REXAHN PHARMACEUTICALS, INC.

FORM 10-Q
(Quarterly Report)

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended **September 30, 2016**

OR

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

For the transition period from _____ to

Commission File No.: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, MD 20850
(Address of Principal Executive Offices, Including Zip Code)

Telephone: (240) 268-5300
(Registrant's Telephone Number, Including Area Code)

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

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

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 237,368,785 shares as of November 4, 2016

REXAHN PHARMACEUTICALS, INC.
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PART I. Financial Information
Item 1. Financial Statements

REXAHN PHARMACEUTICALS, INC.
Condensed Balance Sheet
(Unaudited)

	September 30, 2016	December 31, 2015
ASSETS		
Current Assets:		
Cash and cash equivalents	**$ 8,392,240**	$ 10,199,440
Marketable securities	**13,419,359**	13,240,086
Prepaid expenses and other current assets	**802,053**	1,221,818
Total Current Assets	**22,613,652**	24,661,344
Security Deposits	**30,785**	30,785
Equipment, Net	**97,040**	112,900
Total Assets	**$ 22,741,477**	$ 24,805,029
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued expenses	**$ 1,785,724**	$ 2,661,298
Deferred Research and Development Arrangement	**468,750**	525,000
Other Liabilities	**85,900**	104,020
Warrant Liabilities	**3,161,591**	2,739,163
Total Liabilities	**5,501,965**	6,029,481
Commitments and Contingencies (note 14)		
Stockholders' Equity:		
Preferred stock, par value $0.0001, 100,000,000 authorized shares, none issued and outstanding	**-**	-
Common stock, par value $0.0001, 500,000,000 authorized shares, 237,368,785 and 197,413,785 issued and outstanding	**23,737**	19,741
Additional paid-in capital	**131,719,157**	124,490,712
Accumulated other comprehensive loss	**(4,656)**	(18,041)
Accumulated deficit	**(114,498,726)**	(105,716,864)
Total Stockholders' Equity	**17,239,512**	18,775,548
Total Liabilities and Stockholders' Equity	**$ 22,741,477**	$ 24,805,029

(See accompanying notes to the condensed financial statements)

REXAHN PHARMACEUTICALS, INC.
Condensed Statement of Operations
(Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2016	2015	**2016**	2015
Revenues:	**$ -**	$ -	**$ -**	$ -
Expenses:				
General and administrative	**1,418,990**	1,554,748	**4,490,145**	4,664,300
Research and development	**2,298,585**	3,103,807	**8,004,193**	9,231,903
Total Expenses	**3,717,575**	4,658,555	**12,494,338**	13,896,203
Loss from Operations	**(3,717,575)**	(4,658,555)	**(12,494,338)**	(13,896,203)
Other Income (Expense)				
Interest income	**26,145**	23,724	**83,884**	81,326
Unrealized gain on fair value of warrants	**967,637**	608,301	**3,941,682**	2,282,476
Financing expense	**(143,203)**	-	**(313,090)**	-
Total Other Income (Expense)	**850,579**	632,025	**3,712,476**	2,363,802
Net Loss Before Provision for Income Taxes	**(2,866,996)**	(4,026,530)	**(8,781,862)**	(11,532,401)
Provision for income taxes	**-**	-	**-**	-
Net Loss	**$ (2,866,996)**	$ (4,026,530)	**$ (8,781,862)**	$ (11,532,401)
Net loss per share, basic and diluted	**$ (0.01)**	$ (0.02)	**$ (0.04)**	$ (0.06)
Weighted average number of shares outstanding, basic and diluted	**216,441,828**	180,701,360	**210,758,475**	179,888,770

(See accompanying notes to the condensed financial statements)

REXAHN PHARMACEUTICALS, INC.
Condensed Statement of Comprehensive Loss
(Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2016	2015	**2016**	2015
Net Loss	**$ (2,866,996)**	$ (4,026,530)	**$ (8,781,862)**	$ (11,532,401)
Unrealized (loss) gain on available-for-sale securities	**(6,983)**	1,021	**13,385**	40,416
Comprehensive Loss	**$ (2,873,979)**	$ (4,025,509)	**$ (8,768,477)**	$ (11,491,985)

(See accompanying notes to the condensed financial statements)

REXAHN PHARMACEUTICALS, INC.
Condensed Statement of Cash Flows
(Unaudited)

	For the Nine Months Ended September 30,	
	2016	2015
Cash Flows from Operating Activities:		
Net loss	**$ (8,781,862)**	$ (11,532,401)
Adjustments to reconcile net loss to net cash used in operating activities:		
Compensatory stock	**97,649**	102,000
Depreciation and amortization	**24,123**	19,942
Amortization of premiums and discounts on marketable securities, net	**21,535**	21,623
Stock-based compensation	**1,063,589**	769,668
Amortization of deferred research and development arrangement	**(56,250)**	(56,250)
Unrealized gain on fair value of warrants	**(3,941,682)**	(2,282,476)
Financing expense	**313,090**	-
Amortization of deferred lease incentive	**(9,333)**	(9,332)
Deferred lease expenses	**(8,787)**	(5,891)
Changes in assets and liabilities:		
Prepaid expenses and other assets	**419,765**	(749,874)
Accounts payable and accrued expenses	**(875,574)**	778,800
Net Cash Used in Operating Activities	**(11,733,737)**	(12,944,191)
Cash Flows from Investing Activities:		
Purchase of equipment	**(8,263)**	(52,499)
Purchase of marketable securities	**(8,747,423)**	(740,825)
Redemption of marketable securities	**8,560,000**	14,625,000
Net Cash (Used in) Provided by Investing Activities	**(195,686)**	13,831,676
Cash Flows from Financing Activities:		
Issuance of common stock and units, net of issuance costs	**10,122,223**	1,005,715
Proceeds from exercise of stock options	**-**	708,617
Proceeds from exercise of stock warrants	**-**	22,325
Net Cash Provided by Financing Activities	**10,122,223**	1,736,657
Net (Decrease) Increase in Cash and Cash Equivalents	**(1,807,200)**	2,624,142
Cash and Cash Equivalents – beginning of period	**10,199,440**	9,826,245
Cash and Cash Equivalents - end of period	**$ 8,392,240**	$ 12,450,387
Supplemental Cash Flow Information		
Non-cash financing and investing activities:		
Warrants issued	**$ 4,364,110**	$ -
Warrant liability extinguishment from exercise of warrants	**$ -**	$ 9,378

(See accompanying notes to the condensed financial statements)

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

1. Operations and Organization

Operations

Rexahn Pharmaceuticals, Inc. (the "Company"), a Delaware corporation, is a biopharmaceutical company whose principal operations are the discovery, development and commercialization of innovative treatments for cancer. The Company had an accumulated deficit of $ 114,498,726 at September 30, 2016 and anticipates incurring losses through fiscal year 2016 and beyond. The Company has not yet generated commercial revenues and has funded its operating losses to date through the sale of shares of its common stock and warrants to purchase shares of its common stock, convertible debt, financings, interest income from cash, cash equivalents and marketable securities, and proceeds from reimbursed research and development costs. The Company believes that its cash, cash equivalents, and marketable securities, will be sufficient to cover its cash flow requirements for its current activities for at least the next 12 months. Management believes it has the capability of managing the Company's operations within existing cash available by focusing on select research and development activities, selecting projects in conjunction with potential financings and milestones, and efficiently managing its general and administrative affairs.

Basis of Presentation

The accompanying unaudited condensed financial statements of the Company have been prepared pursuant to the rules and regulations of the U.S. Securities and Exchange Commission for interim financial information. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States ("U.S. GAAP") for complete financial statements. In the opinion of the Company's management, all adjustments (consisting of only normal recurring accruals) considered necessary for a fair presentation of the Company's financial position as of September 30, 2016 and December 31, 2015 and of the results of operations and comprehensive loss for the three and nine months ended September 30, 2016 and 2015, and the results of cash flows for the nine months ended September 30, 2016 and 2015 have been included. Operating results for the three and nine months ended September 30, 2016 are not necessarily indicative of results that may be expected for any other interim period or the full fiscal year ending December 31, 2016. The accompanying unaudited condensed financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015 (the "2015 Form 10-K"). Information included in the condensed balance sheet as of December 31, 2015 has been derived from the Company's audited financial statements for the year ended December 31, 2015 included in the 2015 Form 10-K.

Use of Estimates

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

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

2. Recent Accounting Pronouncements Affecting the Company

Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers," a comprehensive new revenue recognition standard that will supersede nearly all existing revenue recognition guidance under U.S. GAAP. The standard's core principle is that a company should recognize revenue when it transfers goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods and services, and provides a revenue recognition framework in accordance with this principle. On August 12, 2015, the FASB issued ASU 2015-14, which defers the effective date of ASU 2014-09 by one year to December 15, 2017 for annual reporting periods beginning after that date and interim periods therein. Early adoption of the standard is permitted, but not before the original effective date of December 15, 2016. The Company is currently evaluating the impact that the adoption of this guidance will have on its financial statements and future operating results.

Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern

In August 2014, the FASB issued ASU 2014-15, "Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern," which requires management to perform interim and annual assessments as to the entity's ability to continue as a going concern and provides related disclosure guidance. ASU 2014-15 will be effective for reporting periods beginning after December 15, 2016, with early adoption permitted. The Company is currently evaluating the impact the adoption of this guidance will have on its financial statements.

Leases

In February 2016, the FASB issued ASU 2016-02, "Leases," which requires an entity to recognize assets and liabilities arising from leases on the balance sheet and to provide additional disclosures about leasing arrangements. ASU 2016-02 will be effective for reporting periods beginning after December 15, 2018, with early adoption permitted. The Company is currently evaluating the impact the adoption of this guidance will have on its financial statements.

Compensation-Stock Compensation

In March 2016, the FASB issued ASU 2016-09, "Compensation-Stock Compensation: Improvements to Employee Share Based Payment Accounting," which includes multiple provisions intended to simplify various aspects of accounting for share-based payments. The guidance is effective for reporting periods beginning after December 15, 2016, with early adoption permitted. The Company is currently evaluating the impact the adoption of this guidance will have on its financial statements.

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

3. Marketable Securities

Marketable securities are considered "available-for-sale" in accordance with FASB Accounting Standard Codification ("ASC") 320, "Debt and Equity Securities," and thus are reported at fair value in the Company's accompanying balance sheet, with unrealized gains and losses excluded from earnings and reported as a separate component of stockholders' equity. Amounts reclassified out of accumulated other comprehensive income (loss) into 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 current operations.

The following table shows the Company's marketable securities' adjusted cost, gross unrealized gains and losses, and fair value by significant investment category as of September 30, 2016 and December 31, 2015:

	September 30, 2016			
	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Certificates of Deposit	$ 2,400,000	$ 979	$ -	$ 2,400,979
Commercial Paper	5,974,806	406	(1,152)	5,974,060
Corporate Bonds	5,049,209	-	(4,889)	5,044,320
Total Marketable Securities	$ 13,424,015	$ 1,385	$ (6,041)	$ 13,419,359

	December 31, 2015			
	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Certificates of Deposit	$ 6,240,000	$ 571	$ (5,575)	$ 6,234,996
Commercial Paper	2,981,307	-	(3,737)	2,977,570
Corporate Bonds	4,036,820	-	(9,300)	4,027,520
Total Marketable Securities	$ 13,258,127	$ 571	$ (18,612)	$ 13,240,086

The Company typically invests in highly-rated securities, with the primary objective of minimizing the potential risk of principal loss. As of September 30, 2016 the Company had five investments of commercial paper with an aggregate fair value of $4,975,230 and unrealized losses of $1,152, and four corporate bonds with an aggregate fair value of $4,044,320 and unrealized losses of $4,889 all of which have been unrealized losses for less than 12 months. The Company does not intend to sell its marketable securities in an unrealized loss position. Based upon these securities' fair value relative to the cost, high ratings, and volatility of fair value, the Company considers the declines in market value of its marketable securities to be temporary in nature and does not consider any of its investments other-than-temporarily impaired, and anticipates that it will recover the entire amortized cost basis.

As of September 30 2016, all of the Company's marketable securities are due to mature in less than one year.

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

4. Prepaid Expenses and Other Current Assets

	September 30, 2016	December 31, 2015
Deposits on contracts	**$ 126,712**	$ 501,170
Prepaid expenses and other current assets	**675,341**	720,648
	$ 802,053	$ 1,221,818

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

5. Equipment, Net

	September 30, 2016	December 31, 2015
Furniture and fixtures	**$ 78,794**	$ 78,794
Office and computer equipment	**113,529**	105,266
Lab equipment	**431,650**	431,650
Leasehold improvements	**133,762**	133,762
Total equipment	**757,735**	749,472
Less: Accumulated depreciation and amortization	**(660,695)**	(636,572)
Net carrying amount	**$ 97,040**	$ 112,900

6. Accounts Payable and Accrued Expenses

	September 30, 2016	December 31, 2015
Trade payables	**$ 416,708**	$ 774,543
Accrued expenses	**106,999**	92,752
Accrued research and development contract costs	**1,115,518**	1,515,151
Payroll liabilities	**146,499**	278,852
	$ 1,785,724	$ 2,661,298

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

7. Deferred Research and Development Arrangements

Rexgene Biotech Co., Ltd.

