ (1,116,821)
March 20, 2008 financing	(194,434)	24,745	(108,269)
June 5, 2009 financing:	-	-	
Series I warrants	-	-	707,111
Series II warrants	(1,369,686)	-	(564,033)
Series III warrants	(1,301,066)	-	(554,555)
Warrants to placement agent	(120,429)	-	(52,329)
Derivative loss at inception	-	-	(328,937)
October 23, 2009 financing:			
Warrants to institutional investors	(1,698,124)	-	(1,630,113)
Warrants to placement agent	(198,147)	-	(191,458)
Total:	$ (6,560,205)	$ 130,110	$ (3,839,404)

4. Put Feature on Common Stock

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

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4. Put Feature on Common Stock (cont'd)

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

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

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

Fair Values:	March 31, 2010	December 31, 2009	At transaction date
December 18, 2007 financing	$ -	$ -	$ 4,401,169
March 20, 2008 financing	-	97,713	553,569
Total:	$ -	$ 97,713	$ 4,954,738

The following table summarizes the number of shares indexed to the Anti-dilution provision at the balance sheet date:

Number of Shares indexed:	March 31, 2010	December 31, 2009	At transaction date
December 18, 2007 financing	-	-	4,857,159
March 20, 2008 financing	-	642,858	642,858
Total:	-	642,858	5,500,017

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4. Put Feature on Common Stock (cont'd)

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

December 18, 2007 financing:	March 31, 2010	December 31, 2009	At transaction date
Trading market prices	-	-	$ 1.75
Estimated future stock price	-	-	$ 0.98-1.73
Estimated future volatility	-	-	143%
Dividend	-	-	-
Estimated future risk-free rate	-	-	3.14%

March 20, 2008 financing:	March 31, 2010	December 31, 2009	At transaction date
Trading market prices	-	$ 0.68	$ 2.14
Estimated future stock price	-	$ 0.68	$ 1.36-2.10
Estimated future volatility	-	37%	142%
Dividend	-	-	-
Estimated future risk-free rate	-	0.06%	1.85%

Since the Anti-dilution provisions expired on December 18, 2009 and March 20, 2010, there is no liability as of March 31, 2010.

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

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009	Cumulative from March 19, 2001 (Inception) to March 31, 2010
December 18, 2007 financing	$ -	$ 330,603	$ 2,148,418
March 20, 2008 financing	97,713	(2,183)	167,121
Total:	$ 97,713	$ 328,420	$ 2,135,539

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5. Common Stock (restated)

The following transactions occurred from March 19, 2001 (inception) to December 31, 2010:

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.

vi) 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. All shares and earnings per share information have been retroactively restated in these financial statements.

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5. Common Stock (restated) (cont'd)

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.

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5. Common Stock (restated) (cont'd)

w) On December 18, 2007, the Company issued 4,857,159 units at a price $1.40 per share for total gross proceeds of $6,800,023. Investors also were issued one warrant for every five shares purchased. One warrant will entitle the holder to purchase an additional share of common stock at a purchase price of $1.80 at any time over a period of three years from the date of the closing. The Company has recorded the warrants as liabilities at fair value in accordance with ASC Topic 480, "Distinguishing Liabilities from Equity" ("ASC 480"). Private placement closing costs of $139,675 were recorded as a reduction of the issuance proceeds. Private placement costs also consist of 107,144 warrants, valued at $138,326, and were recorded as a financing expense. The Company extended anti-dilutive protection to the investors. The anti-dilution protection provision is structured in a way that is designed to protect a holder's position from being diluted and contains a price protection based on a mathematical calculation, and is recorded as a liability at fair value in accordance with ASC Topic 480. The Company revalues these liabilities each reporting period, with the unrealized gain (loss) recorded as other income (expense).

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

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

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

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5. Common Stock (restated) (cont'd)

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

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

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

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

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

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

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5. Common Stock (restated) (cont'd)

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

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

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

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

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

The Company incurred a derivative loss upon issuance of these warrants, as the fair value of the warrants at inception was greater than the proceeds received from the investor.

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

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

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

ae)

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

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5. Common Stock (restated) (cont'd)

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

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

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

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

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

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5. Common Stock (restated) (cont'd)

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

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

Date of Issuance	Number of Shares Issued	Market Value Per Share	Total Market Value of Share Issuance
February 12, 2010	300,000	$ 1.22	$ 366,000

The market value of these shares was recorded as an expense and is reflected in general and administrative expenses in the Company's statement of operations.

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

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