

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT

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

For the quarterly period ended June 30, 2009

Rexahn Pharmaceuticals, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

11-3516358

(I.R.S. Employer Identification Number)

**15245 Shady Grove Road, Suite 455
Rockville, MD 20850**

*(Address of principal executive offices,
including zip code)*

Telephone: (240) 268-5300

*(Registrant's telephone number, including area
code)*

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Sec.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: 60,716,133 shares of common stock outstanding as of August 10, 2009.

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

	Page
PART I	FINANCIAL INFORMATION
Item 1	<u>Financial Statements</u>
1)	<u>Condensed Balance Sheets at June 30, 2009 (unaudited) and December 31, 2008</u> 3
2)	<u>Condensed Statements of Operations for the three months and six months ended June 30, 2009 and 2008 (unaudited) and cumulative from March 19, 2001 (inception) to June 30, 2009 (unaudited)</u> 4
3)	<u>Condensed Statements of Cash Flows for the six months ended June 30, 2009 and 2008 (unaudited) and cumulative from March 19, 2001 (inception) to June 30, 2009 (unaudited)</u> 5
4)	<u>Notes to Condensed Financial Statements (unaudited)</u> 6
Item 2	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> 22
Item 3	<u>Quantitative and Qualitative Disclosures About Market Risk</u> 31
Item 4	<u>Controls and Procedures</u> 31
PART II	OTHER INFORMATION
Item 1	<u>Legal Proceedings</u> 32
Item 1A	<u>Risk Factors</u> 32
Item 2	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u> 32
Item 3	<u>Defaults Upon Senior Securities</u> 32
Item 4	<u>Submission of Matters to a Vote of Security Holders</u> 33
Item 5	<u>Other Information</u> 33
Item 6	<u>Exhibits</u> 34
	<u>SIGNATURES</u> 35

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

(A Development Stage Company)

Condensed Balance Sheets

	June 30, 2009	December 31, 2008
	(Unaudited)	
ASSETS		
Current Assets:		
Cash including cash equivalents at December 31, 2008	\$ 4,193,615	\$ 369,130
Marketable securities	-	2,999,750
Prepaid expenses and other current assets (note 3)	229,018	366,765
Total Current Assets	4,422,633	3,735,645
Restricted Cash Equivalents (note 12)	100,000	-
Equipment, Net (note 4)	86,318	92,212
Intangible Asset, Net (note 5)	277,227	286,132
Total Assets	\$ 4,886,178	\$ 4,113,989
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued expenses (note 6)	\$ 768,690	\$ 358,894
Deferred Revenue (note 7)	1,012,500	1,050,000
Total Liabilities	1,781,190	1,408,894
Commitments and Contingencies (note 12)		
Stockholders' Equity (note 9):		
Preferred stock, par value \$0.0001, 100,000 authorized shares, none issued and outstanding	-	-
Common stock, par value \$0.0001, 500,000,000 authorized shares, 60,730,338 (2008 – 56,039,854) issued	6,073	5,604
Additional paid-in capital	36,301,420	33,184,860
Accumulated deficit during the development stage	(33,174,095)	(29,906,479)
Treasury stock, 14,205 shares, at cost	(28,410)	(28,410)
Accumulated other comprehensive (loss)	-	(550,480)
Total Stockholders' Equity	3,104,988	2,705,095
Total Liabilities and Stockholders' Equity	\$ 4,886,178	\$ 4,113,989

See the notes accompanying the condensed financial statements

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

	Three Months Ended June 30,		Six Months Ended June 30,		Cumulative from March 19, 2001 (Inception) to June 30, 2009
	2009	2008	2009	2008	
Revenues:					
Research	\$ 18,750	\$ 18,750	\$ 37,500	\$ 37,500	\$ 487,500
Expenses:					
General and administrative	838,630	682,471	1,561,737	1,248,451	16,426,176
Research and development	872,231	71,206	1,594,157	851,172	14,826,001
Patent fees	96,666	62,539	150,803	106,204	1,072,636
Depreciation and amortization	12,355	10,054	24,346	27,699	527,550
Total Expenses	1,819,882	826,270	3,331,043	2,233,526	32,852,363
Loss from Operations	(1,801,132)	(807,520)	(3,293,543)	(2,196,026)	(32,364,863)
Other (Income) Expense:					
Realized loss/(gain) on marketable securities	(11,025)	-	(11,025)	22,365	9,341
Interest (income)	(7,293)	(60,676)	(14,902)	(168,117)	(1,126,256)
Interest expense	-	-	-	-	301,147
Beneficial conversion feature	-	-	-	-	1,625,000
Total Other (Income) Expense	(18,318)	(60,676)	(25,927)	(145,752)	809,232
Net Loss Before Provision for Income Taxes	(1,782,814)	(746,844)	(3,267,616)	(2,050,274)	(33,174,095)
Provision for Income Taxes	-	-	-	-	-
Net Loss	\$ (1,782,814)	\$ (746,844)	\$ (3,267,616)	\$ (2,050,274)	\$ (33,174,095)
Loss per share, basic and diluted	\$ (0.03)	\$ (0.01)	\$ (0.06)	\$ (0.04)	
Weighted average number of shares outstanding, basic and diluted	58,214,542	55,935,649	57,120,095	55,638,945	

See the notes accompanying the condensed financial statements

REXAHN PHARMACEUTICALS, INC.

(A Development Stage Company)
Condensed Statements of Cash Flows
(Unaudited)

	Six Months Ended June 30,		Cumulative From March 19, 2001 (Inception) to June 30, 2009
	2009	2008	
Cash Flows from Operating Activities:			
Net loss	\$ (3,267,616)	\$ (2,050,274)	\$ (33,174,095)
Adjustments to reconcile net loss to net cash used in operating activities:			
Beneficial conversion feature	-	-	1,625,000
Compensatory stock	-	-	21,877
Depreciation and amortization	24,346	27,699	527,550
Stock option compensation expense	342,029	317,911	4,198,863
Amortization of deferred revenue	(37,500)	(37,500)	(487,500)
Realized (gains) losses on marketable securities	(11,025)	22,365	9,341
Changes in assets and liabilities:			
Prepaid expenses and other	137,747	(154,857)	(229,018)
Accounts payable and accrued expenses	409,796	(250,026)	768,690
Net Cash (Used in) Operating Activities	(2,402,223)	(2,124,682)	(26,739,292)
Cash Flows from Investing Activities:			
Restricted cash	(100,000)	-	(100,000)
Purchase of equipment	(9,547)	(25,174)	(534,879)
Purchase of marketable securities	(1,196,824)	(5,848,176)	(10,595,000)
Proceeds from sales of marketable securities	4,758,079	4,475,582	10,585,659
Payment of licensing fees	-	-	(356,216)
Net Cash Provided by (Used in) Investing Activities	3,451,708	(1,397,768)	(1,000,436)
Cash Flows from Financing Activities:			
Proceeds from units, net	2,775,000	-	2,775,000
Issuance of common stock	-	931,201	22,536,753
Stock subscription receivable	-	(12,000)	-
Proceeds from long-term debt	-	-	5,150,000
Proceeds from research contribution	-	-	1,500,000
Principal payments on long-term debt	-	-	(28,410)
Net Cash Provided by Financing Activities	2,775,000	919,201	31,933,343
Net Increase (Decrease) in Cash and Cash Equivalents	3,824,485	(2,603,249)	4,193,615
Cash and Cash Equivalents - beginning of period	369,130	3,809,571	-
Cash and Cash Equivalents - end of period	\$ 4,193,615	\$ 1,206,322	\$ 4,193,615
Supplemental Cash Flow Information:			
Interest paid	\$ -	\$ -	\$ 301,147
Non-cash financing and investing activities:			
Warrants issued	\$ -	\$ -	\$ 2,816,853

See the notes accompanying the condensed financial statements

REXAHN PHARMACEUTICALS, INC.

(A Development Stage Company)

Notes to Condensed Financial Statements

Six Months Ended June 30, 2009 and 2008

(Unaudited)

1. Operations and Organization

Operations

Rexahn Pharmaceuticals, Inc. (the "Company" or "Rexahn Pharmaceuticals"), a Delaware corporation, is a development stage biopharmaceutical company dedicated to the discovery, development and commercialization of innovative treatments for cancer, central nervous system (CNS) disorders, sexual dysfunction and other medical needs. The Company had an accumulated deficit of \$33,174,095 at June 30, 2009 and anticipates incurring losses through the remainder of fiscal 2009 and beyond. The Company has not yet generated commercial sales revenue and has been able to fund its operating losses to date through the sale of its common stock, units, issuance of long-term debt, and proceeds from reimbursed research and development costs. Management has the capability of managing the Company's operations within existing cash available by reducing research and development activities. This may result in slowing down clinical studies, but will conserve the Company's cash to allow it to operate for the next twelve months. Accordingly, the Company believes that its existing cash will be sufficient to fund its operating cash flow requirements through June 30, 2010.

Basis of Presentation

The accompanying unaudited condensed financial statements of the Company have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") for interim financial information. Accordingly they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of the Company's management, all adjustments (consisting of only normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the six-month period ended June 30, 2009 are not necessarily indicative of results that may be expected for the full fiscal year ending December 31, 2009. The accompanying condensed financial statements should be read in conjunction with the audited financial statements of the Company for the fiscal year ended December 31, 2008. The Company has evaluated subsequent events for recognition or disclosure through August 10, 2009, which was the date we filed this Form 10-Q with the SEC.

Use of Estimates

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

REXAHN PHARMACEUTICALS, INC.

(A Development Stage Company)

Notes to Condensed Financial Statements

Six Months Ended June 30, 2009 and 2008

(Unaudited)

2. Recent Accounting Pronouncements Affecting the Company

In September 2006, the Financial Accounting Standards Board (“FASB”) issued FASB Staff Position (“FSP”) Statement of Financial Accounting Standards (“SFAS”) No. 157, “Fair Value Measurements” (“SFAS 157”), to define how the fair value of assets and liabilities should be measured in accounting standards where it is allowed or required. In addition to defining fair value, the Statement established a framework within GAAP for measuring fair value and expanded required disclosures surrounding fair value measurements. In February 2008, the FASB issued FASB Staff Positions (FSP) SFAS No. 157-2, “Effective Date of FASB Statement No. 157”, which delayed the effective date by one year for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. In October 2008, the FASB issued FSP FAS 157-3, “Determining the Fair Value of a Financial Asset When the Market for that Asset is Not Active”, to clarify the application of SFAS 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. This FSP was effective immediately. In April 2009, the FASB issued FSP FAS 157-4, “Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions that are Not Orderly”, to provide additional guidance for estimating fair value when the volume and level of activity for the asset or liability have significantly decreased. This FSP will be effective for interim and annual reporting periods ending after June 15, 2009. We adopted SFAS 157 for financial assets and financial liabilities on January 1, 2008, and the adoption did not have a material impact on our financial position, results of operations, or cash flows. We adopted SFAS 157 for nonfinancial items on January 1, 2009, and the adoption did not have a material impact on our financial position, results of operations, or cash flows. We currently do not have any financial assets that are valued using inactive markets, and as such are not impacted by the issuances of FSP 157-3 and FSP 157-4. See Note 13 to the Condensed Financial Statements for additional discussion on fair value measurement.

In April 2009, the FASB issued FSP No. FAS 107-1 and APB 28-1, “Interim Disclosures about Fair Value of Financial Instruments”. This FSP amends FASB Statement No. 107, “Disclosures about Fair Value of Financial Instruments”, to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This FSP also amends APB Opinion No. 28, “Interim Financial Reporting”, to require those disclosures in summarized financial information at interim reporting periods. This FSP shall be effective for interim reporting periods ending after June 15, 2009. The adoption of this FSP did not have a material impact on our financial position, results of operations, or cash flows.

In April 2009, the FASB issued FSP No. FAS 115-2 and FAS 124-2, “Recognition and Presentation of Other-Than-Temporary Impairments”. This FSP amends the other-than-temporary impairment guidance in U.S. GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of other than temporary impairments on debt and equity securities in the financial statements. The FSP does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. The FSP shall be effective for interim and annual reporting periods ending after June 15, 2009. The adoption of this FSP did not have a material impact on our financial position, results of operations, or cash flows.

REXAHN PHARMACEUTICALS, INC.

(A Development Stage Company)

Notes to Condensed Financial Statements

Six Months Ended June 30, 2009 and 2008

(Unaudited)

In April 2009, the SEC released Staff Accounting Bulletin No. 111 (“SAB 111”), which amends SAB Topic 5-M. SAB 111 notes that FSP No. 115-2 and FAS 124-2 were limited to debt securities only, and the FSP referred readers to SEC SAB Topic 5-M for factors to consider with respect to other-than-temporary impairments for equity securities. With the amendments in SAB 111, debt securities are excluded from the scope of Topic 5-M, but the SEC staff’s views on equity securities are still included within the topic. The Company currently does not have any financial assets that are other-than-temporary impaired.