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

The Company is using 20 years as its basis for recognition and accordingly research and development expenses were reduced by $18,750 and $56,250 for the three and nine months ended September 30, 2016 and 2015, respectively. The remaining $468,750 and $525,000 to be amortized at September 30, 2016 and December 31, 2015, respectively, is reflected as a deferred research and development arrangement on the balance sheet. The payment from Rexgene 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 by Rexgene to the Company on a quarterly basis once commercial sales of Archexin begin in Asia. The product is still under development and commercial sales in Asia are not expected to begin until at least 2017. Under the terms of the agreement, Rexgene does not pay royalties on the Company's net sales outside of Asia.

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

8. Other Liabilities

Deferred Lease Incentive

In accordance with the Company's office lease agreement, as amended and further discussed in Note 14, the Company has been granted leasehold improvement allowances from the lessor to be used for the construction cost of improvements to the leased property, which included architectural and engineering fees, government agency plan check, permit and other fees, sales and use taxes, testing and inspection costs and telephone and data cabling and wiring in the premises. The Company accounted for the benefit of the leasehold improvement allowance as a reduction of rental expense over the term of the office lease.

The following table sets forth the cumulative deferred lease incentive:

	September 30, 2016	December 31, 2015
Deferred lease incentive	**$ 154,660**	$ 154,660
Less accumulated amortization	**(120,441)**	(111,108)
Balance	**$ 34,219**	$ 43,552

Deferred Office Lease Expense

The lease agreement, as amended, provided for an initial annual base rent with annual increases over the lease term. The Company recognizes rental expense on a straight-line basis over the term of the lease, which resulted in a deferred rent liability of $51,681 and $60,468 as of September 30, 2016 and December 31, 2015, respectively.

9. Net Loss per Common Share

Basic loss per common share is computed by dividing net loss by the weighted average number of shares of common stock outstanding for the period. Diluted loss per common share is computed by dividing net loss by the weighted average number of shares of common stock outstanding, plus the number of common share equivalents that would be dilutive. As of September 30, 2016 and December 31, 2015, there were stock options and warrants to acquire, in the aggregate, 72,300,887 and 39,082,886 shares of the Company's common stock, respectively, that are potentially dilutive. However, diluted loss per share for all periods presented is the same as basic loss per share because the inclusion of common share equivalents would be anti-dilutive.

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

10. Common Stock

The following transactions occurred since December 31, 2015:

Public Offerings

March 2016

On March 2, 2016 the Company closed on a registered direct public offering of 15,625,000 shares of common stock and warrants to purchase up to 11,718,750 shares of common stock. The common stock and warrants were sold in units, consisting of a share of common stock and a warrant to purchase 0.75 shares of common stock, at a price of $0. 32 per unit, with an exercise price for the warrants of $0. 42 per share . The total gross proceeds of the offering were $5,000,000. The issued warrants issued became exercisable beginning six months after the closing date and will remain exercisable until the five-year anniversary of the initial exercise date and were recorded as liabilities at fair value.

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

Gross Proceeds:	$ 5,000,000
Allocated to warrant liabilities:	2,419,922
Allocated to common stock and additional paid-in capital	2,580,078
Total allocated gross proceeds:	$ 5,000,000

The closing costs of $ 575,751 included 78 1,250 warrants valued at $15 5,938 and $ 419,813 for placement agent and other fees. Based upon the estimated fair value of the stock and warrants in the units, the Company allocated $1 69,887 to financing expense and $ 405,864 as stock issuance costs.

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

September 2016

On September 19, 2016 the Company closed on a registered direct public offering of 24,000,000 shares of common stock and warrants to purchase up to 18,000,000 shares of common stock. The common stock and warrants were sold in units, consisting of a share of common stock and a warrant to purchase 0.75 shares of common stock, at a price of $0. 25 per unit, with an exercise price for the warrants of $0. 30 per share . The total gross proceeds of the offering were $6,000,000. The warrants issued will become exercisable beginning six months after the closing date and remain exercisable until the five-year anniversary of the initial exercise date and were recorded as liabilities at fair value.

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

Gross Proceeds:	$ 6,000,000
Allocated to warrant liabilities:	1,671,120
Allocated to common stock and additional paid-in capital	4,328,880
Total allocated gross proceeds:	$ 6,000,000

The closing costs of $575,09 4 included 1,440,000 warrants valued at $117,130 and $457,96 4 for placement agent and other fees. Based upon the estimated fair value of the stock and warrants in the units, the Company allocated $143,203 to financing expense and $431,891 as stock issuance costs.

Compensatory Shares

During the nine months ended September 30, 2016, the Company issued 330,000 shares to vendors in exchange for investor relations services. The aggregate market value of the stock issued was $97,649.

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

11. Stock-Based Compensation

As of September 30, 2016, the Company had 1 7,774,040 options to purchase common stock outstanding.

At the Company's Annual Meeting of Stockholders held on June 10, 2013, the Company's stockholders voted to approve the Rexahn Pharmaceuticals, Inc. 2013 Stock Option Plan (the "2013 Plan"). Under the 2013 Plan, the Company grants equity awards to key employees, directors and consultants of the Company. A total of 17,000,000 shares of common stock have been reserved for issuance pursuant to the 2013 Plan. As of September 30, 2016, there were 1 2,635,540 options outstanding under the 2013 Plan, and 4,356,960 shares were available for issuance.

On August 5, 2003, the Company established a stock option plan (the "2003 Plan"). Under the 2003 Plan, the Company granted stock options to key employees, directors and consultants of the Company. With the adoption of the 2013 Plan, no new stock options may be issued under the 2003 Plan, but previously issued options under the 2003 Plan remain outstanding until their expiration. As of September 30, 2016, there were 5,018,500 outstanding options under the 2003 Plan.

In March 2016, the Company granted to a third party an option to purchase up to 120,000 shares of the Company's common stock. Of the Company's outstanding options as of September 30, 2016, these were the only options that were not issued pursuant to the 2013 Plan or the 2003 Plan.

At the Company's Annual Meeting of the Stockholders held on June 9, 2016, the Company's stockholders voted to approve an amendment to the 2013 Plan, including to provide for awards of restricted stock and restricted stock units. As of September 30, 2016, no awards of restricted stock or restricted stock units had been granted.

For the majority of the option grants to employees, the vesting period is either (i) 30% , 30% and 40% on the first, second and third anniversaries of the grant date, respectively, or (ii) 25% each on the first four anniversaries of the grant date. With the exception of the options granted in March 2016, which have a three-year term, options expire between five and ten years from the date of grant. For the majority of grants to non-employee consultants of the Company, the vesting period is between one and three years, subject to the fulfillment of certain conditions in the individual stock agreements, or 100% upon the occurrence of certain events specified in the individual stock agreements.

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

Accounting for Awards

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. Total stock-based compensation recognized by the Company for the three and nine months ended September 30, 2016 and 2015 is as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2016	2015	**2016**	2015
Statement of operations line item:				
General and administrative	**$ 232,951**	$ 127,203	**$ 673,064**	$ 492,908
Research and development	**136,451**	98,113	**390,525**	276,760
Total	**$ 369,402**	$ 225,316	**$ 1,063,589**	$ 769,668

No income tax benefit has been recognized in the statement of operations for stock-based compensation arrangements as the Company has provided for a 100% valuation allowance on its deferred tax assets.

Summary of Stock Option Transactions

There were 5,876,391 stock options granted at exercise prices ranging from $0. 26 to $0. 37 with an aggregate fair value of $ 1,150,513 during the nine months ended September 30, 2016. There were 4,201,316 stock options granted at exercise prices ranging from $0. 54 to $0. 89 with an aggregate fair value of $1, 994,893 during the nine months ended September 30, 2015.

The fair value of options at the date of grant was estimated using the Black-Scholes option pricing model. The Company took into consideration guidance under ASC 718, “Compensation-Stock Compensation” and Staff Accounting Bulletin No. 107 (“SAB 107”) when reviewing and updating assumptions. The expected volatility is based upon historical volatility of the Company’s stock. The expected term is based upon the simplified method as allowed under SAB 107.

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

	Nine Months Ended September 30,	
	2016	2015
Black-Scholes assumptions		
Expected dividend yield	**0%**	0%
Expected volatility	**31-75%**	72-80%
Risk free interest rate	**0.8-1.4%**	1.2-1.7%
Expected term (in years)	**2-6 years**	5-6 years

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

The following table summarizes share-based transactions:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding, January 1, 2016	12,590,982	$ 0.83	6.8 years	$ 26,500
Granted	5,876,391	0.32		
Exercised	-	-		
Expired	(610,000)	1.20		
Cancelled	(83,333)	0.51		
Outstanding, September 30, 2016	17,774,040	$ 0.65	7.4 years	$ -
Exercisable, September 30, 2016	8,530,929	$ 0.82	5.7 years	$ -

There were no stock options exercised during the three and nine months ended September 30, 2016, or for the three months ended September 30, 2015. The total intrinsic value of the options exercised was $99,895 for the nine months ended September 30, 2015. The weighted average fair value of the options granted was $0.20 and $0.47 for the nine months ended September 30, 2016 and 2015, respectively.

A summary of the Company's unvested options as of September 30, 2016 and changes during the nine months ended September 30, 2016 is presented below:

	2016	
	Number of Options	**Weighted Average Fair Value at Grant Date**
Unvested at January 1, 2016	5,888,432	$ 0.51
Granted	5,876,391	$ 0.20
Vested	(2,476,504)	$ 0.46
Cancelled	(45,208)	$ 0.35
Unvested at September 30, 2016	9,243,111	$ 0.33

As of September 30, 2016 there was $2,297,290 of total unrecognized compensation cost related to unvested stock options, which is expected to be recognized over a weighted average vesting period of 2. 3 years.

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

12. Warrants

As of September 30, 2016, warrants to purchase 54,526,847 shares were outstanding, having exercise prices ranging from $0.30 to $1. 28 and expiration dates ranging from December 4, 2017 to March 19, 20 22 .

	2016		2015	
	Number of warrants	**Weighted average exercise price**	Number of warrants	Weighted average exercise price
Balance, January 1	**26,491,904**	**$ 0.80**	13,205,871	$ 1.07
Issued during the period	**31,940,000**	**$ 0.35**	-	$ -
Exercised during the period	**-**	**$ -**	(47,300)	$ 0.47
Expired during the period	**(3,905,057)**	**$ 1.37**	-	$ -
Balance, September 30	**54,526,847**	**$ 0.49**	13,158,571	$ 1.07

At September 30, 2016 the weighted average remaining contractual life of the outstanding warrants was 4. 5 years.

The warrants issued to investors in the December 2012, November 2015, March 2016, September 2016, and previous 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 and are recorded at fair value. The warrants issued to investors in the July 2013, October 2013 and January 2014 offerings contain a fundamental transaction provision, but the warrant holders only have an option as to the type of consideration received if the holders of common stock receive an option as to their consideration. In addition, the warrants issued in the December 2012, July 2013, October 2013, January 2014, November 2015, March 2016, September 2016 and previous offerings contain a cashless exercise provision that is exercisable only in the event that a registration statement is not effective. That 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, and the warrants require liability classification.

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 were 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 that consider volatilities and risk free rates that would be more likely in an early exercise scenario.

REXAHN PHARMACEUTICALS, INC.
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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; and
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. Because the Company is not yet achieving positive cash flow, management believes the probability of a fundamental transaction occurring over the term of the warrant is unlikely and therefore estimates the probability of entering into a fundamental transaction to be 5%. For valuation purposes, the Company also assumed that if such a transaction did occur, it was more likely to occur towards the end of the term of the warrants.

The significant unobservable inputs used in the fair value measurement of the warrants include management's estimate of the probability that a fundamental transaction may occur in the future. Significant increases (decreases) in the probability of occurrence would result in a significantly higher (lower) fair value measurement.

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

	Fair Value as of:	
Warrant Issuance:	**September 30, 2016**	December 31, 2015
Expired Warrants	**$ -**	$ 2,590
December 2012 Investor Warrants	**328**	9,818
July 2013 Investor Warrants	**5,480**	121,420
October 2013 Investor Warrants	**9,478**	169,349
January 2014 Investor Warrants	**1,571**	131,476
November 2015 Investor Warrants	**555,625**	2,169,375
November 2015 Placement Agent Warrants	**30,292**	135,135
March 2016 Investor Warrants	**742,031**	-
March 2016 Placement Agent Warrants	**43,750**	-
September 2016 Investor Warrants	**1,658,340**	-
September 2016 Placement Agent Warrants	**114,696**	-
Total:	**$ 3,161,591**	$ 2,739,163

REXAHN PHARMACEUTICALS, INC.
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The following table summarizes the number of shares indexed to the warrants as of the respective balance sheet dates:

	Number of Shares indexed as of:	
Warrant Issuance	**September 30, 2016**	December 31, 2015
Expired Warrants	**-**	3,905,057
December 2012 Investor Warrants	**174,300**	174,300
July 2013 Investor Warrants	**2,000,000**	2,000,000
October 2013 Investor Warrants	**2,317,309**	2,317,309
January 2014 Investor Warrants	**4,761,905**	4,761,905
November 2015 Investor Warrants	**12,500,000**	12,500,000
November 2015 Placement Agent Warrants	**833,333**	833,333
March 2016 Investor Warrants	**11,718,750**	-
March 2016 Placement Agent Warrants	**781,250**	-
September 2016 Investor Warrants	**18,000,000**	-
September 2016 Placement Agent Warrants	**1,440,000**	-
Total:	**54,526,847**	26,491,904

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

	September 30, 2016	December 31, 2015
Trading market prices	**$ 0.21**	$ 0.36
Estimated future volatility	**104%**	105%
Dividend	**-**	-
Estimated future risk-free rate	**0.77 -1.46%**	0.82-2.38%
Equivalent volatility	**41-59%**	44-65%
Equivalent risk-free rate	**0.42 -0.80%**	0.22-1.11%

REXAHN PHARMACEUTICALS, INC.
Notes to Condensed Financial Statements
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Changes in the fair value of the warrant liabilities, carried at fair value, as reported as "unrealized gain on fair value of warrants" in the statement of operations:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2016	2015	**2016**	2015
Expired Warrants	**$ -**	$ (9,903)	**$ 2,590**	$ 384,365
December 2012 Investor Warrants	**2,212**	16,350	**9,490**	46,021
July 2013 Investor Warrants	**22,040**	147,848	**115,940**	412,208
October 2013 Investor Warrants	**30,264**	166,744	**159,871**	472,682
January 2014 Investor Warrants	**12,190**	287,262	**129,905**	967,200
November 2015 Investor Warrants	**409,125**	-	**1,613,750**	-
November 2015 Placement Agent Warrants	**24,683**	-	**104,842**	-
March 2016 Investor Warrants	**425,625**	-	**1,677,891**	-
March 2016 Placement Agent Warrants	**26,283**	-	**112,188**	-
September 2016 Investor Warrants	**12,780**	-	**12,780**	-
September 2016 Placement Agent Warrants	**2,435**	-	**2,435**	-
Total:	**$ 967,637**	$ 608,301	**$ 3,941,682**	$ 2,282,476

REXAHN PHARMACEUTICALS, INC.
Notes to Condensed Financial Statements
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13. Income Taxes

No provision for federal and state income taxes was required for the three and nine months ended September 30, 2016 and 2015 due to the Company's operating losses and increased deferred tax asset valuation allowance. At September 30, 2016 and December 31, 2015, the Company had unused net operating loss carry-forwards of approximately $110,482,000 and $ 98,954,000 , respectively, which expire at various dates through 203 6 . 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 September 30, 2016 and December 31, 2015, the deferred tax assets related to the aforementioned carry-forwards have been fully offset by valuation allowances, because significant utilization of such amounts is not presently expected in the foreseeable future.
Deferred tax assets and valuation allowances consist of:

	September 30, 2016	December 31, 2015
Net Operating Loss Carryforwards	**$ 43,088,000**	$ 38,592,000
Stock Compensation Expense	**2,046,000**	1,891,000
Book tax differences on assets and liabilities	**293,000**	380,000
Valuation Allowance	**(45,427,000)**	(40,863,000)
Net Deferred Tax Assets	$ -	$ -

The Company files income tax returns in the U.S. federal and Maryland state jurisdictions. Tax years for fiscal 2013 through 2015 are open and potentially subject to examination by the federal and Maryland state taxing authorities.

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14. Commitments and Contingencies

a) The Company has contracted with various vendors for research and development services, with terms that require payments over the terms of the agreements, usually ranging from two to 36 months. The costs to be incurred are estimated and are subject to revision. As of September 30, 2016, the total estimated cost to complete these agreements was approximately $6,180,000. All of these agreements may be terminated by either party upon appropriate notice as stipulated in the respective agreements.

b) 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 property related to quinoxaline-piperazine derivatives that were synthesized under a Joint Research Agreement. The initial license fee was $100,000, all of which was paid as of December 31, 2009. The agreement with KRICT calls for a one-time milestone payment of $1,000,000 within 30 days after the first achievement of marketing approval of the first commercial product arising out of or in connection with the use of KRICT's intellectual property. As of September 30, 2016, the milestone has not occurred.

c) *Office Space Lease*

On June 7, 2013, the Company signed the first amendment to its commercial lease agreement for 5,466 square feet of office space in Rockville, Maryland. The amendment extends the lease term until June 30, 2019. Under the lease agreement, the Company pays its allocable portion of real estate taxes and common area operating charges.

On July 26, 2014 the Company entered into the second amendment to the lease agreement. According to the terms of this amendment, the Company leased an additional 1,637 square feet of office space, beginning on September 1, 2014 and ending on August 31, 2015. The Company subsequently renewed the lease for this space for additional one-year terms, beginning on September 1, 2015 and 2016.

Rent paid under the Company's lease during the three months ended September 30, 2016 and 2015 was $ 51,823 and $51, 110 , respectively, and rent paid during the nine months ended September 30, 2016 and 2015 was $1 54,426 and 1 51,227 , respectively.

Prior Laboratory Lease

On August 26, 2014, the Company signed a one-year renewal to use laboratory space commencing on July 1, 2014 and ending on June 30, 2015. The lease required monthly rental payments of $4,554. Rent paid under the Company's lease during the nine months ended September 30, 2015 was $27,324.

Current Laboratory Lease

On April 20, 2015, the Company signed a five-year lease agreement for 2,552 square feet of laboratory space commencing on July 1, 2015 and ending on June 30, 2020. Under the lease agreement, the Company pays its allocable portion of real estate taxes and common area operating charges. Rent paid under this lease during the three and nine months ended September 30, 2016 was $ 15,771 and $ 46,395, respectively . Rent paid under this lease during the three and nine months ended September 30, 2015 was $15,312 .

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Future rental payments over the next five years for all leases are as follows:

For the remaining three months ending December 31:	2016	66,669
For the year ending December 31:	2017	255,731
	2018	233,923
	2019	152,955
	2020	34,468
	Total	**$ 743,746**

d) The Company has established a 401(k) plan for its employees. The Company has elected to match 100% of the first 3% of an employee's compensation plus 50% of an additional 2% of the employee's deferral. Expense related to this matching contribution aggregated to $29,114 and $ 33,997 for the three months ended September 30, 2016 and 2015, respectively, and $ 92,203 and $ 98,155 for the nine months ended September 30, 2016 and 2015, respectively.

e) In July 2013, the Company entered into an exclusive license agreement with the University of Maryland, Baltimore for a novel drug delivery platform, Nano-Polymer Drug Conjugate Systems. RX-21101 is the Company's first drug candidate utilizing this platform. The agreement requires the Company to make payments to the University of Maryland if RX-21101 or any products from the licensed delivery platform achieve development milestones. As of September 30, 2016, no development milestones have occurred.

f) In October 2013, the Company signed an exclusive license agreement with the Ohio State Innovation Foundation, for a novel oligonucleotide drug delivery platform, Lipid-Coated Albumin Nanoparticle. The agreement requires the Company to make payments to the Ohio State Innovation Foundation if any products from the licensed delivery platform achieve development milestones. As of September 30, 2016, no development milestones have occurred.

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15. Fair Value Measurements

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

The three levels are described below:

Level 1 Inputs — Unadjusted quoted prices in active markets for identical assets or liabilities that are 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; and

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

The following tables present assets and liabilities that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy. There have been no changes in the methodologies used at September 30, 2016 and December 31, 2015.

	Fair Value Measurements at September 30, 2016			
	Total	Level 1	Level 2	Level 3
Assets:				
Certificates of Deposit	**$ 2,400,979**	**$ -**	**$ 2,400,979**	**$ -**
Commercial Paper	**5,974,060**	**-**	**5,974,060**	**-**
Corporate Bonds	**5,044,320**	**-**	**5,044,320**	**-**
Total Assets:	**$ 13,419,359**	**$ -**	**$ 13,419,359**	**$ -**
Liabilities:				
Warrant Liabilities	**$ 3,161,591**	**-**	**-**	**$ 3,161,591**

	Fair Value Measurements at December 31, 2015			
	Total	Level 1	Level 2	Level 3
Assets:				
Certificates of Deposit	$ 6,234,996	$ -	$ 6,234,996	$ -
Commercial Paper	2,977,570	-	2,977,570	-
Corporate Bonds	4,027,520	-	4,027,520	-
Total Assets:	$ 13,240,086	$ -	$ 13,240,086	$ -
Liabilities:				
Warrant Liabilities	$ 2,739,163	-	-	$ 2,739,163

REXAHN PHARMACEUTICALS, INC.
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The fair value of the Company's Level 2 marketable securities is determined by using quoted prices from independent pricing services that use market data for comparable securities in active or inactive markets. A variety of data inputs, including benchmark yields, interest rates, known historical trades and broker dealer quotes are used with pricing models to determine the quoted prices.

The fair value methodology for the warrant liabilities is disclosed in Note 12.

The carrying amounts reported in the financial statements for cash and cash equivalents (Level 1), prepaid expenses, and other assets and accounts payable and accrued expenses approximate fair value because of the short term maturity of these financial instruments.

The following table sets forth a reconciliation of changes in the nine months ended September 30, 2016 and 2015 in the fair value of the liabilities classified as Level 3 in the fair value hierarchy:

	Warrant Liabilities
Balance at January 1, 2016	$ 2,739,163
Additions	4,364,110
Unrealized gains, net	(3,941,682)
Transfers out of level 3	-
Balance at September 30, 2016	$ 3,161,591

	Warrant Liabilities
Balance at January 1, 2015	$ 3,768,351
Additions	-
Unrealized gains, net	(2,282,476)
Transfers out of level 3	(9,378)
Balance at September 30, 2015	$ 1,476,497

Additions consist of the fair value of warrant liabilities upon issuance. Transfers out of Level 3 for warrant liabilities consist of warrant exercises, where the liability is converted to additional paid-in capital upon exercise. 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.

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

OVERVIEW

The following discussion should be read in conjunction with the unaudited condensed financial statements and notes thereto set forth in Item 1 of this Quarterly Report on Form 10-Q and the audited financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2015.

Except for the historical information contained herein, the matters discussed in this Quarterly Report on Form 10-Q may be deemed to be forward-looking statements that involve risks and uncertainties. We make such forward-looking statements pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and other federal securities laws. In this Quarterly Report on Form 10-Q, words such as "believe," "estimate," "expect," "anticipate," "will," "may," "intend" and other similar expressions, are intended to identify forward-looking statements. We caution that forward-looking statements are based largely on our expectations and are subject to a number of known and unknown risks and uncertainties that are subject to change based on factors that are, in many instances, beyond our control. Actual results, performance or achievements may differ materially from those contemplated, expressed or implied by the forward-looking statements.

Although we believe that the expectations reflected in our forward-looking statements are reasonable as of the date we make them, actual results could differ materially from those currently anticipated due to a number of factors, including risks relating to:

- *our understandings and beliefs regarding the role of certain biological mechanisms and processes in cancer;*
- *our drug candidates being in early stages of development, including in pre-clinical development;*
- *our ability to initially develop drug candidates for orphan indications to reduce the time-to-market and take advantage of certain incentives provided by the U.S. Food and Drug Administration;*
- *our ability to transition from our initial focus on developing drug candidates for orphan indications to candidates for more highly prevalent indications;*
- *our ability to successfully and timely complete clinical trials for our drug candidates in clinical development;*
- *uncertainties related to the timing, results and analyses related to our drug candidates in pre-clinical development;*
- *our ability to obtain the necessary U.S. and international regulatory approvals for our drug candidates;*
- *our reliance on third-party contract research organizations and other investigators and collaborators for certain research and development services;*
- *our ability to maintain or engage third-party manufacturers to manufacture, supply, store and distribute supplies of our drug candidates for our clinical trials;*

- *our ability to form strategic alliances and partnerships with pharmaceutical companies and other partners for sales and marketing of certain of our product candidates;*

- *demand for and market acceptance of our drug candidates;*

- *the scope and validity of our intellectual property protection for our drug candidates and our ability to develop our candidates without infringing the intellectual property rights of others;*

- *our lack of profitability and the need for additional capital to operate our business; and*

- *other risks and uncertainties, including those set forth herein and in our Annual Report on Form 10-K under the caption "Risk Factors" and those detailed from time to time in our filings with the Securities and Exchange Commission.*

These forward-looking statements are made only as of the date hereof, and we undertake no obligation to update or revise the forward-looking statements, whether as a result of new information, future events or otherwise.