In April 2009, the FASB issued FSP No. FAS 141(R)-1, “Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies”, to address some of the application issues under SFAS 141(R). The FSP deals with the initial recognition and measurement of an asset acquired or a liability assumed in a business combination that arises from a contingency provided the asset or liability’s fair value on the date of acquisition can be determined. When the fair value can’t be determined, the FSP requires using the guidance under SFAS No. 5, “Accounting for Contingencies”, and FASB Interpretation (FIN) No. 14, “Reasonable Estimation of the Amount of Loss”. This FSP was effective for assets or liabilities arising from contingencies in business combinations for which the acquisition date is on or after January 1, 2009. The adoption of this FSP in 2009 did not have a material impact on our financial position, results of operations, or cash flows.

In May 2009, the FASB issued SFAS No. 165, “Subsequent Events” (“SFAS 165”). SFAS 165 establishes general standards of accounting for and disclosures of subsequent events that occurred after the balance sheet date but prior to the issuance of financial statements. SFAS 165 is effective for financial statements issued for interim periods or fiscal years ending after June 15, 2009. The adoption of SFAS 165, effective June 2009, did not have an effect on the financial position, results of operations or cash flows of the Company.

In June 2009, the FASB issued SFAS No. 166 "Accounting for Transfers of Financial Assets—an amendment of FASB Statement No. 140." This standard eliminates the concept of a qualifying special purpose entity ("QSPE") and modifies the derecognition provisions in SFAS No. 140. This statement is effective for financial asset transfers occurring after the beginning of an entity's first fiscal year that begins after November 15, 2009. The Company is evaluating the impact that SFAS No. 166 will have on its financial statements, if any.

In June 2009, the FASB issued SFAS No. 167 "Amendments to FASB Interpretation No. 46(R)." This statement amends the consolidation guidance applicable to variable interest entities and is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2009. The Company is evaluating the impact that SFAS No. 167 will have on its financial statements, if any.

In June 2009, the FASB issued SFAS No. 168, “The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles – a replacement of FASB Statement No. 162” (“SFAS 168”). SFAS 168 provides for the FASB Accounting Standards Codification (the “Codification”) to become the single official source of authoritative, nongovernmental U.S. generally accepted accounting principles (GAAP). The Codification did not change GAAP but reorganizes the literature. SFAS 168 is effective for interim and annual periods ending after September 15, 2009. The Company does not expect that adoption of this statement will have a material impact on its financial statements.

3. Prepaid Expenses and Other Current Assets

	<u>June 30,</u> <u>2009</u>	December 31, 2008
Deposits on contracts	\$ 163,954	\$ 294,337
Other assets	<u>65,064</u>	<u>72,428</u>
	<u>\$ 229,018</u>	<u>\$ 366,765</u>

4. Equipment, Net

	<u>June 30,</u> <u>2009</u>	December 31, 2008
Furniture and fixtures	\$ 31,713	\$ 31,713
Office equipment	70,276	70,276
Lab and computer equipment	422,178	421,343
Leasehold improvements	<u>10,712</u>	<u>2,000</u>
	534,879	525,332
Less accumulated depreciation	<u>(448,561)</u>	<u>(433,120)</u>
Net carrying amount	<u>\$ 86,318</u>	<u>\$ 92,212</u>

Depreciation expense was \$7,902 and \$5,601 for the three months ended June 30, 2009 and 2008, respectively and \$15,441 and \$18,793 for the six months ended June 30, 2009 and 2008, respectively.

5. Intangible Asset, Net

On February 10, 2005, the Company entered into a licensing agreement with Revaax Pharmaceuticals LLC ("Revaax"), whereby the Company received an exclusive, worldwide, royalty bearing license, with the right to sub-license Revaax's licensed technology and products. The agreement called for an initial licensing fee of \$375,000 to be payable to Revaax in eight quarterly installments ending on November 10, 2006. Accordingly, the Revaax license was measured at fair value at the date the licensing agreement was entered into. The fair value of the license component of \$356,216 was determined by discounting the stream of future quarterly payments of \$46,875 at 6%, the prevailing market rate for a debt instrument of comparable maturity and credit quality. The asset is amortized on a straight-line basis over an estimated useful life of 20 years. The discount was accreted over the term of the liability, calculated based on the Company's estimated effective market interest rate of 6%. Amortization expense was \$4,453 for each of the three months ended June 30, 2009 and 2008 and \$8,905 for each of six months ended June 30, 2009 and 2008.

Management does not believe that there is an impairment of intangible asset at June 30, 2009.

REXAHN PHARMACEUTICALS, INC.

(A Development Stage Company)

Notes to Condensed Financial Statements

Six Months Ended June 30, 2009 and 2008

(Unaudited)

The following table sets forth the intangible assets:

	June 30, 2009	December 31, 2008
Revaax license, original cost	\$ 356,216	\$ 356,216
Less accumulated amortization	(78,989)	(70,084)
Balance (net)	<u>\$ 277,227</u>	<u>\$ 286,132</u>

Amortization over the next five (5) years and thereafter is as follows:

2009	\$ 8,905
2010	17,811
2011	17,811
2012	17,811
2013	17,811
Thereafter	197,078
	<u>\$ 277,227</u>

6. Accounts Payable and Accrued Expenses

	June 30, 2009	December 31, 2008
Trade payables	\$ 243,157	\$ 136,906
Accrued expenses	383,655	98,486
Payroll liabilities	141,878	123,502
	<u>\$ 768,690</u>	<u>\$ 358,894</u>

7. Deferred Revenue

In 2003, the Company entered into a collaborative research agreement with Rexgene Biotech Co., Ltd. ("Rexgene"), a minority shareholder. Rexgene is engaged in the development of pharmaceutical products in Asia and has agreed to assist the Company with the research, development and clinical trials necessary for registration of the Company's drug candidate, RX-0201, in Asia. This agreement provides Rexgene with exclusive rights to license, sublicense, make, have made, use, sell and import RX-0201 in Asia. A one-time contribution to the joint development and research of RX-0201 of \$1,500,000 was paid to the Company in 2003 in accordance with the agreement. The amount of revenue from this contribution is being recognized as income over the term of the agreement which terminates at the later of 20 years or the term of the patent on the licensed product. The Company is using 20 years as its basis for recognition and accordingly \$37,500 was included in revenues for the six months ended June 30, 2009 and 2008. The remaining \$1,012,500 at June 30, 2009 (December 31, 2008 - \$1,050,000) is reflected as deferred revenue on the balance sheet. The Company adopted SAB No. 104, "Revenue Recognition Nonrefundable Up-front Fees" with respect to the accounting for this transaction. These fees are being used in the cooperative funding of the costs of development of RX-0201. Royalties of 3% of net sales of licensed products will become payable to the Company on a quarterly basis once commercial sales of RX-0201 begin. The product is still under development and commercial sales are not expected to begin until at least 2012.

REXAHN PHARMACEUTICALS, INC.

(A Development Stage Company)

Notes to Condensed Financial Statements

Six Months Ended June 30, 2009 and 2008

(Unaudited)

8. Net Loss per Common Share

In accordance with SFAS No. 128, net loss per common share amounts ("basic EPS") was computed by dividing net loss by the weighted average number of common shares outstanding and excluding any potential dilution. Net loss per common share assuming dilution ("diluted EPS") was computed by reflecting potential dilution from the exercise of stock options and warrants. As of June 30, 2009 and 2008, there were stock options and warrants to acquire 15,747,489 and 7,402,943 shares of our common stock respectively. These shares were excluded from the computations of diluted loss per share because their effect would be antidilutive.

9. Stockholders' Equity

The following transactions have occurred from March 19, 2001 (inception) to June 30, 2009:

- a) On May 10, 2001 the Company issued 3,600,000 shares of common stock to the Company's founders for \$1.
- b) On August 10, 2001 the Company issued:
 - i) 1,208,332 shares of common stock to the directors of the Company for cash of \$1,450,000.
 - ii) 958,334 shares of common stock to Rexgene for cash of \$550,000.
 - iii) 360,000 shares of common stock in a private placement to individual investors for cash of \$1,080,000.

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

- c) On October 10, 2001 the Company issued 400,000 shares of common stock to Chong Kun Dang Pharmaceutical Corp. ("CKD") for cash of \$479,991 and 400,000 shares of common stock to an individual investor for cash of \$479,991.
- d) On October 10, 2001 the Company issued 200,000 shares of common stock to CKD for cash of \$479,985.
- e) Since inception, the Company's founders have transferred 800,000 shares of the common stock described in a) to officers and directors of the Company.
- f) In July 2003, the shareholders described in b)(iii) and e) transferred an aggregate of 1,268,332 shares of common stock to a voting trust. The trust allows for the unified voting of the stock by the trustees. The appointed trustees are senior management of the Company who, together with their existing shares, control a majority of the voting power of the Company.

REXAHN PHARMACEUTICALS, INC.

(A Development Stage Company)

Notes to Condensed Financial Statements

Six Months Ended June 30, 2009 and 2008

(Unaudited)

- g) On August 20, 2003 the Company issued 500,000 shares of common stock to KT&G Corporation for cash of \$2,000,000.
- h) On October 29, 2004, an option holder exercised options to purchase shares of the Company's common stock for cash of \$1,800 and the Company issued an aggregate of 1,500 shares.
- i) Pursuant to the agreement and plan of merger which occurred on May 13, 2005, (i) each share of the issued and outstanding common stock of Rexahn, Corp ("Rexahn") (other than dissenting shares) was converted into the right to receive five shares of Rexahn Pharmaceuticals common stock; (ii) each issued, outstanding and unexercised option to purchase a share of Rexahn common stock was converted into an option to purchase five shares of Rexahn Pharmaceuticals common stock and (iii) the par value of Rexahn's common stock was adjusted to reflect the par value of Corporate Road Show. Com Inc. ("CRS") common stock. In the acquisition merger, 289,780,000 CRS pre-reverse stock split shares were converted into 2,897,802 post-reverse stock split Rexahn Pharmaceuticals shares, and an additional 500,000 post-reverse stock split Rexahn Pharmaceuticals shares were issued to a former executive of CRS. For purposes of the Statement of Stockholders' Equity, the five-for-one stock split is reflected as a one-line adjustment. All shares and earnings per share information has been retroactively restated in these financial statements.
- j) On August 8, 2005, the Company issued, in a transaction exempt from registration under the Securities Act, 4,175,000 shares of common stock at a purchase price of \$2.00 per share.
- k) On October 3, 2005, the Company issued 7,000 shares of common stock for \$21,877 and \$7,500 cash in exchange for services.
- l) On December 2, 2005, the holders of a convertible note, representing \$1,300,000 aggregate principal amount, exercised their option to convert the entire principal amount of the note into the Company's common stock. Based on a \$2.00 per share conversion price, the holders received an aggregate of 650,000 shares.
- m) On December 27, 2005, option holders exercised options to purchase shares of the Company's common stock for cash of \$9,600 and the Company issued an aggregate of 40,000 shares.
- n) On February 22, 2006, an option holder exercised options to purchase shares of the Company's common stock for cash of \$1,200 and the Company issued an aggregate of 5,000 shares.
- o) On April 12, 2006, an option holder exercised options to purchase shares of the Company's common stock for cash of \$3,409 and the Company issued an aggregate of 14,205 shares. On the same date, the Company agreed to repurchase common stock from the option holder based on the then market price for treasury in exchange for the aggregate purchase price of \$28,410 in cash.
- p) On May 13, 2006, holders of the \$3,850,000 convertible notes issued on February 28, 2005, exercised their rights to convert the entire principal amount of the notes into shares of the Company's common stock. Based on a \$1.00 per share conversion price, the Company issued 3,850,000 shares of common stock in connection with the conversion.

REXAHN PHARMACEUTICALS, INC.

(A Development Stage Company)

Notes to Condensed Financial Statements

Six Months Ended June 30, 2009 and 2008

(Unaudited)

- q) On October 9, 2006, an option holder exercised options to purchase shares of the Company's common stock for cash of \$2,400 and the Company issued an aggregate of 10,000 shares.
- r) On November 19, 2006, an option holder exercised options to purchase shares of the Company's common stock for cash of \$1,800 and the Company issued an aggregate of 7,500 shares.
- s) On December 19, 2006, an option holder exercised options to purchase shares of the Company's common stock for cash of \$6,000 and the Company issued an aggregate of 25,000 shares.
- t) On April 18, 2007, an option holder exercised options to purchase shares of the Company's common stock for cash of \$14,400 and the Company issued an aggregate of 18,000 shares.
- u) On July 23, 2007, an option holder exercised options to purchase shares of the Company's common stock for cash of \$12,000 and the Company issued an aggregate of 15,000 shares.
- v) On September 27, 2007, an option holder exercised options to purchase shares of the Company's common stock for cash of \$15,600 and the Company issued an aggregate of 19,500 shares.
- w) On December 18, 2007, the Company issued 4,857,159 units at a price \$1.40 per share for total gross proceeds of \$6,800,023. Investors also were issued one warrant for every five shares purchased. One warrant will entitle the holder to purchase an additional share of common stock at a purchase price of \$1.80 at any time over a period of three years from the date of the closing of the private placement valued at \$1,103,164 on closing and were charged to additional paid in capital. Private placement closing costs of \$139,674, including 107,144 warrants issued, valued at \$91,119, were recorded as a reduction of the issuance proceeds.
- x) On December 27, 2007, an option holder exercised options to purchase shares of the Company's common stock for cash of \$18,000 and the Company issued an aggregate of 75,000 shares.
- y) On March 20, 2008, the Company issued 642,858 units consisting of one share of the Company's common stock and one warrant for every five common shares purchased in a private placement at a price of \$1.40 per unit for total gross proceeds of \$900,001. One warrant will entitle the holder to purchase an additional share of common stock at a price of \$1.80 at any time over a period of three years from the date of the private placement. The warrants were valued at \$220,005 and were charged to additional paid-in-capital.
- z) On May 30, 2008, an option holder exercised options to purchase shares of the Company's common stock for cash of \$7,200 and the Company issued an aggregate of 30,000 shares.
- aa) On June 2, 2008, an option holder exercised options to purchase shares of the Company's common stock for cash of \$12,000 and the Company issued an aggregate of 50,000 shares.
- ab) On June 30, 2008, an option holder exercised options to purchase shares of the Company's common stock for cash of \$12,000 and the Company issued an aggregate of 10,000 shares.

- ac) On May 19, 2009 the Company entered into a securities purchase agreement to issue 2,857,143 shares of common stock at a price of \$1.05 per share to an institutional investor for total gross proceeds of \$3,000,000. The investor was also issued:
- 1) Series I warrants to purchase 2,222,222 shares of common stock at a purchase price of \$1.05 per share at any time before September 30, 2009;
 - 2) Series II warrants to purchase 1,866,666 shares of common stock at a purchase price of \$1.25 per share at any time from December 3, 2009 to June 5, 2012; and
 - 3) Series III warrants to purchase 1,555,555 shares of common stock at a purchase price of \$1.50 per share at any time from December 3, 2009 to June 5, 2014.

These warrants have been valued at \$1,188,918 and recorded in additional paid in capital. The closing costs included 142,857 warrants valued at \$36,235 and were recorded as a reduction of the gross proceeds.

- ad) On June 9, 2009, the Company issued 1,833,341 shares of common stock and 862,246 warrants to purchase common stock at a purchase price of \$1.05 per share to existing stockholders pursuant to the anti-dilution protection provisions of the private placements transacted on December 24, 2007 and March 20, 2008. The warrants were valued at \$174,004 and recorded as a reduction in issuance proceeds of the May 19, 2009 transaction as described above.
- ae) During the six month period ended June 30, 2009, the Company sold all of its marketable securities for which it previously recorded an unrealized loss of (\$550,480) to accumulated other comprehensive (loss) at December 31, 2008. The sale of the Company's investments in marketable securities resulted in a gain of \$11,025 during the six month period ended June 30, 2009.

10. Stock-Based Compensation

On August 5, 2003, the Company established a stock option plan (the "Plan"). Under the Plan, the Company grants stock options to key employees, directors and consultants of the Company. For all grants prior to September 12, 2005 and grants to employees of the Company after September 12, 2005, the vesting period is 30% on the first anniversary of the grant date, an additional 30% on the second anniversary and the remaining 40% on the third anniversary. Options expire between 5 and 10 years from the date of grant.

For grants to non-employee consultants of the Company after September 12, 2005, the vesting period is between 1 to 3 years, subject to the fulfillment of certain conditions in the individual stock option grant agreements, or 100% upon the occurrence of certain events specified in the individual stock option grant agreements. Options authorized for issuance under the Plan total 17,000,000 after giving effect to an amendment to the Plan approved at the Annual Meeting of the Stockholders of the Company on June 2, 2006. At June 30, 2009, 8,782,500 shares of common stock were available for issuance.

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

Accounting for Employee Awards

Effective January 1, 2006, the plan is accounted for in accordance with the recognition and measurement provisions of SFAS No. 123R, which replaces SFAS No. 123 and supersedes APB No. 25, and related interpretations.

REXAHN PHARMACEUTICALS, INC.

(A Development Stage Company)

Notes to Condensed Financial Statements

Six Months Ended June 30, 2009 and 2008

(Unaudited)

The Company's results of operations for the three and six months ended June 30, 2009 include share-based employee compensation expense totaling \$202,085 and \$332,783, respectively and for the three and six months period ended June 30, 2008, include share-based employee compensation expense totaling \$59,235 and \$114,798, respectively. Such amounts have been included in the Statements of Operations in general and administrative and research and development expenses. No income tax benefit has been recognized in the Statements of Operations for share-based compensation arrangements as the Company has provided for a 100% valuation allowance on its deferred tax assets.

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

Accounting for Non-Employee Awards

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

Stock compensation expenses related to non-employee options were \$5,034 and \$9,246 for the three and six months period ended June 30, 2009 and \$92,760 and \$203,113 for the three and six months period ended June 30, 2008. Such amounts have been included in the Statements of Operations in general and administrative and research and development expenses.

Summary of Stock Compensation Expenses Recognized

Total stock-based compensation recognized by the Company in the six months ended June 30, 2009 and 2008, and the period from inception (March 19, 2001) to June 30, 2009, all of which relates to stock options and warrants, is as follows:

	June 30, 2009	June 30, 2008	Inception (March 19, 2001) to June 30, 2009
Income statement line item:			
General and administrative			
Payroll	\$ 236,909	\$ 18,400	\$ 1,393,987
Consulting and other professional fees	9,221	117,047	743,241
Research and development:			
Payroll	95,874	96,398	773,092
Consulting and other professional fees	25	86,066	1,288,543
Total	\$ 342,029	\$ 317,911	\$ 4,198,863

REXAHN PHARMACEUTICALS, INC.
(A Development Stage Company)
Notes to Condensed Financial Statements
Six Months Ended June 30, 2009 and 2008
(Unaudited)

Summary of Stock Option Transactions

There were 30,000 stock options granted at an exercise price of \$1.05 with a fair value of \$6,989 and 100,000 stock options granted at an exercise price of \$1.28 with a fair value of \$100,769 during the six months ended June 30, 2009. A total of 200,000 stock options were granted in the same period last year. The fair value of options at the date of grant was estimated using the Black-Scholes option pricing model. 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 110.

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

	2009	Six Months Ended June 30,	2008
Black-Scholes weighted average assumptions:			
Expected dividend yield	-		-
Expected volatility	108%		104% - 106%
Risk free interest rate	2.55%-5.60%		1.87%-4.99%
Expected term (in years)	1 - 5 years		0.2 - 5 years

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

	2009		2008	
	Shares Subject to Options	Weighted Avg. Option Prices	Shares Subject to Options	Weighted Avg. Option Prices
Outstanding at January 1 st	7,760,795	\$ 1.01	6,045,795	\$ 0.97
Granted	130,000	1.23	200,000	2.72
Exercised	-	-	(90,000)	0.35
Cancelled	-	-	(50,000)	1.34
Outstanding at June 30th	7,890,795	\$ 1.01	6,105,795	\$ 0.99

REXAHN PHARMACEUTICALS, INC.

(A Development Stage Company)

Notes to Condensed Financial Statements

Six Months Ended June 30, 2009 and 2008

(Unaudited)

The following table summarizes information about stock options outstanding as of June 30, 2009 and 2008:

	Shares Subject to Options	Weighted Avg. Option Prices	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at June 30, 2009	7,890,795	\$ 1.01	6.3 years	\$ 650,569
Exercisable at June 30, 2009	5,878,045	\$ 0.96	1.5 years	\$ 592,525

	Shares Subject to Options	Weighted Avg. Option Prices	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at June 30, 2008	6,105,795	\$ 0.99	6.7 years	\$ 13,692,985
Exercisable at June 30, 2008	4,683,795	\$ 0.95	6.3 years	\$ 10,962,805

As of June 30, 2009 and 2008, there was \$2,177,198 and \$1,382,295 of total unrecognized compensation cost, respectively, related to all unvested stock options, which is expected to be recognized over a weighted average vesting period of 1.33 years and 0.65 years, respectively.

11. Income Taxes

No provision for Federal or state income taxes was required for the period ended June 30, 2009, due to the Company's operating losses. At June 30, 2009, the Company has unused net operating loss carry-forwards of approximately \$33,174,000 which expire at various dates through 2029. Most of this amount is subject to annual limitations under certain provisions of the Internal Revenue Code related to "changes in ownership".

As of June 30, 2009, the deferred tax assets related to the aforementioned carry-forwards have been fully offset by valuation allowances, since utilization of such amounts is not presently expected in the foreseeable future.

REXAHN PHARMACEUTICALS, INC.

(A Development Stage Company)

Notes to Condensed Financial Statements

Six Months Ended June 30, 2009 and 2008

(Unaudited)

Deferred tax assets and valuation allowances consist of:

	June 30, 2009	December 31, 2008
Net operating loss carry-forwards	\$ 12,606,156	\$ 11,364,336
Valuation allowance	(12,606,156)	(11,364,336)
Net deferred tax assets	\$ -	\$ -

We file income tax returns in the U.S. federal and Maryland state jurisdictions. Tax years for fiscal 2006 through 2008 are open and potentially subject to examination by the federal and Maryland state taxing authorities.

12. Commitments and Contingencies

- a) The Company has contracted with various vendors to provide research and development services. The terms of these agreements usually require an initiation fee and monthly or periodic payments over the term of the agreement, ranging from 6 months to 24 months. The costs to be incurred are estimated and are subject to revision. As of June 30, 2009, the total contract value of these agreements was approximately \$5,080,775 and the Company had made payments totaling \$3,325,707 under the terms of the agreements as of June 30, 2009. All of these agreements may be terminated by either party upon appropriate notice as stipulated in the respective agreements.
- b) The Company and three of its key executives entered into employment agreements. Each of these agreements was renewed on August 10, 2009 and expires on August 10, 2012. The agreements result in annual commitments of \$200,000, \$350,000 and \$250,000.
- c) Regulation by governmental authorities in the United States and in other countries constitutes a significant consideration in our product development, manufacturing and marketing strategies. The Company expects that all drug candidates will require regulatory approval by appropriate governmental agencies prior to commercialization and will be subjected to rigorous pre-clinical, clinical, and post-approval testing, as well as to other approval processes by the FDA and by similar health authorities in foreign countries. United States federal regulations control the ongoing safety, manufacture, storage, labeling, record keeping, and marketing of all biopharmaceutical products intended for therapeutic purposes. The Company believes that it is in compliance in all material respects with currently applicable rules and regulations.
- d) On August 19, 2008, the Company entered into an agreement with KCSA Strategic Communications (“KCSA”) for KCSA to provide investor relations services to the Company. Under this agreement, the Company agreed to a monthly fixed retainer amount of \$7,000 commencing on August 19, 2008. In December 2008, the monthly retainer was reduced to \$4,000 per month. In accordance with the agreement, the contract may be terminated by either party upon 30 days prior written notice to the other party.

REXAHN PHARMACEUTICALS, INC.

(A Development Stage Company)

Notes to Condensed Financial Statements

Six Months Ended June 30, 2009 and 2008

(Unaudited)

- e) On April 6, 2009, the Company entered into an agreement with Rodman & Renshaw, LLC (“Rodman”) for Rodman to serve as placement agent for the Company. Under this agreement, the Company agreed to pay a cash fee to Rodman immediately upon the closing of the placement equal to 6% of the aggregate gross proceeds raised in the placement plus a cash fee payable immediately on each exercise of the warrants issued to the purchasers in the placement that are solicited by Rodman equal to 6% of the aggregate proceeds received by the Company in connection with such exercise; and such number of warrants (the “Rodman Warrants”) issuable to Rodman or its designees at the closing to purchase shares of common stock equal to 5% of the aggregate number of shares sold in the placement, plus any shares underlying any convertible securities or units sold in the placement. In accordance with the agreement, the contract ended on July 31, 2009. The Company paid \$180,000 and issued the placement agent warrants to purchase up to an aggregate of 142,857 shares of our common stock at an exercise price of \$1.3125 per share.
- f) On April 20, 2009, Amarex, LLC filed suit against us in the Circuit Court of Montgomery County, Maryland, seeking damages for an alleged breach of a contract between the Company and Amarex, LLC entered into on January 6, 2006. Amarex, LLC claims damages of \$93,156 plus interest. On May 22, 2009, the Company filed an answer and an affirmative defense to the complaint denying the claims of damages made by Amarex, LLC. On June 16, 2009, the Company filed a counterclaim against Amarex, LLC for breach of the same contract in the amount of \$354,824 plus interest. The court has ordered the Company and Amarex, LLC to proceed with a non-binding mediation.
- g) On April 27, 2009, we added a Change Order to the original Single Service Agreement, dated March 15, 2006 with Aptuit, Inc. for packaging and labeling of Archexin(TM) for our Phase II pancreatic cancer study. The total cost of the Change Order is \$16,800, none of which was paid as of June 30, 2009.
- h) On May 4, 2009, the NYSE Amex (the “Exchange”) accepted the Company’s proposed compliance plan which addresses how the Company intends to regain compliance with the continued listing standards within a maximum of 18 months. On July 7, 2009, the Company received a notice from the Exchange indicating that it had regained compliance with the requirements of the NYSE Amex Company Guide for the continued listing of its common stock on the Exchange, and that its common stock therefore was no longer subject to delisting.
- i) On May 21, 2009, the Company entered into a 1 year license agreement to use lab space commencing on July 1, 2009. The Company agreed to pay monthly payments of \$4,554 from October 1, 2009 to June 30, 2010. The license agreement shall terminate on June 30, 2010 and may be renewed for two additional terms of one year upon 60 days prior to the expiration of the agreement.
- j) On May 22, 2009, we were notified by the Financial Industry Regulatory Authority (“FINRA”) that FINRA, on behalf of NYSE Amex, is conducting a review of trading in our common stock surrounding the May 12, 2009 announcement of the results of an animal study that further demonstrates that our drug candidate Zoraxel is a potential new-class of therapeutic for the effective treatment of sexual dysfunction.