We are a clinical stage biopharmaceutical company dedicated to the discovery, development and commercialization of innovative treatments for cancer. Our mission is to improve the lives of cancer patients by developing next-generation cancer therapies that are designed to maximize efficacy while minimizing the toxicity and side effects traditionally associated with cancer treatment. Our clinical pipeline features one product candidate in Phase II clinical development, one product candidate in Phase Ib/IIa clinical development, one product candidate in Phase I clinical development and additional compounds in pre-clinical development. Our strategy is to continue building a significant pipeline of innovative oncology product candidates that we will commercialize alone or with partners. Our three clinical stage drug candidates in active development are Archexin®, RX-3117 and Supinoxin TM (RX-5902).

- *Archexin* is a potential best-in-class, potent inhibitor of the protein kinase Akt-1, which we believe plays a critical role in cancer cell proliferation, survival, angiogenesis, metastasis and drug resistance. Archexin has received "orphan drug" designation from the U.S. Food and Drug Administration (the "FDA") for renal cell carcinoma ("RCC"), glioblastoma, ovarian cancer, stomach cancer and pancreatic cancer. Orphan drug designation provides tax incentives for clinical research and a waiver from user fees under certain circumstances. In addition, an orphan drug receives seven years of exclusivity after approval, during which the FDA generally cannot approve another product with the same active moiety for the same indication. We have completed a pilot Phase IIa clinical trial of Archexin for the treatment of pancreatic cancer. We are currently conducting a Phase IIa proof-of-concept clinical trial of Archexin in patients with metastatic renal cell carcinoma to evaluate its safety and efficacy in combination with everolimus.

- *RX-3117* is a small molecule nucleoside compound that we believe has therapeutic potential in a broad range of cancers, including pancreatic, bladder, colon, and lung cancer. We previously completed a Phase Ib clinical trial of RX-3117 and identified a recommended Phase II dose. In this trial, RX-3117 appeared to be safe and well tolerated with a predictable pharmacokinetic profile for an orally-administered agent with preliminary evidence of single agent activity. We then initiated a two stage Phase Ib/IIa clinical trial of RX-3117 in patients with relapsed/refractory pancreatic cancer. Based on achieving the predefined efficacy criteria in stage 1, stage 2 of the study has now been initiated. We also commenced enrollment in a Phase Ib/IIa trial in patients with advanced bladder cancer.

- *Supinoxin* , or RX-5902, is a potential first-in-class small molecule inhibitor of phosphorylated-p68, a protein that we believe plays a key role in cancer cell growth, progression and metastasis. We are currently conducting a Phase I clinical trial of Supinoxin to evaluate its safety and efficacy and maximum tolerated dose in patients with solid tumors.

Since our inception, our efforts and resources have been focused primarily on developing our pharmaceutical technologies, raising capital and recruiting personnel. We have no product sales to date, and we will not generate any product sales until we receive approval from the FDA or equivalent foreign regulatory bodies to begin selling our pharmaceutical candidates. Our major sources of working capital have been proceeds from various private and public financings, and licensing and collaboration agreements with our strategic investors and partners.

Recently Issued Accounting Standards

See Note 2, "Recent Accounting Pronouncements Affecting the Company", in the Notes to Condensed Financial Statements for a discussion of recent accounting pronouncements.

Results of Operations

Comparison of the Three and Nine Months Ended September 30, 2016 and September 30, 2015

Total Revenues

We had no revenues for the three and nine months ended September 30, 2016 or 2015.

General and Administrative Expenses

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

General and administrative expenses decreased approximately $136,000, or 8.7%, to $1,419,000 for the three months ended September 30, 2016 from $1,555,000 for the three months ended September 30, 2015. General and administrative expenses decreased approximately $174,000 or 3.7%, to $4,490,000 for the nine months ended September 30, 2016 from $4,664,000 for nine months ended September 30, 2015. The decrease is primarily attributable to lower personnel costs and professional fees in 2016.

Research and Development Expenses

Research and development expenses decreased approximately $805,000, or 25.9%, to $2,299,000 for the three months ended September 30, 2016, from $3,104,000 for the three months ended September 30, 2015. Research and development expenses decreased approximately $1,228,000, or 13.3%, to $8,004,000 for the nine months ended September 30, 2016, from $9,232,000 for the nine months ended September 30, 2015. Decreased research and development costs for the three and nine months ended September 30, 2016 were primarily attributable to lower manufacturing costs for our drug candidates due to a significant supply of our drug candidates already being available to us from earlier manufacturing campaigns. During the three months ended September 30, 2016, we incurred approximately $358,000 of drug manufacturing costs, compared to approximately $1,623,000 during the three months ended September 30, 2015. During the nine months ended September 30, 2016, we incurred approximately $2,325,000 of drug manufacturing costs, compared to approximately $4,665,000 during the nine months ended September 30, 2015. Because the volume and timing of drug manufacturing does not correlate directly with the level and timing of clinical trial activity, we expect expenses related to drug manufacturing costs to vary from period to period based not only on the progress of clinical trials, but also when we engage in manufacturing activities. The decreases to drug manufacturing costs were offset by increases in clinical costs related to patient and site enrollment. We expect expenses to increase in the fourth quarter of 2016 compared to the quarter ended September 30, 2016 due to increased patient enrollments in our clinical trials and new manufacturing campaigns.

The table below summarizes the approximate amounts incurred on each of our research and development projects for the three and nine months ended September 30, 2016 and 2015:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2016	2015	2016	2015
Clinical Candidates:				
Archexin	$ 337,600	$ 231,300	$ 1,421,200	$ 1,312,800
RX-3117	510,000	1,149,700	1,944,700	3,354,600
Supinoxin	513,300	851,200	1,842,700	1,929,200
Preclinical, Personnel and Overhead	937,685	871,607	2,795,593	2,635,303
Total Research and Development Expenses	$ 2,298,585	$ 3,103,807	$ 8,004,193	$ 9,231,903

Interest Income

Interest income remained relatively flat, increasing $2,421 and $2,558, or 10.2% and 3.1%, respectively, from the three and nine months ended September 30, 2016, respectively, compared to the same periods in 2015.

Unrealized Gain on Fair Value of Warrants

Our warrants are recorded as liabilities at fair value, and the warrants are valued using a lattice model. Changes in the fair value of warrants are recorded as an unrealized gain or loss in our statement of operations. During the three months ended September 30, 2016 and 2015, we recorded unrealized gains on the fair value of our warrants of approximately $968,000 and 608,000 respectively. During the nine months ended September 30, 2016 and 2015, we recorded unrealized gains on the fair value of our warrants of approximately $3,942,000 and $2,282,000 respectively. Estimating fair values of warrants requires the development of significant and subjective estimates that may, and are likely to, change over the duration of the warrants due to related changes to external market factors. The unrealized gains for the three and nine months ended September 30, 2016 primarily resulted from a decreased price of the underlying common stock at September 30, 2016 and an increase in the number of outstanding warrants.

Financing Expense

We incurred approximately $143,000 of financing expenses during the three months ended September 30, 2016, related to our registered direct offering in September 2016 and approximately $313,000 of financing expenses during the nine months ended September 30, 2016 related to our registered direct offerings in March 2016 and September 2016. We did not incur financing expenses during the three and nine months ended September 30, 2015.

Net Loss

As a result of the above, net loss for the three and nine months ended September 30, 2016 was approximately $2,867,000 and $8,782,000, or $0.01 and $0.04 per share, respectively, compared to approximately $4,027,000 and $11,532,000, or $0.02 and $0.06, respectively, for the three and nine months ended September 30, 2015, respectively.

Research and Development Projects

Research and development costs are expensed as incurred. These costs consist primarily of salaries and related personnel costs, costs to acquire pharmaceutical products and product rights for development and amounts paid to contract research organizations, hospitals and laboratories for the provision of services and materials for drug development and clinical trials. Costs incurred in obtaining the license rights to technology in the research and development stage that have no alternative future uses are expensed as incurred. Our research and development programs are related to our oncology clinical stage drug candidates, Archexin, RX-3117 and Supinoxin, and our pre-clinical stage drug candidate, RX-21101. As we expand our clinical studies, we expect to enter into additional development agreements. Significant additional expenditures will be required if we complete our clinical trials, start new trials, apply for regulatory approvals, continue development of our technologies, expand our operations and bring our products to market. The eventual total cost of each clinical trial is dependent on a number of uncertainties such as trial design, the length of the trial, the number of clinical sites and the number of patients. The process of obtaining and maintaining regulatory approvals for new therapeutic products is lengthy, expensive and uncertain. Because the successful development of our most advanced drug candidates, Archexin, RX-3117 and Supinoxin, is uncertain, and because RX-21101 is in early-stage development, we are unable to estimate the costs of completing our research and development programs, the timing of bringing such programs to market and, therefore, when material cash inflows could commence from the sale of these drug candidates, if any. If these projects are not completed as planned, our results of operations and financial condition would be negatively affected.

Archexin

Archexin is a potential best-in-class, potent inhibitor of the protein kinase Akt-1, which we believe plays a critical role in cancer cell proliferation, survival, angiogenesis, metastasis and drug resistance. We are currently conducting a Phase IIa proof-of-concept clinical trial of Archexin in patients with metastatic RCC to evaluate its safety and efficacy. The trial is being conducted in two stages. Stage 1, which we completed in January 2016, was a dose ranging study, with up to three dose groups with three RCC patients each, to determine Archexin's MTD in combination with everolimus. Stage 2, which commenced in January 2016, is a randomized, open-label, two-arm dose expansion study of everolimus versus Archexin in combination with everolimus to determine safety and efficacy of the combination. Stage 2 is anticipated to enroll up to 30 RCC patients who will be randomized to receive either Archexin in combination with everolimus, or everolimus alone, in a ratio of 2:1 The MTD of 250 mg/m ^{2} /day of Archexin, which was identified in Stage 1, will be administered in Stage 2 along with 10 mg of everolimus compared to 10 mg everolimus alone.

Expenses related to Archexin slightly increased during the three and nine months ended September 30, 2016 compared to the three and nine months ended September 30, 2015, which was primarily attributable to increased patient enrollments as we progress through Stage 2 of the trial. We expect that expenses related to Archexin will increase for the remainder of 2016 compared to the three months ended September 30, 2016 as we continue Stage 2 of the ongoing Archexin clinical trial.

RX-3117

RX-3117 is a novel, investigational oral small molecule nucleoside compound. We believe RX-3117 has therapeutic potential in a broad range of cancers including pancreatic, bladder, cervical, non-small cell lung cancer and colon cancer. We previously identified the MTD of RX-3117, which we are evaluating in a Phase Ib/IIa proof-of-concept clinical trial in patients with relapsed and refractory pancreatic cancer and advanced bladder cancer. During the three months ended September 30, 2016, we completed stage 1 and entered stage 2 of the pancreatic cancer clinical trial. The decision to proceed with stage 2 was based on satisfying predefined criteria for preliminary efficacy for stage 1 of the trial. During the most recent quarter, we also initiated stage 1 of the bladder cancer clinical trial.

Expenses related to RX-3117 decreased during the three and nine months ended September 30, 2016 compared to the same period in 2015 primarily attributable to decreased manufacturing costs incurred in connection with our Phase I and Phase Ib/IIa trials. However, we expect expenses will increase in the remainder of 2016 compared to the three months ended September 30, 2016 due to patient enrollment costs.

Supinoxin (RX-5902)

Supinoxin is a potential first-in-class small molecule inhibitor of phosphorylated p68, a protein that we believe plays a key role in cancer growth, progression and metastasis. Phosphorylated p68 results in up-regulation of cancer-related genes and a subsequent proliferation of cancer cells and tumor growth. Supinoxin is currently being evaluated in a Phase I dose-escalation clinical trial in cancer patients with solid tumors designed to evaluate its safety, tolerability, dose-limiting toxicities and MTD. Secondary endpoints include pharmacokinetic analyses and an evaluation of the preliminary anti-tumor effects of Supinoxin. We plan to commence a Phase Ib/IIa clinical study to evaluate the safety and efficacy of Supinoxin in patients with triple negative breast cancer and relapsed/refractory ovarian cancer.