REXAHN PHARMACEUTICALS, INC.

(A Development Stage Company)

Notes to Condensed Financial Statements

Six Months Ended June 30, 2009 and 2008

(Unaudited)

- k) On June 10, 2009, we entered into a Research Services Agreement with University of Maryland, Baltimore to evaluate melanoma research. The total cost of these services is \$27,951, of which \$20,964 was paid as of June 30, 2009.
- l) On June 16, 2009, we contracted with Baptist Cancer Institute as a clinical site for our Phase IIa clinical study for Archexin(TM) for pancreatic cancer. The estimated cost for the study is \$83,250, none of which was paid as of June 30, 2009.
- m) On June 22, 2009, we entered into a License Agreement with KRICT to acquire all intellectual properties related to Quinoxaline-Piperazine derivatives that were synthesized under a Joint Research Agreement. The initial license fee was \$100,000, all of which was paid as of June 30, 2009. The agreement with KRICT calls for a one-time milestone payment of \$1,000,000 within 30 days after the first achievement of marketing approval of the first commercial product arising out of or in connection with the use of KRICT's intellectual properties.
- n) On June 29, 2009, the Company signed a 5 year lease for 5,466 square feet of office space in Rockville, Maryland commencing on June 29, 2009. The lease requires annual base rents of \$76,524 with increases over the next five years. Under the leasing agreement, the Company pays its allocable portion of real estate taxes and common area operating charges. Rent paid under the Company's former lease during the six months period ended June 30, 2009 was \$112,973 (2008 - \$109,683).

Future rental payments over the next five (5) years and thereafter are as follows:

2009	\$	38,262
2010		108,418
2011		148,593
2012		158,835
2013		162,806
Thereafter		82,408
	\$	699,322

In connection with the lease agreement, the Company issued a letter of credit of \$100,000 in favor of the lessor. The Company has restricted cash of the same amount for the letter of credit.

13. Fair Value Measurements

The Company adopted Statement of Financial Accounting Standards ("FAS") No.157, "Fair Value Measurements" ("FAS 157") as of January 1, 2008. FAS 157 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. FAS 157 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).

REXAHN PHARMACEUTICALS, INC.

(A Development Stage Company)

Notes to Condensed Financial Statements

Six Months Ended June 30, 2009 and 2008

(Unaudited)

The three levels are described below:

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

The Company determines fair values for its financial assets as follows:

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

	Fair Value Measurements as of June 30, 2009			
	Total	Level 1	Level 2	Level 3
Assets:				
Restricted cash equivalents	\$ 100,000	-	\$ 100,000	-

As of June 30, 2009, the Company's restricted cash, which is comprised of a certificate of deposit and valued based upon the underlying terms of a letter of credit, as discussed in note 12, and classified within level 2 of the fair value hierarchy.

	Fair Value Measurements as of December 31, 2008			
	Total	Level 1	Level 2	Level 3
Assets:				
State Authority Auction Rate Bonds	\$ 2,999,750	-	\$ 2,999,750	-

As of December 31, 2008, the investments, at fair value, consist of state authority auction rate bonds which are valued at market and classified within level 2 of the fair value hierarchy.

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

OVERVIEW

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

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

CRITICAL ACCOUNTING POLICIES

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

Use of Estimates

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

RECENTLY ISSUED ACCOUNTING STANDARDS

In September 2006, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position ("FSP") Statement of Financial Accounting Standards ("SFAS") No. 157, "Fair Value Measurements" ("SFAS 157"), to define how the fair value of assets and liabilities should be measured in accounting standards where it is allowed or required. In addition to defining fair value, the Statement established a framework within GAAP for measuring fair value and expanded required disclosures surrounding fair value measurements. In February 2008, the FASB issued FASB Staff Positions (FSP) SFAS No. 157-2, "Effective Date of FASB Statement No. 157", which delayed the effective date by one year for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. In October 2008, the FASB issued FSP FAS 157-3, "Determining the Fair Value of a Financial Asset When the Market for that Asset is Not Active", to clarify the application of SFAS 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. This FSP was effective immediately. In April 2009, the FASB issued FSP FAS 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions that are Not Orderly", to provide additional guidance for estimating fair value when the volume and level of activity for the asset or liability have significantly decreased. This FSP will be effective for interim and annual reporting periods ending after June 15, 2009. We adopted SFAS 157 for financial assets and financial liabilities on January 1, 2008, and the adoption did not have a material impact on our financial position, results of operations, or cash flows. We adopted SFAS 157 for nonfinancial items on January 1, 2009, and the adoption did not have a material impact on our financial position, results of operations, or cash flows. We currently do not have any financial assets that are valued using inactive markets, and as such are not impacted by the issuances of FSP 157-3 and FSP 157-4. See Note 13 to the Condensed Financial Statements for additional discussion on fair value measurement.

In April 2009, the FASB issued FSP No. FAS 107-1 and APB 28-1, “Interim Disclosures about Fair Value of Financial Instruments”. This FSP amends FASB Statement No. 107, “Disclosures about Fair Value of Financial Instruments”, to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This FSP also amends APB Opinion No. 28, “Interim Financial Reporting”, to require those disclosures in summarized financial information at interim reporting periods. This FSP shall be effective for interim reporting periods ending after June 15, 2009. The adoption of this FSP did not have a material impact on our financial position, results of operations, or cash flows.

In April 2009, the FASB issued FSP No. FAS 115-2 and FAS 124-2, “Recognition and Presentation of Other-Than-Temporary Impairments”. This FSP amends the other-than-temporary impairment guidance in U.S. GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of other than temporary impairments on debt and equity securities in the financial statements. The FSP does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. The FSP shall be effective for interim and annual reporting periods ending after June 15, 2009. The adoption of this FSP did not have a material impact on our financial position, results of operations, or cash flows.

In April 2009, the SEC released Staff Accounting Bulletin No. 111 (“SAB 111”), which amends SAB Topic 5-M. SAB 111 notes that FSP No. 115-2 and FAS 124-2 were limited to debt securities only, and the FSP referred readers to SEC SAB Topic 5-M for factors to consider with respect to other-than-temporary impairments for equity securities. With the amendments in SAB 111, debt securities are excluded from the scope of Topic 5-M, but the SEC staff’s views on equity securities are still included within the topic. The Company currently does not have any financial assets that are other-than-temporary impaired.

In April 2009, the FASB issued FSP No. FAS 141(R)-1, “Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies”, to address some of the application issues under SFAS 141(R). The FSP deals with the initial recognition and measurement of an asset acquired or a liability assumed in a business combination that arises from a contingency provided the asset or liability’s fair value on the date of acquisition can be determined. When the fair value can’t be determined, the FSP requires using the guidance under SFAS No. 5, “Accounting for Contingencies”, and FASB Interpretation (FIN) No. 14, “Reasonable Estimation of the Amount of Loss”. This FSP was effective for assets or liabilities arising from contingencies in business combinations for which the acquisition date is on or after January 1, 2009. The adoption of this FSP in 2009 did not have a material impact on our financial position, results of operations, or cash flows.

In May 2009, the FASB issued SFAS No. 165, “Subsequent Events” (“SFAS 165”). SFAS 165 establishes general standards of accounting for and disclosures of subsequent events that occurred after the balance sheet date but prior to the issuance of financial statements. SFAS 165 is effective for financial statements issued for interim periods or fiscal years ending after June 15, 2009. The adoption of SFAS 165, effective June 2009, did not have an effect on the financial position, results of operations or cash flows of the Company.

In June 2009, the FASB issued SFAS No. 166 "Accounting for Transfers of Financial Assets—an amendment of FASB Statement No. 140." This standard eliminates the concept of a qualifying special purpose entity ("QSPE") and modifies the derecognition provisions in SFAS No. 140. This statement is effective for financial asset transfers occurring after the beginning of an entity's first fiscal year that begins after November 15, 2009. The Company is evaluating the impact that SFAS No. 166 will have on its financial statements, if any.

In June 2009, the FASB issued SFAS No. 167 "Amendments to FASB Interpretation No. 46(R)." This statement amends the consolidation guidance applicable to variable interest entities and is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2009. The Company is evaluating the impact that SFAS No. 167 will have on its financial statements, if any.

In June 2009, the FASB issued SFAS No. 168, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles – a replacement of FASB Statement No. 162" ("SFAS 168"). SFAS 168 provides for the FASB Accounting Standards Codification (the "Codification") to become the single official source of authoritative, nongovernmental U.S. generally accepted accounting principles (GAAP). The Codification did not change GAAP but reorganizes the literature. SFAS 168 is effective for interim and annual periods ending after September 15, 2009. The Company does not expect that adoption of this statement will have a material impact on its financial statements.

RESULTS OF OPERATIONS

Comparison of Three Months and Six Months Ended June 30, 2009 and 2008:

Total Revenues

For each of the three and six month periods ended June 30, 2009, we recorded revenues of \$18,750 and \$37,500, respectively. We recorded the same amounts in the periods of 2008. In all periods, the revenue reflects the recognition of deferred revenue from a collaborative research agreement with Rexgene Biotech Co., Ltd., a minority stockholder.

General and Administrative Expenses

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

General and administrative expenses increased \$156,159, or 22.9%, to \$838,630 for the three months ended June 30, 2009 from \$682,471 for the three months ended June 30, 2008. General and administrative expenses increased \$313,286, or 25.1% to \$1,561,737 for the six months ended June 30, 2009 from \$1,248,451 for the six months ended June 30, 2008. The increase in both periods was primarily due to higher audit fees, including fees to comply with Sarbanes-Oxley, and stock option compensation.

Research and Development Expenses

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

Research and development expenses increased \$801,025, or 1,124.9%, to \$872,231 for the three months ended June 30, 2009 from \$71,206 for the three months ended June 30, 2008. Research and development expenses increased \$742,985, or 87.3%, to \$1,594,157 for the six months ended June 30, 2009 from \$851,172 for the six months ended June 30, 2008. The increase in both periods was primarily due to the increase of multiple clinical studies for our drug candidates.

Patent Fees

Our patent fees increased \$34,127, or 54.6%, to \$96,666 for the three months ended June 30, 2009 from \$62,539 for the three months ended June 30, 2008. Patent fees increased \$44,599, or 42.0%, to \$150,803 for the six months ended June 30, 2009 from \$106,204 for the six months ended June 30, 2008. The increases in both periods were primarily due to additional patent applications and documentation and attorney fees related to the increased applications.

Interest Income

Interest income decreased \$53,383, or 88.0%, to \$7,293 for the three months ended June 30, 2009 from \$60,676 for the three months ended June 30, 2008. Interest income decreased \$153,215, or 91.1%, to \$14,902 for the six months ended June 30, 2009 from \$168,117 for the six months ended June 30, 2008. The decreases in both periods were primarily due to lower interest earned as a result of a decreasing cash balance and lower interest rates.

Depreciation and Amortization

Depreciation and amortization expenses increased by \$2,301, or 22.9%, to \$12,355 for the three months ended June 30, 2009 from \$10,054 for the three months ended June 30, 2008. The increase was primarily due to higher amortization recorded on equipment due to new additions. Depreciation and amortization expenses decreased \$3,353, or 12.1%, to \$24,346 for the six months ended June 30, 2009 from \$27,699 for the six months ended June 30, 2008. The decreased was primarily due to lower amortization recorded on equipment due to limited additions and declining asset balances.

Net Loss

As a result of the above, the net loss for the three months and six months ended June 30, 2009 was \$1,782,814 and \$3,267,616, respectively, or \$0.03 and \$0.06 per share, respectively, compared to a net loss of \$746,844 and \$2,050,274, respectively, or \$0.01 and \$0.04 per share, respectively, for the three months and six months ended June 30, 2008.