Expenses related to Supinoxin decreased during the three and nine months ended September 30, 2016 compared to the three and nine months ended September 30, 2015 primarily attributable to decreased manufacturing costs due to a significant supply of drug product already available from earlier manufacturing campaigns. We expect that expenses related to Supinoxin will increase in the remainder of 2016 compared to the three months ended September 30, 2016 as we expect to reach the MTD or recommended Phase Ib/IIa dose in 2016 and expect to continue development with our planned Phase Ib/IIa study.

Pre-clinical Pipeline

Expenses related to our pre-clinical candidates increased for the three and nine months ended September 30, 2016 compared to the same period in 2015 as we continued development of our pipeline. We expect that expenses related to our pre-clinical pipeline, including RX-21101, will increase slightly in the fourth quarter of 2016 compared to 2015 as we continue testing and development.

Research and Development Process

We have engaged third-party contract research organizations and other investigators and collaborators, such as universities and medical institutions, to conduct our pre-clinical studies, toxicology studies and clinical trials. Engaging third-party contract research organizations is typical practice in our industry. However, relying on such organizations means that the clinical trials and other studies described above are being conducted at external locations and that the completion of these trials and studies is not within our direct control. Trials and studies may be delayed due to circumstances outside our control, and such delays may result in additional expenses for us.

Liquidity and Capital Resources

Cash Flows

Cash used in operating activities was approximately $11,734,000 for the nine months ended September 30, 2016. The operating cash flows during the nine months ended September 30, 2016 reflect a net loss of $8,782,000, an unrealized gain on the fair value of warrants of $3,942,000 and a net increase of cash components of working capital and non-cash charges totaling $990,000. Cash used in operating activities was approximately $12,944,000 for the nine months ended September 30, 2015. The operating cash flows during the nine months ended September 30, 2015 reflect our net loss of $11,532,000, and a net decrease of cash components of working capital and other non-cash charges totaling $1,412,000.

Cash used in investing activities was approximately $196,000 for the nine months ended September 30, 2016, which consisted of $8,748,000 and $8,000 for the purchases of marketable securities and equipment, respectively, offset by $8,560,000 from the redemption of marketable securities. Cash provided by investing activities was approximately $13,832,000 for the nine months ended September 30, 2015, which consisted of $14,625,000 from the redemption of marketable securities, offset by $741,000 and $52,000 for the purchases of marketable securities and equipment, respectively.

Cash provided by financing activities was approximately $10,122,000 for the nine months ended September 30, 2016, which consisted of net proceeds from our registered direct public offerings in March 2016 and September 2016. Cash provided by financing activities was approximately $1,737,000 for the nine months ended September 30, 2015, which consisted of $1,006,000 in proceeds from the sale of common stock and $709,000, and $22,000, from the exercise of stock options and warrants, respectively.

Contractual Obligations

We have a variety of contractual obligations, as more fully described in our 2015 Form 10-K. These obligations include, but are not limited to, contractual obligations in connection with license agreements (including related milestone payments), lease payments, employee compensation and incentive program expenses, and contracts with various vendors for research and development services. As of September 30, 2016, the total estimated cost to complete our contracts with vendors for research and development services was approximately $6,180,000 under the terms of the applicable agreements. All of these agreements may be terminated by either party upon appropriate notice as stipulated in the respective agreements.

Current and Future Financing Needs

We have incurred negative cash flow from operations since we started our business. We have spent, and expect to continue to spend, substantial amounts in connection with implementing our business strategy, including our planned product development efforts, our clinical trials and our research and development efforts. We will need to raise additional capital through public or private equity or debt offerings or through arrangements with strategic partners or other sources in order to continue to develop our drug candidates. There can be no assurance that additional capital will be available when needed or on terms satisfactory to us, if at all. If we are not able to raise sufficient additional capital, we will have to reduce our research and development activities. We believe our cash, cash equivalents, and marketable securities will be sufficient to cover our cash flow requirements for our current activities for at least the next 12 months.

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

- the progress of our product development activities;
- the number and scope of our product development programs;
- the progress of our pre-clinical and clinical trial activities;
- the progress of the development efforts of parties with whom we have entered into collaboration agreements;
- our ability to maintain current collaboration programs and to establish new collaboration arrangements;
- the costs involved in prosecuting and enforcing patent claims and other intellectual property rights; and
- the costs and timing of regulatory approvals.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements or holdings in variable interest entities.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

For quantitative and qualitative disclosures about market risk, refer to "Quantitative and Qualitative Disclosures About Market Risk" in our 2015 Form 10-K. Our exposures to market risk have not changed materially since December 31, 2015.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this report. Based upon that evaluation, our CEO and CFO concluded that our disclosure controls and procedures as of the end of the period covered by this report were effective such that the information required to be disclosed by us in reports filed under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's (the "SEC's") rules and forms and (ii) accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions regarding disclosure. A controls system cannot provide absolute assurance, however, that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

Changes in Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Exchange Act) during the quarter ended September 30, 2016 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. Other Information

Item 1A. Risk Factors.

Investing in our stock involves a high degree of risk. In addition to the other information set forth in this report, you should carefully consider the factors set forth in the Risk Factors section of our 2015 Form 10-K, as well as other information contained in the 2015 Form 10-K and in other reports we file with the SEC. We do not believe that there have been any material changes to the risk factors disclosed in our 2015 Form 10-K.

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

Pursuant to consulting agreements, we issued 135,000 shares of common stock during the three months ended September 30, 2016 to two privately held investor relations firms in consideration for investor relations services. The shares of common stock were not registered under the Securities Act of 1933, as amended (the "Securities Act"), pursuant to the exemption from registration requirements provided by Section 4(a)(2) of the Securities Act, as transactions not involving a public offering.

Item 6. Exhibits.

The exhibits filed as part of this Quarterly Report on Form 10-Q are set forth on the Exhibit Index, which is incorporated herein by reference.

SIGNATURES

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

REXAHN PHARMACEUTICALS, INC.
(Registrant)

By: /s/ Peter D. Suzdak
Peter D. Suzdak
Chief Executive Officer
(principal executive officer)

Date: November 4, 2016

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

Date: November 4, 2016

EXHIBIT INDEX

Exhibit No.	Description
10.1	Research and Collaboration Agreement dated February 6, 2003 by and between Rexahn Pharmaceuticals, Inc. and Rexgene Biotech Co., Ltd., filed as Exhibit 10.5 to the Company's Annual Report on Form 10-KSB for the fiscal year ended December 31, 2005 is incorporated herein by reference.
10.2 *	Employment Agreement dated July 6, 2016 by and between Rexahn Pharmaceuticals, Inc. and Lisa Nolan, Ph.D.
31.1	Certification of Chief Executive Officer pursuant to Rules 13a-14(a) / 15d-14(a)
31.2	Certification of Chief Financial Officer pursuant to Rules 13a-14(a) / 15d-14(a)
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	The following materials from Rexahn Pharmaceuticals, Inc.'s Quarterly Report on Form 10-Q, formatted in Extensible Business Reporting Language ("XBRL"): (i) Condensed Balance Sheet; (ii) Condensed Statement of Operations; (iii) Condensed Statement of Comprehensive Loss; (iv) Condensed Statement of Cash Flows; and (v) Notes to the Financial Statements.

*Indicates management contract or compensatory plan.

Exhibit 10.2

EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT (this " ***Agreement*** "), dated as of July 6, 2016 (" ***Effective Date*** "), is made by and between **Rexahn Pharmaceuticals, Inc.** , a Delaware corporation (the " ***Company*** "), and Lisa Nolan (the " ***Executive*** ").

RECITALS

WHEREAS, the Company desires to employ the Executive pursuant to the terms and conditions contained in this Agreement; and

WHEREAS, the Executive desires to accept such employment pursuant to the terms and conditions contained in this Agreement.

NOW, THEREFORE, in consideration of the premises, and of the mutual covenants and agreements hereinafter contained, the parties hereto agree as follows:

1 . **Term .** The Executive's employment under this Agreement shall commence on the Effective Date, and shall continue until terminated pursuant to Section 7 hereof (the " ***Term*** "). During the Term, Executive's employment is terminable "at will" (*i.e* ., with or without cause and with or without notice), in any case, in accordance with the terms of this Agreement.

2 . **Title .** The Executive will serve as the Chief Business Officer of the Company.

3 . **Duties .** The Executive is responsible for duties commensurate with her position as the Chief Business Officer of the Company, or as may be assigned to her from time to time by the Company's Chief Executive Officer (the " ***CEO*** ") or his designee. The Executive agrees to devote her full time, attention, skill and energy to the duties set forth herein and to the business of the Company, and to use her best efforts to promote the success of the Company's business.

4. **Reporting .** The Executive will report directly to the CEO.

5. **Location .** The Executive shall be based in the Company's Rockville, Maryland offices. However, the Executive acknowledges that in order to effectively perform her duties, she will occasionally be required to travel for business purposes.

6. **Compensation .**

(a) Base Salary . The Executive will receive an annualized base salary of Three Hundred and twenty Thousand dollars ($320,000.00) (the " ***Base Salary*** "), payable in accordance with the Company's normal payroll practices as in effect from time to time. Such Base Salary shall be subject to periodic review by the Compensation Committee (the " ***Compensation Committee*** ") of the Board of Directors (the " ***Board*** "), and may be adjusted in the sole discretion of the Compensation Committee.

(b) Discretionary Annual Cash Bonus . The Executive shall be eligible to receive a discretionary annual cash bonus for each fiscal year (the " ***Bonus*** "). Whether to award a Bonus, and the amount of any Bonus, will be determined by the Compensation Committee in its sole discretion; provided, that the Bonus shall target Thirty-Five percent (35%) of the Base Salary (the " ***Target Bonus*** "). The Bonus will be based on a program and criteria established by the Board or the Compensation Committee, and shall be generally consistent among all of the Company's similarly situated executives. The Bonus shall be paid to the Executive within sixty (60) days after the Compensation Committee determines to award such bonus but in no event later than March 15 of the year following the year of performance.

(c) Stock Option Awards . Upon the commencement of the Executive's employment with the Company (the " ***Commencement Date*** "), the Executive shall be granted an option to purchase up to 1,200,000 shares of the Company's common stock (the " ***Stock Option*** ") which shall vest based on the following schedule: twenty-five percent (25%) of the shares subject to the Stock Option shall vest on the first anniversary of the Commencement Date; and thereafter, one forty-eighth (1/48 th) of the shares subject to the Stock Option shall vest in monthly installments, on the first business day of each month, until the Stock Option is fully-vested. The Stock Option shall be subject to such other terms and conditions as are set forth in the Stock Option Agreement dated the Commencement Date (the " ***Stock Option Agreement*** ") between the Company and the Executive, and the Company's Stock Option Plan, as amended from time to time.

(d) Vacation . During the Term, the Executive shall be entitled to vacation benefits in accordance with the Company's vacation policy for management and officers.

(e) Benefits . During the Term, and provided that the Executive satisfies, and continues to satisfy, any plan eligibility requirements, the Executive shall be entitled to participate in, and receive benefits under, any retirement savings plan or welfare benefit plan made available by the Company to similarly-situated executives, as such plans may be in effect from time to time. Such benefits may be changed unilaterally by the Company, without notice to the Executive.

(f) Reimbursement of Business Expenses . The Company will reimburse the Executive for all reasonable and properly-documented business-related expenses incurred or paid by her in connection with the performance of her duties hereunder, consistent with Company policy regarding reimbursement of such expenses.

(g) Term Life Insurance . The Company shall provide the Executive, at the Company's cost, with term life insurance in accordance with the Company's insurance policy , for which the Executive may designate the beneficiary.

(h) Withholdings . All payments made under this Section 6 , or under any other provision of this Agreement, shall be subject to any and all federal, state and local taxes and other withholdings to the extent required by applicable law.

7. Termination of Employment .

(a) Due to Death . The Executive's employment will automatically terminate immediately upon her death.

(b) Due to Disability . If the Executive incurs a Disability (as defined below) during the Term, then the Company, in its sole discretion, shall be entitled to terminate the Executive's employment immediately upon written notice to the Executive of such decision. For purposes of this Agreement, " ***Disability*** " shall mean a physical or mental impairment that prevents the Executive from performing the essential duties of her position, with or without reasonable accommodation, for (i) a period of ninety (90) consecutive calendar days or (ii) an aggregate of ninety (90) work days in any period of six (6) months. The determination of whether the Executive incurred a Disability shall be made by the Board, in good faith, after consultation with the Executive's physician. The Executive acknowledges that the Company regards her as a "key employee" under the Family and Medical Leave Act, to the extent that Act is applicable.

(c) By the Company With Cause . During the Term, the Company shall be entitled to terminate the Executive's employment with Cause (as defined below) by providing ten (10) days' prior written notice to the Executive that Cause exists to terminate her employment and reasonably specifying the Cause; provided, that the Cause is not cured and continues to exist at the end of such ten-day (10-day) period. The Company reserves the right to withdraw any and all duties from the Executive, and to exclude the Executive from the Company's premises, upon delivery of such notice of termination. For purposes of this Agreement, " ***Cause*** " shall mean any of the following:

(i) the commission by the Executive of an act of malfeasance, dishonesty, fraud or breach of trust against the Company or any of its Executives, customers or suppliers;

(ii) material breach by the Executive of any of her obligations under this Agreement, or any other agreement between the Executive and the Company;

(iii) the Executive's material failure to comply with the Company's written policies;

(iv) the Executive's material failure, neglect or refusal to perform her duties under this Agreement, or to follow the lawful written directions of the Board;

(v) the Executive's commission of any act that would constitute a felony or any crime involving moral turpitude;

(vi) any act or omission by the Executive involving dishonesty or fraud or that is, or is reasonably likely to be, materially injurious to the financial condition or business reputation of the Company, or that otherwise is materially injurious to the Company's Executives, customers or suppliers; or

(vii) other than with respect to a Disability, the inability of the Executive to perform the duties of her position.

(d) By the Executive Without Good Reason . The Executive shall be entitled to terminate her employment with the Company by providing the Company with at least thirty (30) days' advance written notice of such decision. The Company reserves the right to withdraw any and all duties from the Executive, and to exclude the Executive from the Company's premises, upon delivery of such notice of termination.

(e) By the Company Without Cause . The Company shall be entitled to terminate the Executive's employment without Cause by providing written notice to the Executive of such decision. No advance notice period is required for a termination by the Company without Cause. The Company reserves the right to withdraw any and all duties from the Executive, and to exclude the Executive from the Company's premises, upon delivery of such notice of termination.

(f) By the Executive With Good Reason .

(i) The Executive may voluntarily terminate her employment for Good Reason (as defined below) by notifying the Company in writing, within ninety (90) days after the initial existence of one of the events below, that the Executive intends to terminate her employment for Good Reason, and, if such Good Reason is not cured in accordance with the cure provision set forth below, the Executive must actually terminate employment no later than thirty (30) days following the expiration of the cure period; provided, that the event constituting Good Reason continues to exist as of such date. " ***Good Reason*** " means the occurrence of any of the following events:

(A) A material diminution in the Executive's duties or authority inconsistent with the Executive's position (including status, offices, titles and reporting requirements), excluding an isolated, insubstantial and inadvertent action not taken in bad faith that is remedied by the Company after receipt of notice thereof given by the Executive:

(B) A material reduction in the Executive's Base Salary or target bonus percentage; or

(C) Any action or inaction by the Company that constitutes a material breach of the terms and provisions of this Agreement (and its Exhibits).

(ii) Anything herein to the contrary notwithstanding, the Executive's employment shall not be terminated for Good Reason unless she provides written notice to the Company stating the basis of such termination and the Company fails to cure the action or inaction that is the basis for the termination for Good Reason within thirty (30) days after receipt of such notice.

8. Compensation Upon Termination of Employment .

(a) Termination by Reason of Death, Disability, for Cause or by the Executive . Subject to Section 8(c) below, if the Executive's employment is terminated pursuant to Section 7(a), 7(b), 7(c) or 7(d) above, then the Company shall pay to the Executive (or her estate, as appropriate), within 30 days of her termination date:

(i) The Base Salary to which she is otherwise entitled for the period ending on the termination date.

(ii) The Base Salary to which she is entitled for any accrued but unused vacation days as of the termination date.

(b) Other Termination . If the Executive's employment is terminated pursuant to Section 7(e) or 7(f) above, but not under the circumstances contemplated by Section 8(c) below, then the Company shall pay to the Executive, within 60 days of her termination date (but in all cases subject to Section 8(d) below and not before the applicable general release becoming effective in accordance with its terms), the following amounts and benefits:

(i) A cash lump sum amount equal to twelve (12) months of her then current annual Base Salary on the effective date of termination, ignoring any decrease in Base Salary that forms the basis for Good Reason.

(ii) An amount equal to a pro-rata portion of the bonus to which the Executive otherwise might have been entitled pursuant to Section 6(b) above, assuming for such purposes that the Executive would have received a bonus for that year equal to her Target Bonus if she had stayed employed with the Company for the entire year.

(iii) If Executive timely elects continued coverage under COBRA for herself and her covered dependents under the Company's group health plans following such termination employment, then the Company will pay the COBRA premiums necessary to continue the Executive's health insurance coverage in effect for herself and her eligible dependents on the termination date, as and when due to the insurance carrier or COBRA administrator (as applicable), through the earlier to occur of the expiration of the nine-month (9-month) period following her termination date or the expiration of Executive's eligibility for the continuation coverage under COBRA. Notwithstanding the foregoing, if the Company determines, in its sole discretion, that the payment of the COBRA premiums would result in a violation of the nondiscrimination rules of Section 105(h)(2) of the Code or any statute or regulation of similar effect (including but not limited to the 2010 Patient Protection and Affordable Care Act, as amended by the 2010 Health Care and Education Reconciliation Act), then in lieu of providing the COBRA premiums, the Company, in its sole discretion, may elect instead to pay Executive on the first day of each month of the nine-month period, a fully taxable cash payment equal to such portion of the COBRA premiums for that month, subject to applicable tax withholdings (such amount, the " ***Special Severance Payment*** "). Executive may, but is not obligated to, use such Special Severance Payment toward the cost of COBRA premiums. The first Special Severance Payment will occur on the date that is thirty days following the date of Executive's termination from employment, subject to the effectiveness of the general release as set forth in Section 8(d), and subsequent payments will occur on the schedule described above. If the Executive becomes eligible for coverage under another employer's group health plan or otherwise cease to be eligible for COBRA during the period provided in this clause, the Executive must immediately notify the Company of such event, and all payments and obligations under this clause will cease.

(iv) All of the Executive's then-outstanding Stock Options will be subject to accelerated vesting, and (if applicable) become immediately exercisable, with respect to the number of shares as to which the Stock Options that otherwise would have vested in the nine-month (9-month) period following the Executive's termination date.

(v) The Company will extend the post-termination exercise period applicable to the Executive's then-outstanding Stock Options until the earliest to occur of (i) nine (9) months following her termination date, and (ii) the original term of the Stock Options.

(c) Change of Control .

(i) If the Executive's employment is terminated by the Company without Cause (and not as a result of death or a Disability) or by the Executive for Good Reason and such termination date falls within the one-year (1-year) period immediately following a Change of Control (as defined in the Company's Stock Option Plan as in effect on the date hereof) (a " ***Change of Control Termination*** "), then the Company shall pay to the Executive, within 60 days of her termination date (but in all cases subject to Section 8(d) below and not before the applicable general release becoming effective in accordance with its terms), the following amounts:

(A) A cash lump sum amount equal to eighteen (18) months of her then current annual Base Salary on the effective date of termination, ignoring any decrease in Base Salary that forms the basis for Good Reason; and

(B) An amount equal to the bonus to which the Executive otherwise would have been entitled pursuant to Section 6(b) above, assuming for such purposes that the Executive would have received a bonus for that fiscal year equal to the Target Bonus if she had stayed employed with the Company for the entire year; and

(ii) Following the Change of Control Termination, if Executive timely elects continued coverage under COBRA for herself and her covered dependents under the Company's group health plans following such termination employment, then the Company will pay the COBRA premiums necessary to continue the Executive's health insurance coverage in effect for herself and her eligible dependents on the termination date, as and when due to the insurance carrier or COBRA administrator (as applicable), through the earlier to occur of the expiration of the eighteen-month period following her termination date or the expiration of Executive's eligibility for the continuation coverage under COBRA. Notwithstanding the foregoing, if the Company determines, in its sole discretion, that the payment of the COBRA premiums would result in a violation of the nondiscrimination rules of Section 105(h)(2) of the Code or any statute or regulation of similar effect (including but not limited to the 2010 Patient Protection and Affordable Care Act, as amended by the 2010 Health Care and Education Reconciliation Act), then in lieu of providing the COBRA premiums, the Company, in its sole discretion, may elect instead to pay Executive on the first day of each month of the eighteen-month period, the Special Severance Payment. Executive may, but is not obligated to, use such Special Severance Payment toward the cost of COBRA premiums. If the Executive becomes eligible for coverage under another employer's group health plan or otherwise cease to be eligible for COBRA during the period provided in this clause, the Executive must immediately notify the Company of such event, and all payments and obligations under this clause will cease.

(iii) Immediately prior to a Change of Control, all options, restricted stock and other equity-based awards granted to the Executive by the Company and held by her immediately prior to such a Change of Control shall become immediately and fully vested and, in the case of Stock Options, shall remain exercisable for their respective original terms.

(d) Release Required; Certain Limitations on the Company's Obligations Hereunder . The obligations of the Company to the Executive under this Section 8 shall be subject to the Executive's execution of a general release in favor of the Company, in the form of Exhibit A hereto or in such other form reasonably satisfactory to the Company, within sixty (60) days of Executive's termination of employment and all revocation periods applicable to such general release having expired without the release having been revoked prior to such sixtieth (60 th) day. Other than as expressly set forth in this Section 8 , the Company shall have no payment or other obligations to the Executive following a termination of her employment by the Company.

9. Confidential Information .

(a) Non-Use and Non-Disclosure of Confidential Information . The Executive acknowledges that, during the course of her employment with the Company, she will have access to information about the Company and/or its subsidiaries and their clients and suppliers, that is confidential and/or proprietary in nature, and that belongs to the Company and/or its subsidiaries. As such, at all times, both during the Term and thereafter, the Executive will hold in the strictest confidence, and not use or attempt to use except for the benefit of the Company and/or its subsidiaries, and not disclose to any other person or entity (without the prior written authorization of the Board) any Confidential Information (as defined below). Notwithstanding anything contained in this Section 9, the Executive will be permitted to disclose any Confidential Information to the extent required by validly-issued legal process or court order, provided that the Executive notifies the Company and/or its subsidiaries immediately of any such legal process or court order in an effort to allow the Company and/or its subsidiaries to challenge such legal process or court order, if the Company and/or its subsidiaries so elects, prior to the Executive's disclosure of any Confidential Information.

(b) No Breach . The Executive represents and warrants that she has not and will not make unauthorized disclosure to the Company of any confidential information or trade secrets of any third party or otherwise breach any obligation of confidentiality to any third party.

(c) Definition of "Confidential Information" . For purposes of this Agreement, " ***Confidential Information*** " means any confidential or proprietary information that belongs to the Company and/or its subsidiaries, or any of their clients or suppliers, including without limitation, technical data, market data, trade secrets, trademarks, service marks, copyrights, other intellectual property, know-how, research, business plans, product information, projects, services, client lists and information, client preferences, client transactions, supplier lists and information, supplier rates, software, hardware, technology, inventions, developments, processes, formulas, designs, drawings, marketing methods and strategies, pricing strategies, sales methods, financial information, revenue figures, account information, credit information, financing arrangements and other information disclosed to the Executive by the Company and/or its subsidiaries in confidence, directly or indirectly, and whether in writing, orally or by electronic records, drawings, pictures or inspection of tangible property. "Confidential Information" does not include any of the foregoing information that has entered the public domain other than by a breach of this Agreement.

10. Return of Company Property . Upon the termination of the Executive's employment with the Company (whether upon the expiration of the Term or thereafter), or at any time during such employment upon request by the Board, the Executive will promptly deliver to the Board (or its representative) and not keep in her possession, recreate or deliver to any other person or entity, any and all property that belongs to the Company and/or its subsidiaries, or that belongs to any other third party and is in the Executive's possession as a result of her employment with the Company, including without limitation, computer hardware and software, pagers, PDA's, cell phones, other electronic equipment, records, data, client lists and information, supplier lists and information, notes, reports, correspondence, financial information, account information, product information, files, electronically-stored information and other documents and information, including any and all copies of the foregoing.

11. Intellectual Property .

(a) Prior Inventions . The Executive hereby acknowledges and agrees that she has made no invention, original work of authorship, development, improvement, and trade secret prior to the commencement of her employment with the Company, that belong solely to the Executive or belong to the Executive jointly with others (subject to the restriction in Section 9(b))(collectively referred to as " ***Prior Inventions*** ")), that relate in any way to any of the Company's and/or its subsidiaries' actual or proposed businesses, products, services or research and development, and that are not assigned to the Company and/or its subsidiaries herein). If in the course of the Executive's employment with the Company (whether during the Term or thereafter), she incorporates into any Company's or its subsidiaries' products, processes, services or machines, a Prior Invention owned by the Executive or in which she has an interest, then the Company is hereby granted and shall have a non-exclusive, royalty-free, irrevocable, perpetual, worldwide license (with the right to sublicense) to make, have made, copy, modify, make derivative works of, use, sell and otherwise distribute such Prior Invention as part of, or in connection with, such product, process, service or machine.