Research and Development Projects

Research and development costs are expensed as incurred. Research and development expenses consist primarily of salaries and related personnel costs, costs to acquire pharmaceutical products and product rights for development and amounts paid to contract research organizations, hospitals and laboratories for the provision of services and materials for drug development and clinical trials. Costs incurred in obtaining the license rights to technology in the research and development stage and that have no alternative future uses are expensed as incurred. Our research and development programs are related to our three clinical stage lead drug candidates, Archexin(TM), Serdaxin(TM) and Zoraxel(TM) and pre-clinical stage oncology drug candidates RX-0183, RX-3117 and RX-5902. Each of our lead drug candidates is in various stages of completion as described below. As we expand our clinical studies, we will enter into additional development agreements. Significant additional expenditures will be required if we complete our clinical trials, start new trials, apply for regulatory approvals, continue development of our technologies, expand our operations and bring our products to market. The eventual total cost of each clinical trial is dependent on a number of uncertainties such as trial design, the length of the trial, the number of clinical sites and the number of patients. The process of obtaining and maintaining regulatory approvals for new therapeutic products is lengthy, expensive and uncertain. Because the successful development of our most advanced drug candidates, Archexin(TM), Serdaxin(TM) and Zoraxel(TM), is uncertain, and because RX-0183, RX-3117 and RX-5902 are in early-stage development, we are unable to estimate the costs of completing our research and development programs, the timing of bringing such programs to market and, therefore, when material cash inflows could commence from the sale of these drug candidates. If these projects are not completed as planned, our results of operations and financial condition could be negatively affected and if we are unable to obtain additional financing to fund these projects, we may not be able to continue as a going concern.

Archexin(TM)

In October 2006, we announced the conclusion of the Phase I clinical trial of Archexin(TM), our leading drug candidate. The costs incurred for the clinical trial were approximately \$1,500,000.

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

The Phase II clinical trial of Archexin(TM) began in the third quarter of 2007 in patients with advanced renal cell carcinoma who have failed previous treatments. The trial is the first of multiple trials planned for Archexin(TM). Phase II clinical trials for pancreatic cancer began in the first quarter of 2009. We estimate that the Phase II trials of each indication will be completed in 2010 and will require approximately \$5,000,000. In January 2005, we received "orphan drug designation" from the FDA for Archexin(TM) for five cancer indications, including renal cell carcinoma, ovarian cancer, glioblastoma, stomach cancer, and pancreatic cancer. The orphan drug program is intended to provide patients with faster access to drug therapies for diseases and conditions that affect fewer than 200,000 people. Companies that receive orphan drug designation are provided an accelerated review process, tax advantages, and seven years of market exclusivity in the United States. In the future, we plan to apply Archexin(TM) to the treatment of other orphan indications and other cancers.

Serdaxin(TM)

Serdaxin™ is being developed to treat depression and mood disorders, and has proven and well-established safety in humans. Phase II trials began in the first quarter of 2009. We currently estimate that Phase II trials will require \$2,000,000 through the end of 2011.

Zoraxel(TM)

Zoraxel(TM) is a CNS-based sexual dysfunction drug that has extensive and excellent safety in humans. Zoraxel(TM) entered Phase II trials in the first half of 2008. We currently estimate that these studies will require approximately \$1,500,000 through the end of 2010.

Pre-clinical pipeline

RX-0183, RX-3117 and RX-5902 are in a pre-clinical stage of development and the next scheduled program for each compound is a pre-clinical toxicology study required prior to submission of an Investigational New Drug ("IND") application to the FDA. The estimated cost to complete pre-clinical toxicology and Phase I clinical trials is estimated to be approximately \$1,500,000 per each compound for a total of \$4,500,000. These compounds may enter Phase I clinical trials in 2010.

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

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

LIQUIDITY AND CAPITAL RESOURCES

Cash used in operating activities was \$2,402,223 for the six months ended June 30, 2009 compared to cash used in operating activities of \$2,124,682 for the same period ended June 30, 2008. The operating cash flows during the six months ended June 30, 2009 reflect our loss from operations of \$3,267,616 and a net decrease in cash components of working capital and non-cash charges totaling \$865,393. Non-cash charges consist of depreciation and amortization of \$24,346, stock option compensation expense of \$342,029, amortization of deferred revenue of \$37,500 and gains on marketable securities of \$11,025. The increase in cash is primarily attributable to the sale of marketable securities and issuance of common stock offset by an increase of \$409,796 in accounts payable and accrued expenses.

Cash provided by investing activities of \$3,451,708 during the six months ended June 30, 2009 consisted of \$100,000 used in the issuance of a letter of credit, \$9,547 used in the purchase of equipment, \$1,196,824 used in the purchase of marketable securities and \$4,758,079 from the proceeds from the sales of marketable securities. Cash used in investing activities was \$1,397,768 during the six months ended June 30, 2008. On June 5, 2009, we signed a 5-year lease with The Realty Associates Fund V, L.P. for 5,466 square feet of office space in Rockville, Maryland commencing June 2009. The lease requires annual base rents of \$76,524. Under the leasing agreement, the monthly rent is \$6,377 the first year, with increases over the next five years. We also pay our allocable portion of real estate taxes and common area operating charges. In connection with the lease agreement, the Company issued a letter of credit of \$100,000 in favor of the lessor. The Company has restricted cash of the same amount for the letter of credit and is included in cash provided by investing activities of \$3,451,708.

Cash provided by financing activities of \$2,775,000 during the six months ended June 30, 2009 was the result of the issuance of 2,857,143 shares of common stock to an institutional investor for net proceeds of \$2,775,000. The investor was also issued Series I warrants to purchase 2,222,222 shares of common stock, Series II warrants to purchase 1,866,666 shares of common stock and Series III warrants to purchase 1,555,555 shares of common stock.

For the six months ended June 30, 2009, we experienced net losses of \$3,267,616. Our accumulated deficit as of June 30, 2009 was \$33,174,095.

We have financed our operations since inception primarily through equity and convertible debt financings and interest income from investments of cash and cash equivalents. During the six months ended June 30, 2009, we had a net increase in cash and cash equivalents of \$3,824,485. Total cash as of June 30, 2009 were \$4,193,615 compared to \$369,130 as of December 31, 2008.

The Company has not yet generated commercial sales revenue and has been able to fund its operating losses to date through the sale of its common stock, issuance of long-term debt, and proceeds from reimbursed research and development costs. The Company believes that its existing cash will be sufficient to cover its cash flow requirements through June 30, 2010. Management has the capability of managing the Company's operations within existing cash and marketable securities available by reducing research and development activities and general and administrative expenses. This may result in slowing down clinical studies, but will conserve the Company's cash to allow it to operate for the next twelve months.

CONTRACTUAL OBLIGATIONS

Contractual Obligations

On October 2, 2003, we contracted with Amarex, LLC to conduct Phase I clinical studies for Archexin(TM) (then RX-0201). Of the \$239,337 to be paid under this contract, \$194,461 was paid as of June 30, 2009. The balance will be paid when the final report is accepted, which is expected to be in 2009. Since 2003, additional services were added to the study. These services were contracted for \$200,043, all of which was paid as of June 30, 2009.

On January 6, 2006, we contracted with Amarex, LLC to conduct Phase II clinical studies for Archexin(TM). In accordance with the agreement, the estimated contract duration is 24 months for a total cost of \$596,244 plus pass through expenses. The service costs are payable in 24 monthly payments of \$18,633 plus an up front payment of \$149,061 due upon signing. In 2007, we added additional services to the Phase II clinical studies. The cost of these services totals \$106,220, all of which was paid as of December 31, 2008. We paid \$614,876 and \$614,876 towards the cost of the study as of June 30, 2009 and December 31, 2008, respectively. On April 20, 2009 Amarex, LLC filed a lawsuit against us for breach of contract claims due to a billing dispute. On May 22, 2009, the Company filed an answer and an affirmative defense to the complaint denying the claims of damages made by Amarex, LLC. On June 16, 2009, the Company filed a counterclaim against Amarex, LLC for breach of the same contract in the amount of \$354,824 plus interest. The court has ordered the Company and Amarex, LLC to proceed with non-binding mediation.

From April 3, 2006 through 2009, we have contracted with UPM Pharmaceuticals, Inc. to develop several release formulations for Serdaxin(TM) and Zoraxel(TM) drug manufacturing. In accordance with the agreements, the estimated total cost is \$974,980, of which \$878,730 was paid as of June 30, 2009. The service costs are payable based upon a payment schedule related to certain milestones.

On April 15, 2007 we entered into research agreement with University of Maryland Biotechnology Institute to identify noble inhibitors using their Nuclear Magnetic Resonance technology. The total amount to be paid under this contract was \$17,000, all of which was paid as of June 30, 2009.

On May 18, 2007, we contracted with LabConnect to provide sample management and central laboratory services for Phase II clinical studies for Archexin(TM). The total amount of the original contract was estimated to be \$197,220. On March 16, 2009, we entered into a new contract that replaces the May 18, 2007 contract. The total amount to be paid is estimated to be \$133,914, of which \$51,194 (including \$36,944 prepaid from the previous contract) was paid as of June 30, 2009. The balance will be paid as services are performed over the next 3 months.

[Table of Contents](#)

On June 13, 2007, we contracted with Formatech to test the stability of the Archexin(TM) package. The total amount to be paid for this contract is \$21,500, of which \$14,500 was paid in 2007. The balance will be paid when the final report is submitted, which is expected to be in 2010.

On April 14, 2008, we contracted with Myron I Murdock M.D. LLC as a clinical site for our 12 month Phase IIa erectile dysfunction study for Zoraxel(TM). The estimated amount of this contract, without lab costs, is \$104,559, of which \$47,210 was paid as of June 30, 2009.

On April 15, 2008, we entered into a 24 month contract with Radiant Development CRO to manage clinical trials for our Phase IIa erectile dysfunction study for Zoraxel(TM). The total contract amount is estimated to be \$125,629, of which \$121,925 was paid as of June 30, 2009.

On May 6, 2008, we contracted with Delaware Valley Urology, LLC as a clinical site for our Phase IIa erectile dysfunction study for Zoraxel(TM). In accordance with the agreement, the estimated contract duration is 17 months for an estimated cost of \$57,365, with lab costs included. A total of \$47,596 has been paid as of June 30, 2009.

On September 5, 2008, we contracted with Radiant Research - Greer as a clinical site for our Phase IIa clinical study for Zoraxel(TM) for erectile dysfunction. The initial estimated cost for the 12 month study was \$62,532, of which \$120,786 was paid as of June 30, 2009. The study exceeded the initial estimated cost. We estimate that the cost for the study will be \$130,000.

On December 1, 2008, we entered into Research Services Agreement with the University of Tromso, Norway to conduct statistical analysis regarding sexual incentive motivation for our erectile dysfunction study. The total cost for these services was \$19,000, all of which was paid as of June 30, 2009.

On December 23, 2008, we entered into a 12 month contract with Radiant Development CRO to manage clinical trials for our Phase IIa major depressive disorder study for Serdaxin(TM). The total contract amount is estimated to be \$169,343, of which \$73,187 was paid as of June 30, 2009.

On December 29, 2008, we contracted with LabConnect to provide sample management and central laboratory services for Phase II clinical studies for Serdaxin(TM). The total of the contract amount is estimated to be \$35,899, of which \$34,507 was paid as of June 30, 2009. The balance will be paid as services are performed over the next 12 months.

On January 7, 2009, we contracted with Atlanta Center for Medical Research as a clinical site for our Phase IIa clinical study for Serdaxin(TM) for major depressive disorder. The estimated cost for the 18 month study has increased from \$167,713 to \$303,922, of which \$218,533 was paid as of June 30, 2009.

On January 9, 2009, we contracted with Radiant Research - Denver as a clinical site for our Phase IIa clinical study for Serdaxin(TM) for major depressive disorder. The estimated cost for the 18 month study has increased from \$131,600 to \$142,800, of which \$30,566 was paid as of June 30, 2009.

On February 5, 2009, we contracted with Capital Clinical Research Associates, LLC as a clinical site for our Phase IIa clinical study for Serdaxin(TM) for major depressive disorder. The estimated cost for the 18 month study has increased from \$129,568 to \$168,314, of which \$81,336 was paid as of June 30, 2009.

On February 23, 2009, we contracted with Almac Pharma Services Ltd. to manufacture blister packaging and do stability testing for RX-10100. The total cost of these services was \$5,798, all of which was paid as of June 30, 2009.

On March 18, 2009, we contracted with SIRO Clinpharm Pvt. Ltd and SIRO Clinpharm, USA to manage clinical trials for our Phase II pancreatic cancer study for Archexin(TM). The estimated cost for the study is \$362,708, of which \$86,851 was paid as of June 30, 2009.

On March 27, 2009, we contracted with Base Pair Communications in connection with our media relations development. The cost of the consulting contract was \$10,000, all of which was paid as of June 30, 2009.

On April 6, 2009, we entered into an Engagement Agreement and subsequently an Amendment Agreement on May 19, 2009 with Rodman & Renshaw, LLC ("Rodman") for Rodman to serve as the placement agent in connection with a placement of registered securities of the Company. Under the terms of the agreement, the Company agreed to pay Rodman a fee of \$180,000, all of which was paid as of June 30, 2009.

On April 27, 2009, we added a Change Order to the original Single Service Agreement, dated March 15, 2006 with Aptuit, Inc. for packaging and labeling of Archexin(TM) for our Phase II pancreatic cancer study. The total cost of the Change Order is \$16,800, none of which was paid as of June 30, 2009.

On May 21, 2009, we contracted with MEDCO for a one year license agreement to use lab space at the Germantown Innovation Center commencing on July 1, 2009. The one year obligation is \$41,346, of which \$4,554 was paid as of June 30, 2009.

On June 5, 2009, we signed a 5-year lease with The Realty Associates Fund V, L.P. for 5,466 square feet of office space in Rockville, Maryland commencing June 2009. The lease requires annual base rents of \$76,524. Under the leasing agreement, the monthly rent is \$6,377 the first year, with increases over the next five years. We also pay our allocable portion of real estate taxes and common area operating charges.

On June 10, 2009, we entered into a Research Services Agreement with University of Maryland, Baltimore to evaluate melanoma research. The total cost of these services is \$27,951, of which \$20,964 was paid as of June 30, 2009.

On June 16, 2009, we contracted with Baptist Cancer Institute as a clinical site for our Phase IIa clinical study for Archexin(TM) for pancreatic cancer. The estimated cost for the study is \$83,250, none of which was paid as of June 30, 2009.

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

CURRENT AND FUTURE FINANCING NEEDS

We have incurred negative cash flow from operations since we started our business. We have spent, and expect to continue to spend, substantial amounts in connection with implementing our business strategy, including our planned product development efforts, our clinical trials, and our research and development efforts. Based on our current plans and our capital resources, we believe that our cash and cash equivalents will be sufficient to enable us to meet our minimum planned operating needs for at least the next 12 months, which would entail focusing our resources on Phase II clinical trials of Archexin(TM), Serdaxin(TM) and Zoraxel(TM).

Over the next twelve months we expect to spend a minimum of approximately \$1.4 million on clinical development for Phase II clinical trials of Archexin(TM), Serdaxin(TM) and Zoraxel(TM) (including our commitments described under "Contractual Commitments" of this Item 6), \$2.6 million on general corporate expenses, and approximately \$76,524 on facilities rent. We will need to seek additional financing to implement and fund other drug candidate development, clinical trial and research and development efforts to the maximum extent of our operating plan, including in-vivo animal and pre-clinical studies, Phase II clinical trials for new product candidates, as well as other research and development projects, which together with the minimum operating plan over the next twelve months, could aggregate up to \$4.2 million. If we are not able to secure additional financing, we will not be able to implement and fund the research and development.

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

- the progress of our product development activities;
- the number and scope of our product development programs;
- the progress of our pre-clinical and clinical trial activities;
- the progress of the development efforts of parties with whom we have entered into collaboration agreements;
- our ability to maintain current collaboration programs and to establish new collaboration arrangements;

[Table of Contents](#)

- the costs involved in prosecuting and enforcing patent claims and other intellectual property rights; and
- the costs and timing of regulatory approvals.

OFF-BALANCE SHEET ARRANGEMENTS

We do not have any off-balance sheet arrangements.

Item 3 Quantitative and Qualitative Disclosures About Market Risk

Foreign Exchange

We currently incur a portion of our operating expenses in currencies other than U.S. dollars, the reporting currency for our consolidated financial statements, and we have determined that such operating expenses have not been significant to date. As a result, we have not been impacted materially by changes in exchange rates and do not expect to be impacted materially for the foreseeable future. However, if our operating expenses incurred outside of the United States increase, our results of operations could be adversely impacted by changes in exchange rates. We do not currently hedge foreign currency exposure and do not intend to do so in the foreseeable future.

Effects of Inflation

Our most liquid assets are cash and cash equivalents and marketable securities. Because of their liquidity, these assets are not directly affected by inflation. We also believe that we have intangible assets in the value of our intellectual property. In accordance with generally accepted accounting principles, we have not capitalized the value of this intellectual property on our balance sheet. Due to the nature of this intellectual property, we believe that these intangible assets are not affected by inflation. Because we intend to retain and continue to use our equipment, furniture and fixtures and leasehold improvements, we believe that the incremental inflation related to replacement costs of such items will not materially affect our operations. However, the rate of inflation affects our expenses, such as those for employee compensation and contract services, which could increase our level of expenses and the rate at which we use our resources.

Item 4 Controls and Procedures

Evaluation of Disclosure Controls and Procedures

With the participation of our management, including the Company's principal executive officer and principal financial officer, our management has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based upon that evaluation, the Company's principal executive officer and principal financial officer have concluded that:

- information required to be disclosed by the Company in this Quarterly Report on Form 10-Q and other reports that the Company files or submits under the Exchange Act would be accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure;
- information required to be disclosed by the Company in this Quarterly Report on Form 10-Q and other reports that the Company files or submits under the Exchange Act would be recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms; and
- the Company's disclosure controls and procedures are effective as of the end of the period covered by this Quarterly Report on Form 10-Q to ensure that material information relating to the Company is made known to them, particularly during the period in which the periodic reports of the Company, including this Quarterly Report on Form 10-Q, are being prepared.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during the period covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II

Item 1 Legal Proceedings

As previously described in Item 1 of our Quarterly Report on Form 10-Q for the period ending March 31, 2009, on April 20, 2009, Amarex, LLC filed suit against us in the Circuit Court of Montgomery County, Maryland, seeking damages for an alleged breach of a contract between the Company and Amarex, LLC entered into on January 6, 2006. Amarex, LLC claims damages of \$93,156 plus interest. On May 22, 2009, the Company filed an answer and an affirmative defense to the complaint denying the claims of damages made by Amarex, LLC. On June 16, 2009, the Company filed a counterclaim against Amarex, LLC for breach of the same contract in the amount of \$354,824 plus interest. The court has ordered the Company and Amarex, LLC to proceed with non-binding mediation.

Item 1A Risk Factors

In response to Item 1A of our 2008 Annual Report, we described a billing dispute between the Company and a pharmaceutical research provider, Amarex, LLC. The dispute has resulted in a legal proceeding as described in Item 1 above.

In response to Item 1A of our 2008 Annual Report, we also indicated that we may be delisted from NYSE Amex LLC (the "Exchange"). The Company was afforded the opportunity to submit a proposed plan to the Exchange by March 24, 2009 (the "Plan"), addressing how it intended to regain compliance of the NYSE Amex Company Guide (the "Company Guide") within a maximum of 18 months. The Company submitted its Plan on March 23, 2009. On May 4, 2009, the Exchange notified the Company that it has determined the Company has made a reasonable demonstration of its ability to regain compliance with the continued listing standards and has accepted the Plan. The Exchange granted the Company an extension until August 24, 2010 for the Company to regain compliance with the continued listing standards. On July 7, 2009, the Exchange notified that Company that it had regained compliance with the requirements of the Company Guide for the continued listing of its common stock, and that its common stock therefore was no longer subject to delisting.

On May 22, 2009, we were notified by the Financial Industry Regulatory Authority ("FINRA") that FINRA, on behalf of NYSE Amex, is conducting a review of trading in our common stock surrounding the May 12, 2009 announcement of the results of an animal study that further demonstrates that our drug candidate Zoraxel is a potential new-class of therapeutic for the effective treatment of sexual dysfunction.

There were no other material changes in risk factors from those disclosed in the Company's Form 10-K for fiscal year ended December 31, 2008.

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds

None

Item 3 Defaults Upon Senior Securities

None

Item 4 Submission of Matters to a Vote of Security Holders

At an annual meeting of stockholders of the Company on June 1, 2009 in Rockville, Maryland, the following matters were voted on by the Company's stockholders and approved by the following votes:

	Number of Shares	
	Voted For	Withheld
1. Election of Directors		
Chang H. Ahn	41,311,323	257,572
Charles Beever	41,311,323	257,572
Kwang Soo Cheong	41,311,323	257,572
Tae Heum Jeong	41,311,323	257,572
Y. Michele Kang	41,311,323	257,572
David McIntosh	41,311,323	257,572
Freddie Ann Hoffman	41,311,323	257,572

	Number of Shares		
	Voted For	Voted Against	Abstentions
2. Proposal to ratify appointment of Parente Randolph, LLC as the Company's independent auditors	38,991,958	2,566,270	10,666

Item 5 Other Information

None

Item 6 Exhibits

<u>Exhibit No</u>	<u>Description</u>	<u>Location</u>
10.1	Securities Purchase Agreement, dated as of May 19, 2009, by and between Rexahn Pharmaceuticals, Inc. and the purchaser signatory thereto.	Filed as Exhibit 10.1 to the Current Report on Form 8-K filed on May 20, 2009
10.2*	Research and Exclusive License Option Agreement, dated as of June 26, 2009, by and between Rexahn Pharmaceuticals, Inc. and the license optionee named therein.	Filed as Exhibit 10.1 to the Current Report on Form 8-K filed on June 30, 2009
10.3*	Securities Purchase Agreement, dated as of June 26, 2009, by and between Rexahn Pharmaceuticals, Inc. and the purchaser named therein.	Filed as Exhibit 10.2 to the Current Report on Form 8-K filed on June 30, 2009
10.4	Lease, dated June 5, 2009, by and between Rexahn Pharmaceuticals, Inc. and The Realty Associates Fund V, L.P.	Filed herewith
31.1	Rule 13a-14(a)/15d-14(a) Certification (Principal Executive Officer)	Filed herewith
31.2	Rule 13a-14(a)/15d-14(a) Certification (Principal Financial Officer)	Filed herewith
32.1**	Section 1350 Certificate (Principal Executive Officer)	Filed herewith
32.2**	Section 1350 Certificate (Principal Financial Officer)	Filed herewith

* Rexahn Pharmaceuticals, Inc. has applied for confidential treatment of certain provisions of this exhibit with the SEC. The confidential portions of this exhibit are marked by an asterisk and have been omitted and filed separately with the SEC pursuant to Company's request for confidential treatment.

** This exhibit is furnished rather than filed, and shall not be incorporated by reference into any filing of the registrant in accordance with Item 601 of Registration S-K

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)

Date: August 10, 2009

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

Date: August 10, 2009

By: /s/ Tae Heum Jeong
Tae Heum Jeong
Chief Financial Officer and Secretary

INDEX TO EXHIBITS
Quarterly Report on Form 10-Q
Dated June 30, 2009

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10.2*	Research and Exclusive License Option Agreement, dated as of June 26, 2009, by and between Rexahn Pharmaceuticals, Inc. and the license optionee named therein.	Filed as Exhibit 10.1 to the Current Report on Form 8-K filed on June 30, 2009
10.3*	Securities Purchase Agreement, dated as of June 26, 2009, by and between Rexahn Pharmaceuticals, Inc. and the purchaser named therein.	Filed as Exhibit 10.2 to the Current Report on Form 8-K filed on June 30, 2009
10.4	Lease, dated June 5, 2009, by and between Rexahn Pharmaceuticals, Inc. and The Realty Associates Fund V, L.P.	Filed herewith
31.1	Rule 13a-14(a)/15d-14(a) Certification (Principal Executive Officer)	Filed herewith
31.2	Rule 13a-14(a)/15d-14(a) Certification (Principal Financial Officer)	Filed herewith
32.1**	Section 1350 Certificate (Principal Executive Officer)	Filed herewith
32.2**	Section 1350 Certificate (Principal Financial Officer)	Filed herewith

* Rexahn Pharmaceuticals, Inc. has applied for confidential treatment of certain provisions of this exhibit with the SEC. The confidential portions of this exhibit are marked by an asterisk and have been omitted and filed separately with the SEC pursuant to Company's request for confidential treatment.

** This exhibit is furnished rather than filed, and shall not be incorporated by reference into any filing of the registrant in accordance with Item 601 of Registration S-K

LEASE BY AND BETWEEN

REXAHN PHARMACEUTICALS, INC.

and

THE REALTY ASSOCIATES FUND V, L.P.

of

15245 Shady Grove Road
Rockville, Maryland 20850

dated

June 5, 2009

TABLE OF CONTENTS

	page
1. Basic Lease Provisions.	1
2. Premises.	3
2.1. Lease of Premises and Definition of Project.	3
2.2. Calculation of Size of Building and Premises.	3
2.3. Common Areas-Defined.	3
3. Term.	3
3.1. Term and Commencement Date.	3
3.2. Delay in Possession.	3
3.3. Delays Caused by Tenant.	3
3.4. Tender of Possession.	3
3.5. Early Possession.	3
4. Rent.	3
4.1. Base Rent.	3
4.2. Operating Expense Increases.	3
4.3. Base Rent Increase.	5
5. Security Deposit.	5
6. Use.	5
6.1. Use.	5
6.2. Compliance with Law.	5
6.3. Condition of Premises.	5
7. Maintenance, Repairs and Alterations.	6
7.1. Landlord's Obligations.	6
7.2. Tenant's Obligations.	6
7.3. Alterations and Additions.	6
7.4. Failure of Tenant to Remove Property.	7
8. Insurance.	7
8.1. Insurance-Tenant.	7
8.2. Insurance-Landlord.	7
8.3. Insurance Policies.	7
8.4. Waiver of Subrogation.	8
8.5. Coverage.	8
9. Damage or Destruction.	8
9.1. Effect of Damage or Destruction.	8
9.2. Definition of Material Damage.	8
9.3. Abatement of Rent.	8
9.4. Tenant's Acts.	8
9.5. Tenant's Property.	8
9.6. Waiver.	8
10. Real and Personal Property Taxes.	8
10.1. Payment of Taxes.	8
10.2. Definition of "Real Property Tax."	9
10.3. Personal Property Taxes.	9
10.4. Reassessments.	9
11. Utilities.	10
11.1. Services Provided by Landlord.	10
11.2. Occupant Density.	10
11.3. Hours of Service.	10
11.4. Excess Usage by Tenant.	10
11.5. Interruptions.	10
12. Assignment and Subletting.	10
12.1. Landlord's Consent Required.	10
12.2. Leveraged Buy-Out.	10
12.3. Standard For Approval.	10
12.4. Additional Terms and Conditions.	10
12.5. Additional Terms and Conditions Applicable to Subletting.	11
12.6. Transfer Premium from Assignment or Subletting.	11