(b) Assignment of Inventions . The Executive will promptly make full written disclosure to the Board, will hold in trust for the sole right and benefit of the Company, and hereby assigns to the Company or its designee, all her right, title and interest throughout the world in and to any and all inventions, original works of authorship, developments, concepts, know-how, improvements or trade secrets, whether or not patentable or registrable under copyright or similar laws, that she may solely or jointly conceive or develop or reduce to practice, or cause to be developed or reduced to practice, during her employment with the Company (whether during the Term or thereafter) that (i) relate at the time of conception, development or reduction to practice to the actual or demonstrably proposed business or research and development activities of the Company and/or its subsidiaries, (ii) result from or relate to any work performed for the Company and/or its subsidiaries, whether or not during normal business hours or (iii) are developed through the use of Confidential Information (collectively referred to as " ***Inventions*** "). The Executive further acknowledges that all Inventions that are made by her (solely or jointly with others) within the scope of and during the period of her employment with the Company and/or its subsidiaries (whether during the Term or thereafter) are "works made for hire" (to the greatest extent permitted by applicable law) and are compensated by her salary, unless regulated otherwise by law.

(c) Maintenance of Invention Records . The Executive will keep and maintain adequate and current written records of all Inventions made by her (solely or jointly with others) during her employment with the Company and/or its subsidiaries (whether during the Term or thereafter). The records may be in the form of notes, sketches, drawings, flow charts, electronic data or recordings, laboratory notebooks or any similar format. The records will be available to and remain the sole property of the Company and its subsidiaries at all times. The Executive will not remove such records from the Company's or its subsidiaries' business premises except as expressly permitted by Company policy that may, from time to time, be revised at the sole discretion of the Company.

(d) Further Assistance . The Executive will assist the Company or its designee, at the Company's expense, in every way to secure the Company's rights in any Inventions and any copyrights, patents, trademarks, trade secrets, moral rights or other intellectual property rights relating thereto in any and all countries, including without limitation, the disclosure to the Company of all pertinent information and data with respect thereto, the execution of all applications, specifications, oaths, assignments, records and all other instruments that the Company shall deem necessary in order to apply for, obtain, maintain and transfer such rights and in order to assign and convey to the Company, its successors, assigns and nominees the sole and exclusive rights, title and interest in and to such Inventions, and any copyrights, patents, trademarks, trade secrets, moral rights or other intellectual property rights relating thereto. The Executive acknowledges that her obligation to execute, or cause to be executed, when it is in her power to do so, any such instrument or papers shall continue after the termination of her employment with the Company until the expiration of the last such intellectual property right in any country. If the Company is unable, after reasonable effort, because of the Executive's mental or physical incapacity or unavailability for any other reason, to secure her signature to apply for or to pursue any application for any patents or copyright registrations covering Inventions assigned to the Company above, then the Executive hereby irrevocably designates and appoints the Company and its duly authorized officers and agents as her agent and attorney in fact, to act for and in her behalf and stead to execute and file any such applications and to do all other lawfully-permitted acts to further the application for, prosecution, issuance, maintenance or transfer of letters patent or copyright registrations thereon with the same legal force and effect as if originally executed by the Executive. The Executive hereby waives and irrevocably quitclaims to the Company and/or its subsidiaries any and all claims, of any nature whatsoever, that she now or hereafter has for infringement of any and all Inventions assigned to the Company and/or its subsidiaries.

12. No Prior Restrictions . The Executive represents and warrants that her employment with the Company will not violate, or cause her to be in breach of, any obligation or covenant made to any former employer or other third party, and that during the course of her employment with the Company (whether during the Term or thereafter), she will not take any action that would violate or breach any legal obligation that she may have to any former employer or other third party.

13. **No Interference with Executives and Customers .** The Executive agrees that, during the Executive's employment with the Company and for a period of twelve (12) months immediately thereafter, the Executive will not, directly or indirectly through another entity, for herself or any other person or entity, (i) induce or solicit, or attempt to induce or solicit, any executive or independent contractor of the Company or its subsidiaries (or any individual who was employed or engaged by the Company or its subsidiaries during the one-year period immediately before the termination of the Executive's employment) to leave the employment of, or to cease his or her contracting relationship with, the Company or its subsidiaries, (ii) interfere in any way with the employment relationship between the Company or its subsidiaries or their executives and independent contractors, (iii) hire or engage any executive or independent contractor of the Company or its subsidiaries (or any individual who was employed or engaged by the Company or its subsidiaries during the one-year period immediately before the termination of the Executive's employment) or (iv) induce or attempt to induce any customer, supplier, licensee or other business relation of the Company or its subsidiaries to cease doing business with the Company or its subsidiaries, or in any way interfere with the relationship between any such customer, supplier, licensee or business relation and the Company or its subsidiaries.

14. **Non-Disparagement .** Both during and after the Executive's employment with the Company, the Executive agrees not to disparage, portray in a negative light, or take any action that would be harmful to, or lead to unfavorable publicity for, the Company or any of its current or former clients, suppliers, officers, directors, Executives, agents, consultants, contractors, owners, parents, subsidiaries or divisions, whether in public or private, including without limitation, in any and all interviews, oral statements, written materials, electronically-displayed materials and materials or information displayed on Internet-related sites.

15. **Equitable Relief** . The Executive acknowledges that the remedy at law for her breach of Sections 9 , 10 , 11 , 13 and 14 above will be inadequate, and that the damages flowing from such breach will not be readily susceptible to being measured in monetary terms. Accordingly, upon a violation of any part of such sections, the Company shall be entitled to immediate injunctive relief (or other equitable relief) and may obtain a temporary order restraining any further violation. No bond or other security shall be required in obtaining such equitable relief, and the Executive hereby consents to the issuance of such equitable relief. Nothing in this Section 15 shall be deemed to limit the Company's remedies at law or in equity for any breach by the Executive of any of the parts of Sections 9 , 10 , 11 , 13 and 14 above which may be pursued or availed of by the Company.

16. Judicial Modification. The Executive acknowledges that it is the intent of the parties hereto that the restrictions contained or referenced in Sections 9, 10, 11, 13 and 14 above be enforced to the fullest extent permissible under the laws of each jurisdiction in which enforcement is sought. If any of the restrictions contained or referenced in such Sections is for any reason held by an arbitrator or court to be excessively broad as to duration, activity, geographical scope or subject, then such restriction shall be construed, judicially modified or "blue penciled" in such jurisdiction so as to thereafter be limited or reduced to the extent required to be enforceable in such jurisdiction under applicable law.

17. Arbitration. Other than actions seeking injunctive relief to enforce the provisions of Sections 9, 10, 11, 13 and 14 above (which actions may be brought by the Company in a court of appropriate jurisdiction), any dispute or controversy between the parties hereto, whether during the Term or thereafter, including without limitation, matters relating to this Agreement, the Executive's employment with the Company and the cessation thereof, and all matters arising under any federal, state or local statute, rule or regulation or principle of contract law or common law, including but not limited to any and all medical leave statutes, wage-payment statutes, employment discrimination statutes and any other equivalent federal, state or local statute, shall be settled by arbitration administered by JAMS in Washington, D.C. pursuant to its rules applicable to employment disputes, which arbitration shall be confidential, final and binding to the fullest extent permitted by law. Each party hereto shall be responsible for paying one-half of the cost of the arbitration (including the cost of the arbitrator), and all of the cost of its own attorneys' fees and costs, unless otherwise apportioned by the arbitrator in accordance with applicable law

18. Notices. All notices and other communications provided for in this Agreement shall be in writing and shall be deemed to have been duly given when delivered and received by the other party, or when sent by recognized overnight courier to the following addresses:

If to the Company:

15245 Shady Grove Road
Suite 455
Rockville, Maryland 20850
Attention: Secretary

If to the Executive:

at the Executive's home address
as reflected on the Company's records

or to such other address as either party hereto will have furnished to the other in writing in accordance with this Section 18, except that such notice of change of address shall be effective only upon receipt.

19. **Severability .** In the event that any of the provisions of this Agreement, or the application of any such provisions to the Executive or the Company with respect to obligations hereunder, is held to be unlawful or unenforceable by any court or arbitrator, the remaining portions of this Agreement shall remain in full force and effect and shall not be invalidated or impaired in any manner.

20. **Waiver .** No waiver by any party hereto of the breach of any term or covenant contained in this Agreement, whether by conduct or otherwise, in any one or more instances, shall be deemed to be, or construed as, a further or continuing waiver of any such breach, or a waiver of any other term or covenant contained in this Agreement.

21. **Entire Agreement .** This Agreement contains the entire agreement between the Executive and the Company with respect to the subject matter of this Agreement, and supersedes any and all prior agreements and understandings, oral or written, between the Executive and the Company with respect to the subject matter of this Agreement.

22. **Amendments .** This Agreement may be amended only by an agreement in writing signed by the Executive and an authorized representative of the Company (other than the Executive).

23. **Section 409A Provisions**

(a) Separation from Service. Notwithstanding anything in this Agreement to the contrary, to the extent that any severance payments or benefits paid or provided to Executive, if any, under this Agreement are considered deferred compensation subject to Section 409A of the Code and the final regulations and any guidance promulgated thereunder (" ***Section 409A*** ") (such payments, the " ***Deferred Payments*** "), then (i) to the extent required by Section 409A, no Deferred Payments will be payable unless Executive's termination of employment also constitutes a "separation from service," as defined in Treasury Regulations Section 1.409A-1(h) (without regard to any alternative definition thereunder) (a "Separation from Service"). Similarly, no Deferred Payments payable to Executive, if any, under this Agreement that otherwise would be exempt from Section 409A pursuant to Treasury Regulations Section 1.409A-1(b)(9) will be payable until Executive has a Separation from Service. For clarity, if Executive terminates employment with the Company in a manner entitling Executive to severance payments and benefits under Section 8, but does not incur a separation from service within the meaning of Section 409A, then any severance payments or benefits that are Deferred Payments and that are not immediately payable under this Section 23(a) will instead be paid to Executive when Executive incurs a Separation from Service, notwithstanding that Executive may no longer be employed under this Agreement. For purposes of Section 409A (including, without limitation, for purposes of Treasury Regulations Section 1.409A-2(b)(2)(iii)), Executive's right to receive the payments under this Agreement, including the severance payments and benefits, will be treated as a right to receive a series of separate payments and, accordingly, each installment payment will at all times be considered a separate and distinct payment.

(b) Six-Month Wait for Key Executives Following Separation from Service . To the extent that any amount payable or benefit to be provided under this Agreement or any other agreement between the parties hereto constitutes an amount payable or benefit to be provided under a "nonqualified deferred compensation plan" (as defined in Section 409A) upon a "separation from service" (as defined in Section 409A), including any amount payable under Section 8 above, and to the extent that the Executive is deemed to be a "specified employee" (as that term is defined in Section 409A and pursuant to procedures established by the Company) on the "separation from service" date, then, notwithstanding any other provision in this Agreement or any other agreement to the contrary, such payment or benefit provision will not be made to the Executive during the six-month period immediately following the Executive's "separation from service" date. Instead, on the first day of the seventh month following such "separation from service" date, all amounts that otherwise would have been paid or provided to the Executive during that six-month period, but were not paid or provided because of this Section 23(a), will be paid or provided to the Executive at such time, with any cash payment to be made in a single lump sum (without any interest with respect to that six-month period). This six-month delay will cease to be applicable if the Executive "separates from service" due to death or if the Executive dies before the six-month period has elapsed.

(c) Section 409A Compliance; Exceptions to Payment Delay . To the maximum extent permitted by applicable law, amounts payable to Executive under Section 8 will be made in reliance upon Treasury Regulations Section 1.409A-1(b)(4) (with respect to short-term deferrals) or Treasury Regulations Section 1.409A-1(b)(9) (with respect to separation pay plans). Accordingly, the severance payments provided for in Section 8 are not intended to provide for any deferral of compensation subject to Section 409A of the Code to the extent (i) the severance payments payable under Section 8, by its terms and determined as of the date of Executive's Separation from Service, may not be made later than the 15th day of the third calendar month following the later of (1) the end of the Company's fiscal year in which Executive's termination of employment occurs or (2) the end of the calendar year in which Executive's termination of employment occurs, or (ii) the severance payments do not exceed an amount equal to two times the lesser of (1) the amount of Executive's annualized compensation based upon Executive's annual rate of pay for the calendar year immediately preceding the calendar year in which Executive's termination of employment occurs (adjusted for any increase during the calendar year in which such termination of employment occurs that would be expected to continue indefinitely had Executive remained employed with the Company) or (2) the maximum amount that may be taken into account under a qualified plan under Section 401(a)(17) of the Code for the calendar year in which Executive's termination of employment occurs. To the extent the payments and benefits under this Agreement are subject to Section 409A, this Agreement will be interpreted, construed and administered in a manner that satisfies the requirements of Sections 409A(a)(2), (3) and (4) of the Code and the Treasury Regulations and official guidance thereunder. If said payments and benefits to Executive are not exempt from or in compliance with Section 409A, the parties will attempt to bring such payments and benefits into compliance with Section 409A without diminishing the benefits to which Executive is entitled to the greatest extent possible.