TABLE OF CONTENTS
(Continued)

13.	Default; Remedies.	12
	13.1.Default by Tenant.	12
	13.2.Remedies.	12
	13.3.Default by Landlord.	13
	13.4.Late Charges.	13
	13.5.Interest on Past-due Obligations.	13
	13.6.Payment of Rent and Security Deposit After Default.	13
14.	Landlord's Right to Cure Default; Payments by Tenant.	14
15.	Condemnation.	14
16.	Vehicle Parking.	14
	16.1.Use of Parking Facilities.	14
	16.2.Parking Charges.	14
17.	Broker's Fee.	14
18.	Estoppel Certificate.	14
	18.1.Delivery of Certificate.	14
	18.2.Failure to Deliver Certificate.	14
19.	Landlord's Liability.	14
20.	Indemnity.	15
21.	Exemption of Landlord from Liability.	15
22.	Hazardous Material.	15
	22.1.Definition and Consent.	15
	22.2.Duty to Inform Landlord.	15
	22.3.Inspection; Compliance.	15
23.	Medical Waste.	16
	23.1.Disposal of Medical Waste.	16
	23.2.Duty to Inform Landlord.	16
	23.3.Inspection; Compliance.	16
24.	Tenant Improvements.	16
25.	Subordination.	16
	25.1.Effect of Subordination.	16
	25.2.Execution of Documents.	16
26.	Options.	16
	26.1.Definition.	16
	26.2.Options Personal.	16
	26.3.Multiple Options.	17
	26.4.Effect of Default on Options.	17
	26.5.Limitations on Options.	17
	26.6.Notice of Exercise of Option.	17
27.	Landlord Reservations.	17
28.	Changes to Project.	17
29.	Substitution of Other Premises.	17
30.	Holding Over.	17
31.	Landlord's Access.	17
	31.1.Access.	17
	31.2.Keys.	18
32.	Security Measures.	18
33.	Easements.	18

TABLE OF CONTENTS
(Continued)

34. Transportation Management.	18
35. Severability.	18
36. Time of Essence.	18
37. Definition of Additional Rent.	18
38. Incorporation of Prior Agreements.	18
39. Amendments.	18
40. Notices.	18
41. Waivers.	18
42. Covenants.	18
43. Binding Effect; Choice of Law.	19
44. Attorneys' Fees.	19
45. Auctions.	19
46. Signs.	19
47. Merger.	19
48. Quiet Possession.	19
49. Authority.	19
50. Conflict.	19
51. Multiple Parties.	19
52. Interpretation.	19
53. Prohibition Against Recording.	19
54. Relationship of Parties.	19
55. Rules and Regulations.	19
56. Right to Lease.	19
57. Security Interest.	19
58. Security for Performance of Tenant's Obligations.	20
59. Financial Statements.	20
60. Attachments.	20
61. Confidentiality.	20
62. Effect of Force Majeure Events.	20
63. OFAC Certification.	20
64. WAIVER OF JURY TRIAL.	20
ADDENDUM	Add-1
EXHIBIT A	A-1
EXHIBIT B	B-1

TABLE OF CONTENTS
(Continued)

EXHIBIT C	C-1
EXHIBIT D	D-1
SCHEDULE 1	Sch 1-1
SCHEDULE 1-A	Sch 1-A-1

**15245 SHADY GROVE ROAD
ROCKVILLE, MARYLAND
STANDARD OFFICE LEASE**

1. Basic Lease Provisions.

- 1.1. **Parties:** This Lease, dated for reference purposes only June 5, 2009, is made by and between **THE REALTY ASSOCIATES FUND V, L.P.**, a Delaware limited partnership, ("Landlord") and **REXAHN PHARMACEUTICALS, INC.**, a Delaware corporation ("Tenant").
- 1.2. **Premises:** Suite Number 455, as shown on Exhibit "A" attached hereto (the "Premises").
- 1.3. **Rentable Area of Premises:** 5,466 rentable square feet.
- 1.4. **Building Address:** 15245 Shady Grove Road, Rockville, Maryland 20850.
- 1.5. **Use:** General office use, subject to the requirements and limitations contained in Section 6.
- 1.6. **Term:** Five (5) years.
- 1.7. **Commencement Date:** June 29, 2009.
- 1.8. **Base Rent:** \$6,377.00 per month.
- 1.9. **Base Rent Paid Upon Execution:** \$6,377.00 for the first month of the Term for which Rent is due.
- 1.10. **Security Deposit:** \$100,000.00 See Addendum Paragraph 2
- 1.11. **Tenant's Share:** 2.99%.
- 1.12. **Base Year:** The calendar year 2009.
- 1.13. **Number of Parking Spaces:** Reserved: N/A Unreserved: 18.
- 1.14. **Parking Rates Per Space:** Reserved: \$N/A Unreserved: \$0.00
- 1.15. **Real Estate Broker:**

Landlord: McShea & Company, Inc.

Tenant: Studley, Inc.
- 1.16. **Attachments to Lease:** Addendum; Exhibit A - "Premises", Exhibit B - "Verification Letter", Exhibit C - "Rules and Regulations", Exhibit D – "Form of Letter of Credit", Schedule 1 - "Work Letter Agreement", Schedule 1-A – "Space Plan".
- 1.17. **Address for Notices:**

Landlord: The Realty Associates Fund V, L.P.
c/o McShea & Company, Inc.
100 Lakeforest Boulevard
Suite 500
Gaithersburg, Maryland 20877
Attention: Laurie Craft

With Copy To: TA Associates Realty
28 State Street
Boston, Massachusetts 02109
Attention: Asset Manager-Maryland

Tenant: Rexahn Pharmaceuticals, Inc.
Prior to Occupancy: 9620 Medical Center Drive
Rockville, Maryland 20850
Attention: Tae Heum "Ted" Jeong

After Occupancy: Rexahn Pharmaceuticals, Inc.
15245 Shady Grove Road, Suite 455
Rockville, Maryland 20850
Attention: Tae Heum "Ted" Jeong
- 1.18. **Rent Payment Address:**

Realty Associates Fund V, LP
c/o McShea Management, Inc.
Box 223342
Pittsburgh, PA 15251-2342

1.19. Agent for Service of Process: If Tenant is a corporation, the name and address of Tenant's registered agent for service of process is:

CSC-Lawyers Incorporating Service
7 St. Paul Street, Suite 1660
Baltimore, Maryland

1.20. Interpretation. The Basic Lease Provisions shall be interpreted in conjunction with all of the other terms and conditions of this Lease. Other terms and conditions of this Lease modify and expand on the Basic Lease Provisions. If there is a conflict between the Basic Lease Provisions and the other terms and conditions of this Lease, the other terms and conditions shall control.

2. Premises.

2.1. Lease of Premises and Definition of Project. The "Premises" shall mean the area shown on Exhibit "A" to this Lease. Landlord hereby leases to Tenant, and Tenant hereby leases from Landlord, upon all of the conditions set forth herein the Premises, together with certain rights to the Common Areas (as defined in Section 2.3 below) as hereinafter specified. The Premises shall not include an easement for light, air or view. The building of which the Premises is a part (the "Building"), the Common Areas, the land upon which the same are located, along with all other buildings and improvements thereon or thereunder, including all parking facilities, are herein collectively referred to as the "Project."

2.2. Calculation of Size of Building and Premises. The number of rentable square feet in the Premises has been calculated in accordance with the Standard Method for measuring Floor Area in Office Buildings, ANSI Z65.1-1996, as promulgated by the Building Owners and Managers Association ("BOMA") International. If the rentable square feet in the Premises changes after this Lease is executed by Landlord and Tenant, the Base Rent and any advance rent shall be adjusted by multiplying the actual number of rentable square feet in the Premises by the per square foot rental obtained by dividing the Base Rent initially set forth in Section 1.8 by the number of rentable square feet initially set forth in Section 1.3. If the number of rentable square feet in the Premises is changed, Tenant's Share shall be adjusted as provided in Section 4.2(a).

2.3. Common Areas-Defined. The term "Common Areas" is defined as all areas and facilities outside the Premises and within the exterior boundary line of the Project that are designated by Landlord from time to time for the general non-exclusive use of Landlord, Tenant and the other tenants of the Project and their respective employees, suppliers, customers and invitees, including, but not limited to, common entrances, lobbies, corridors, stairwells, public restrooms, elevators, parking areas, loading and unloading areas, roadways and sidewalks. Landlord may also designate other land and improvements outside the boundaries of the Project to be a part of the Common Areas, provided that such other land and improvements have a reasonable and functional relationship to the Project.

3. Term.

3.1. Term and Commencement Date. The Term and Commencement Date of this Lease are as specified in Sections 1.6 and 1.7. Tenant shall, within five (5) business days after Landlord's request, complete and execute the letter attached hereto as Exhibit "B" and deliver it to Landlord. Tenant's failure to execute the letter attached hereto as Exhibit "B" within said five (5) business day period shall be a material default hereunder and shall constitute Tenant's acknowledgement of the truth of the facts contained in the letter delivered by Landlord to Tenant.

3.2. Intentionally Omitted.

3.3. Intentionally Omitted.

3.4. Intentionally Omitted.

3.5. Early Possession. Provided that Tenant does not interfere with or delay the completion by Landlord or its agents or contractors of the construction of any tenant improvements, Tenant shall have the right to enter the Premises up to fifteen (15) days prior to the Commencement Date for the purpose of installing furniture, trade fixtures, equipment, and similar items. Tenant shall be liable for any damages or delays caused by Tenant's activities at the Premises. Provided that Tenant has not begun operating its business from the Premises, and subject to all of the terms and conditions of the Lease, the foregoing activity shall not constitute the delivery of possession of the Premises to Tenant and the Term of the Lease shall not commence as a result of said activities. Prior to entering the Premises, Tenant shall obtain all insurance it is required to obtain by the Lease and shall provide certificates of said insurance to Landlord. Tenant shall coordinate such entry with Landlord's building manager, and such entry shall be made in compliance with all terms and conditions of this Lease and the Rules and Regulations attached hereto.

4. Rent.

4.1. Base Rent. Subject to adjustment as hereinafter provided in Section 4.3, Tenant shall pay to Landlord the Base Rent for the Premises set forth in Section 1.8, without offset or deduction on the first day of each calendar month during the Term of this Lease. At the time Tenant executes this Lease it shall pay to Landlord the advance Base Rent described in Section 1.9. Base Rent for any period during the Term hereof which is for less than one month shall be prorated based upon the actual number of days of the calendar month involved. Base Rent and all other amounts payable to Landlord hereunder shall be payable to Landlord in lawful money of the United States and Tenant shall be responsible for delivering said amounts to Landlord at the address stated herein or to such other persons or to such other places as Landlord may designate in writing.

4.2. Operating Expense Increases. Tenant shall pay to Landlord during the Term hereof, in addition to the Base Rent, Tenant's Share of the amount by which all Operating Expenses, as defined in Section 4.2(c) below, for each Comparison Year (as defined in Section 4.2(b) below) exceeds the amount of all Operating Expenses for the Base Year. If less than 95% of the rentable square feet in the Project is occupied by tenants or Landlord is not supplying services to 95% of the rentable square feet of the Project at any time during any calendar year (including the Base Year), Operating Expenses for such calendar year shall be an amount equal to the Operating Expenses which would normally be expected to be incurred had 95% of the Project's rentable square feet been occupied and had Landlord been supplying services to 95% of the Project's rentable square feet throughout such calendar year (hereinafter the "Grossed Up Operating Expenses"). Tenant's Share of Operating Expense increases shall be determined in accordance with the following provisions:

(a) "**Tenant's Share**" is defined as the percentage set forth in Section 1.11, which percentage has been determined by dividing the number of rentable square feet in the Premises by ninety-five percent (95%) of the total number of rentable square feet in the Project and multiplying the resulting quotient by one hundred (100). In the event that the number of rentable square feet in the Project or the Premises changes, Tenant's Share shall be adjusted in the year the change occurs, and Tenant's Share for such year shall be determined on the

basis of the days during such year that each Tenant's Share was in effect.

(b) "**Comparison Year**" is defined as each calendar year during the Term of this Lease after the Base Year. Tenant's Share of the Operating Expense increases for the last Comparison Year of the Term of this Lease shall be prorated according to that portion of such Comparison Year as to which Tenant is responsible for a share of such increase.