(d) Expense Reimbursement. If required for compliance with Section 409A of the Code, any business expenses incurred by Executive that are reimbursed by the Company as a non-taxable reimbursement under this Agreement will be paid in accordance with Treasury Regulations Section 1.409A-3(i)(1)(iv) and in accordance with the Company's standard expense reimbursement policies, but in any event on or before the last day of Executive's taxable year following the taxable year in which Executive incurred the expenses. The amounts reimbursed during any taxable year of Executive will not affect the amounts provided in any other taxable year of Executive, and Executive's right to reimbursement for these amounts will not be subject to liquidation or exchange for any other benefit.

(e) Timing of Release. Notwithstanding anything in this Agreement to the contrary, if the sixty-day (60-day) consideration period set forth in Section 8(d) would span two calendar years, any payments specified as commencing within sixty (60) days of Executive's termination of employment shall commence in the next calendar year, with the first payment to include all payments that would have been made but for the provisions of this Section 23(e).

24. Successors and Assigns. Because the Executive's obligations under this Agreement are personal in nature, the Executive's obligations may only be performed by the Executive and may not be assigned by her. This Agreement is also binding upon the Executive's successors, heirs, executors, administrators and other legal representatives, and shall inure to the benefit of the Company and its subsidiaries, successors and assigns.

25. Consultation with Counsel. The Executive acknowledges that she has had a full and complete opportunity to consult with counsel of her own choosing concerning the terms, enforceability and implications of this Agreement.

26. No Other Representations. The Executive acknowledges that the Company has made no representations or warranties to the Executive concerning the terms, enforceability or implications of this Agreement other than as reflected in this Agreement.

27. Headings. The titles and headings of sections and subsections contained in this Agreement are included solely for convenience of reference and will not control the meaning or interpretation of any of the provisions of this Agreement.

28. **Counterparts.** This Agreement may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, and such counterparts shall together constitute but one agreement.

29. **Governing Law**. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Maryland, without giving effect to its conflict of laws principles.

[Signature page follows]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first written above.

REXAHN PHARMACEUTICALS, INC.

By: /s/ Peter Suzdak, Ph.D.
Name: Peter Suzdak, Ph.D.
Title: Chief Executive Officer

EXECUTIVE

/s/ Lisa Nolan
Name: Lisa Nolan

[Signature page to Employment Agreement]

EXHIBIT A

Form of Employment Release
(" *Employment Release* ")

In consideration of the payments and benefits set forth in Section 8 of the Agreement, I, Lisa Nolan, do hereby release and forever discharge Rexahn Pharmaceuticals, Inc., together with its direct and indirect subsidiaries), the " ***Company*** "), and all present and former directors, officers, agents, representatives, employees, successors and assigns of the Company, and its direct or indirect owners, and its affiliates and all present and former directors, officers, agents, representatives, employees, successors and assigns of such affiliates (collectively, the " ***Released Parties*** ") to the extent provided below.

1. Except as provided in paragraph 3 below, I knowingly and voluntarily release and forever discharge the Company and the other Released Parties from any and all claims, controversies, actions, causes of action, cross-claims, counter-claims, demands, debts, compensatory damages, liquidated damages, punitive or exemplary damages, other damages, claims for costs, expenses and attorneys' fees, or liabilities of any nature whatsoever in law and in equity, both past and present (through the date of this Employment Release) and whether known or unknown, suspected, or claimed against the Company or any of the Released Parties which I or any of my heirs, executors, administrators or assigns, may have, including, but not limited to, any allegation, claim or violation, arising under: Title VII of the Civil Rights Act of 1964, as amended; the Civil Rights Act of 1991; the Age Discrimination in Employment Act of 1967, as amended (including the Older Workers Benefit Protection Act); the Equal Pay Act of 1963, as amended; the Americans with Disabilities Act of 1990; the Family and Medical Leave Act of 1993; the Civil Rights Act of 1866, as amended; the Worker Adjustment Retraining and Notification Act; the Employee Retirement Income Security Act of 1974; any applicable Executive Order Programs; the Fair Labor Standards Act; Corporate and Criminal Fraud Accountability Act of 2002, also known as the Sarbanes Oxley Act or their state or local counterparts; or under any other federal, state or local civil or human rights law, or under any other local, state, or federal law, regulation or ordinance; or under any public policy, contract or tort, or under common law; or arising under any policies, practices or procedures of the Company; or any claim for wrongful discharge, breach of contract, infliction of emotional distress, defamation; or any claim for costs, fees, or other expenses, including attorney' fees, incurred in these matters). Nothing herein releases the Company from its post-employment obligations to me pursuant to the Agreement or from any claims that may not be released as a matter of law through a private agreement.

Anything herein to the contrary notwithstanding, nothing herein shall release the Company or any other Released Parties from any claims or damages based on: (i) any right or claim that arises after the Execution Date (as defined below), (ii) any right, including a right to a payment or benefit, the Executive may have under this Agreement or for accrued or vested benefits and stock based awards pursuant to the terms and conditions of the applicable plan document, (iii) the Executive's eligibility for indemnification, in accordance with applicable laws or the certificate of incorporation or by-laws of the Company, or under any applicable insurance policy, with respect to any liability the Executive incurs or has incurred as a director, officer or employee of the Company and its subsidiaries or (iv) any right the Executive may have to obtain contribution as permitted by law in the event of entry of judgment against her as a result of any act or failure to act for which she and the Company or any other Released Parties are jointly liable.

2. I represent that I have made no assignment or transfer of any right, claim, demand, cause of action, or other matter covered by paragraph 1 above.

3. I acknowledge and agree that my separation from employment with the Company in compliance with the terms of the Agreement shall not serve as the basis for any claim or action, including without limitation any claim under the Age Discrimination in Employment Act of 1967.

4. In signing this Employment Release, I acknowledge and intend that it shall be effective as a bar to each and every one of the claims hereinabove mentioned or implied. I expressly consent that this Employment Release shall be given full force and effect according to each and all of its express terms and provisions, including those relating to unknown and unsuspected claims (notwithstanding any state statute that expressly limits the effectiveness of a general release of unknown, unsuspected and unanticipated claims), if any, as well as those relating to any other claims hereinabove mentioned or implied. I acknowledge and agree that this waiver is an essential and material term of this Employment Release and that without such waiver the Company would not have agreed to the terms of the Agreement. I further agree that in the event I should bring a claim seeking damages against the Company or any Released Party, or in the event I should seek to recover against the Company or any Released Party in any claim brought by a governmental agency on my behalf, this release shall serve as a complete defense to such claims. I further agree that I am not aware of any pending claim or complaint of the type described in paragraph 1 as of the execution of this Employment Release.

5. I agree that neither this Employment Release, nor the furnishing of the consideration for this Employment Release, shall be deemed or construed at any time to be an admission by the Company, any Released Party or myself of any improper or unlawful conduct.

6. I acknowledge and agree that

(a) the consideration provided to me exceeds anything to which I am otherwise entitled and that I am owed no wages, commissions, bonuses, finder's fees, equity or incentive awards, severance pay, vacation pay or any other compensation or vested benefits or payments or remuneration of any kind or nature other than as specifically provided for in this Employment Release;

(b) if I make any claim or demand or commence or threaten to commence any action, claim or proceeding against the Company or any other Released Parties with respect to any cause, matter or thing which is the subject of this Employment Release, the Company may raise this Employment Release as a complete bar to any such action, claim or proceeding, and the Company or any other Released Parties, as applicable may recover from me all costs incurred in connection with such action, claim or proceeding, including attorneys' fees.

7. I agree that I will forfeit all amounts payable by the Company pursuant to the Agreement if I challenge the validity of this Employment Release. I also agree that if I violate this Employment Release by suing the Company or the other Released Parties, I will pay all costs and expenses of defending against the suit incurred by the Released Parties, including reasonable attorneys' fees, and return all payments received by me pursuant to the Agreement.

8. Notwithstanding anything in this Employment Release to the contrary, this Employment Release shall not relinquish, diminish, or in any way affect any rights or claims arising out of any breach by the Company or by any Released Party of the Agreement.

9. Whenever possible, each provision of this Employment Release shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Employment Release is held to be invalid, illegal or unenforceable in any respect under any applicable law or rule in any jurisdiction, such invalidity, illegality or unenforceability shall not affect any other provision or any other jurisdiction, but this Employment Release shall be reformed, construed and enforced in such jurisdiction as if such invalid, illegal or unenforceable provision had never been contained herein.

BY SIGNING THIS EMPLOYMENT RELEASE, I REPRESENT AND AGREE THAT:

1. I HAVE READ IT CAREFULLY;

2. I UNDERSTAND ALL OF ITS TERMS AND KNOW THAT I AM GIVING UP IMPORTANT RIGHTS, INCLUDING BUT NOT LIMITED TO, RIGHTS UNDER THE AGE DISCRIMINATION IN EMPLOYMENT ACT OF 1967, AS AMENDED, TITLE VII OF THE CIVIL RIGHTS ACT OF 1964, AS AMENDED; THE EQUAL PAY ACT OF 1963, THE AMERICANS WITH DISABILITIES ACT OF 1990; AND THE EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED;

3. I VOLUNTARILY CONSENT TO EVERYTHING IN IT;

4. I HAVE BEEN ADVISED TO CONSULT WITH AN ATTORNEY BEFORE EXECUTING IT AND I HAVE DONE SO OR, AFTER CAREFUL READING AND CONSIDERATION I HAVE CHOSEN NOT TO DO SO OF MY OWN VOLITION;

5. I HAVE BEEN OFFERED AT LEAST 21 DAYS FROM THE DATE OF MY RECEIPT OF THIS RELEASE ON **[_____, 20__]** , TO CONSIDER IT AND THE CHANGES MADE SINCE THE **[_____, 20__]** VERSION OF THIS RELEASE ARE NOT MATERIAL AND WILL NOT RESTART THE REQUIRED 21-DAY PERIOD;

6. THE CHANGES TO THE AGREEMENT SINCE **[_____, 20__]** EITHER ARE NOT MATERIAL OR WERE MADE AT MY REQUEST;

7. I UNDERSTAND THAT I HAVE SEVEN DAYS AFTER THE EXECUTION OF THIS RELEASE TO REVOKE THIS RELEASE SOLELY WITH RESPECT TO THE AGE DISCRIMINATION IN EMPLOYMENT ACT OF 1967, AS AMENDED, AND THAT THIS RELEASE SHALL NOT BECOME EFFECTIVE OR ENFORCEABLE UNTIL THE REVOCATION PERIOD HAS EXPIRED;

8. I HAVE SIGNED THIS EMPLOYMENT RELEASE KNOWINGLY AND VOLUNTARILY AND WITH THE ADVICE OF ANY COUNSEL RETAINED TO ADVISE ME WITH RESPECT TO IT; AND

9. I AGREE THAT THE PROVISIONS OF THIS EMPLOYMENT RELEASE MAY NOT BE AMENDED, WAIVED, CHANGED OR MODIFIED EXCEPT BY AN INSTRUMENT IN WRITING SIGNED BY AN AUTHORIZED REPRESENTATIVE OF THE COMPANY AND BY ME.

IN WITNESS WHEREOF , the parties hereto have executed this Employment Release as of this ● day of ● 201● (the " ***Execution Date*** ").

REXAHN PHARMACEUTICALS, INC.	**EXECUTIVE**
By: _____	_____
Name:	Name: Lisa Nolan
Title:	

Exhibit 31.1

**CERTIFICATION PURSUANT TO RULES 13A-14(D)
AND 15D-14(D)**

I, Peter D. Suzdak, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Rexahn Pharmaceuticals, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 4, 2016
/s/ Peter D. Suzdak

Peter D. Suzdak
Chief Executive Officer

Exhibit 31.2

CERTIFICATION PURSUANT TO RULES 13A-14(D)
AND 15D-14(D)

I, Tae Heum Jeong, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Rexahn Pharmaceuticals, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 4, 2016
/s/ Tae Heum Jeong
Tae Heum Jeong
Chief Financial Officer

Exhibit 32.1

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

SECTION 1350 CERTIFICATION*

In connection with the Quarterly Report of Rexahn Pharmaceuticals, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Peter D. Suzdak, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

Dated: November 4, 2016

By: /s/ Peter D. Suzdak
Peter D. Suzdak,
Chief Executive Officer

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

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

Exhibit 32.2

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

SECTION 1350 CERTIFICATION*

In connection with the Quarterly Report of Rexahn Pharmaceuticals, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Tae Heum Jeong, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

Dated: November 4, 2016

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

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

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