(c) **"Operating Expenses"** shall include all costs, expenses and fees incurred by Landlord in connection with or attributable to the Project, including but not limited to, the following items: (i) all costs, expenses and fees associated with or attributable to the ownership, management, operation, repair, maintenance, improvement, alteration and replacement of the Project, or any part thereof, including but not limited to, the following: (A) all surfaces, coverings, decorative items, carpets, drapes, window coverings, parking areas, loading and unloading areas, trash areas, roadways, sidewalks, stairways, walls, structural elements, landscaped areas, striping, bumpers, irrigation systems, lighting facilities, building exteriors and roofs, fences and gates; (B) all heating, ventilating and air conditioning equipment ("HVAC") (including, but not limited to, the cost of replacing or retrofitting HVAC equipment to comply with laws regulating or prohibiting the use or release of chlorofluorocarbons or hydrochlorofluorocarbons), plumbing, mechanical, electrical systems, life safety systems and equipment, telecommunication equipment, elevators, escalators, tenant directories, fire detection systems including sprinkler system maintenance and repair; (ii) the cost of trash disposal, janitorial and cleaning services and security services and systems; (iii) the cost of all insurance purchased by Landlord and enumerated in Section 8 of this Lease, including any deductibles; (iv) the cost of water, sewer, gas, electricity, and other utilities available at the Project and paid by Landlord; (v) the cost of labor, salaries and applicable fringe benefits incurred by Landlord; (vi) the cost of materials, supplies and tools used in managing, maintaining and/or cleaning the Project; (vii) the cost of reasonable accounting fees, management fees (not to exceed four percent (4%) of gross revenues collected annually), legal fees and consulting fees attributable to the ownership, operation, management, maintenance and repair of the Project plus the cost of any space occupied by the property manager (if Landlord is the property manager, Landlord shall be entitled to receive a fair market management fee); (viii) the cost of operating, replacing, modifying and/or adding improvements or equipment mandated by any law, statute, regulation or directive of any governmental agency and any repairs or removals necessitated thereby (including, but not limited to, the cost of complying with the Americans With Disabilities Act and regulations of the Occupational Safety and Health Administration); (ix) payments made by Landlord under any easement, license, operating agreement, declaration, restrictive covenant, or instrument pertaining to the payment or sharing of costs among property owners; (x) any business property taxes or personal property taxes imposed upon the fixtures, machinery, equipment, furniture and personal property used in connection with the operation of the Project; (xi) the cost of all business licenses, including Business Professional and Occupational License Taxes and Business Improvements Districts Taxes, any gross receipt taxes based on rental income or other payments received by Landlord, commercial rental taxes or any similar taxes or fees; (xii) transportation taxes, fees or assessments, including but not limited to, mass transportation fees, metrorail fees, trip fees, regional and transportation district fees; (xiii) all costs and expenses associated with or related to the implementation by Landlord of any transportation demand management program or similar program; (xiv) fees assessed by any air quality management district or other governmental or quasi-governmental entity regulating pollution; (xv) the cost of maintaining, repairing, securing and replacing existing intra-building network cabling; and (xvi) the cost of any other service reasonably provided by Landlord or any cost that is elsewhere stated in this Lease to be an "Operating Expense". Real Property Taxes (as defined in Section 10 hereof) shall be paid in accordance with Section 10 below and shall not be included in Operating Expenses. Landlord shall have the right but not the obligation, from time to time, to equitably allocate some or all of the Operating Expenses among different tenants of the Project or among the different buildings which comprise the Project (the "Cost Pools").

(d) Notwithstanding anything to the contrary, Operating Expenses shall not include: (i) any expenses paid by any tenant directly to third parties, or as to which Landlord is otherwise reimbursed by any third party or by insurance proceeds; (ii) any amounts which would otherwise be included in Operating Expenses paid to any person, firm or corporation related or otherwise affiliated with Landlord or any general partner, officer or director of Landlord or any of its general partners, to the extent same exceeds arms-length competitive prices paid in the Washington, D.C. metropolitan area for the services or goods provided (i.e., that portion of the costs and expenses for such services that exceed the competitive rate shall not be included in Operating Expenses); and (iii) salaries, wages and benefits of any employee above the level of senior property manager; or any salary, wages, or other compensation or benefits for off-site employees applicable to the time spent working at other buildings, other than the Building manager (provided that with respect to each employee that services the Building and other buildings, a pro rata portion of such employee's salary shall be included in Operating Expenses).

(e) If the cost incurred in making an improvement or replacing any equipment is not fully deductible as an expense in the year incurred in accordance with generally accepted accounting principles, the cost shall be amortized over the useful life of the improvement or equipment, as reasonably determined by Landlord in accordance with Generally Accepted Accounting Principles, together with an interest factor on the unamortized cost of such item equal to the lesser of (i) eight percent (8%) per annum, or (ii) the maximum rate of interest permitted by applicable law.

(f) Tenant's Share of Operating Expense increases shall be payable by Tenant within thirty (30) days after a reasonably detailed statement of actual expenses is presented to Tenant by Landlord. At Landlord's option, however, Landlord may, from time to time, reasonably estimate what Tenant's Share of Operating Expense increases will be, and the same shall be payable by Tenant monthly during each Comparison Year of the Term of the Lease, on the same day as the Base Rent is due hereunder. In the event that Tenant pays Landlord's estimate of Tenant's Share of Operating Expense increases, Landlord shall use its best efforts to deliver to Tenant within one hundred eighty (180) days after the expiration of each Comparison Year a reasonably detailed statement (the "Statement") showing Tenant's Share of the actual Operating Expense increases incurred during such year. Landlord's failure to deliver the Statement to Tenant within said period shall not constitute Landlord's waiver of its right to collect said amounts or otherwise prejudice Landlord's rights hereunder. If Tenant's payments under this Section 4.2(f) during said Comparison Year exceed Tenant's Share as indicated on the Statement, Tenant shall be entitled to credit the amount of such overpayment against Tenant's Share of Operating Expense increases next falling due. If Tenant's payments under this Section 4.2(f) during said Comparison Year were less than Tenant's Share as indicated on the Statement, Tenant shall pay to Landlord the amount of the deficiency within thirty (30) days after delivery by Landlord to Tenant of the Statement. Landlord and Tenant shall forthwith adjust between them by cash payment any balance determined to exist with respect to that portion of the last Comparison Year for which Tenant is responsible for Operating Expense increases, notwithstanding that the Term of the Lease may have terminated before the end of such Comparison Year; and this provision shall survive the expiration or earlier termination of the Lease.

(g) The computation of Tenant's Share of Operating Expense increases is intended to provide a formula for the sharing of costs by Landlord and Tenant and will not necessarily result in the reimbursement to Landlord of the exact costs it has incurred.

(h) If Tenant disputes the amount set forth in the Statement, Tenant shall have the right, at Tenant's sole expense, not later than one hundred eighty (180) days following receipt of such Statement, to cause Landlord's books and records in respect to the calendar year which is the subject of the Statement to be audited by a certified public accountant acceptable to Landlord. The audit shall take place at the

offices of Landlord where its books and records are located at a mutually convenient time during Landlord's regular business hours. Before conducting any audit, Tenant must pay the full amount of Operating Expenses billed. Tenant shall have no right to conduct an audit or to give Landlord notice that it desires to conduct an audit at any time Tenant is in default under the Lease. The accountant conducting the audit shall be compensated on an hourly basis and shall not be compensated based upon a percentage of overcharges it discovers. No subtenant shall have any right to conduct an audit, and no assignee shall conduct an audit for any period during which such assignee was not in possession of the Premises. Tenant's right to undertake an audit with respect to any calendar year shall expire one hundred eighty (180) days after Tenant's receipt of the Statement for such calendar year, and such Statement shall be final and binding upon Tenant and shall, as between the parties, be conclusively deemed correct, at the end of such one hundred eighty (180) day period, unless prior thereto Tenant shall have given Landlord written notice of its intention to audit Operating Expenses for the calendar year which is the subject of the Statement. If Tenant gives Landlord notice of its intention to audit Operating Expenses, it must commence such audit within sixty (60) days after such notice is delivered to Landlord, and the audit must be completed within one hundred twenty (120) days after such notice is delivered to Landlord. If Tenant does not commence and complete the audit within such periods, the Statement which Tenant elected to audit shall be deemed final and binding upon Tenant and shall, as between the parties, be conclusively deemed correct. If the parties agree to the results of such audit, Tenant's Share of Operating Expenses shall be appropriately adjusted based upon the results of such audit, and the results of such audit shall be final and binding upon Landlord and Tenant. If the parties do not agree upon the inclusion or amount of any Operating Expense charged by Landlord, the sole remedy of Tenant shall be to conduct an audit within the time specified in this Lease and, if still in disagreement with Landlord, to submit the matter to arbitration within thirty (30) days after completion of the audit to request an adjustment to any disputed Operating Expense item. In no event will this Lease be terminable nor shall Landlord be liable for damages based upon any disagreement regarding an adjustment of Operating Expenses. Tenant agrees that the results of any Operating Expenses audit shall be kept strictly confidential by Tenant and shall not be disclosed to any other person or entity. Any audit conducted pursuant to this Section 4.2(h) shall be conducted at Tenant's sole cost and expense, unless such audit determines that an error has been made in Landlord's determination and calculation of Operating Expenses which results in an adjustment to the amounts determined and calculated by Landlord in the amount of five percent (5%) or more, in which case Landlord shall pay for the commercially reasonable fees and expenses of Tenant's accounting firm or third party representative (provided such fees shall not exceed the total amount of Landlord's refund to Tenant in connection with any adjustment made pursuant to this Section 4.2(h)), but if such adjustment is less than five percent (5%), Tenant shall pay for such fees and expenses.

4.3. Base Rent Increase. See Addendum Paragraph 1

5. Security Deposit. Tenant shall deliver to Landlord at the time it executes this Lease the Security Deposit set forth in Section 1.10 as security for Tenant's faithful performance of Tenant's obligations hereunder. If Tenant fails to pay Base Rent or other charges due hereunder, or otherwise defaults with respect to any provision of this Lease, Landlord may use all or any portion of said deposit for the payment of any Base Rent or other charge due hereunder, to pay any other sum to which Landlord may become obligated by reason of Tenant's default, or to compensate Landlord for any loss or damage which Landlord may suffer thereby. If Landlord so uses or applies all or any portion of said deposit, Tenant shall within ten (10) days after written demand therefor deposit cash with Landlord in an amount sufficient to restore said deposit to its full amount. Landlord shall not be required to keep said Security Deposit separate from its general accounts. If Tenant performs all of Tenant's obligations hereunder, said deposit, or so much thereof as has not heretofore been applied by Landlord, shall be returned, without payment of interest or other amount for its use, to Tenant (or, at Landlord's option, to the last assignee, if any, of Tenant's interest hereunder) at the expiration of the Term hereof, and after Tenant has vacated the Premises. No trust relationship is created herein between Landlord and Tenant with respect to said Security Deposit. Tenant acknowledges that the Security Deposit is not an advance payment of any kind or a measure of Landlord's damages in the event of Tenant's default. Tenant hereby waives the provisions of any law which is inconsistent with this Section 5.

See Addendum Paragraph 2

6. Use.

6.1. Use. The Premises shall be used and occupied only for the purpose set forth in Section 1.5 and for no other purpose. If Section 1.5 gives Tenant the right to use the Premises for general office use, by way of example and not limitation, general office use shall not include medical office use or any similar use, laboratory use, classroom use, any use not characterized by applicable zoning and land use restrictions as general office use, or any use which would require Landlord or Tenant to obtain a conditional use permit or variance from any federal, state or local authority, or any use not compatible, in Landlord's sole but reasonable judgment, with a first class office building. Notwithstanding any permitted use inserted in Section 1.5, Tenant shall not use the Premises for any purpose which would violate the Project's certificate of occupancy, any conditional use permit or variance applicable to the Project or violate any covenants, conditions or other restrictions applicable to the Project. No exclusive use has been granted to Tenant hereunder.

6.2. Compliance with Law.

(a) Landlord represents and warrants to Tenant that, to the best of Landlord's knowledge, the Premises, in the state existing on the Commencement Date of this Lease, but without regard to alterations or improvements to be made by the Tenant or the use for which Tenant will occupy the Premises, does not violate any covenants or restrictions of record, or any applicable building code, regulation or ordinance in effect on such date. If Tenant occupies the Premises at the time this Lease is executed, this warranty shall be of no force or effect.

(b) Tenant shall, at Tenant's sole expense, promptly comply with all applicable laws, ordinances, rules, regulations, orders, certificates of occupancy, conditional use or other permits, variances, covenants and restrictions of record, the recommendations of Landlord's engineers or other consultants, and requirements of any fire insurance underwriters, rating bureaus or government agencies, now in effect or which may hereafter come into effect, whether or not they reflect a change in policy from that now existing, during the Term or any part of the Term hereof, relating in any manner to the Premises or the occupation and use by Tenant of the Premises. Tenant shall, at Tenant's sole expense, comply with all requirements of the Americans With Disabilities Act that relate to the Premises, and all federal, state and local laws and regulations governing occupational safety and health. Tenant shall conduct its business and use the Premises in a lawful manner and shall not use or permit the use of the Premises or the Common Areas in any manner that will tend to create waste or a nuisance or shall tend to disturb other occupants of the Project. Tenant shall obtain, at its sole expense, any permit or other governmental authorization required to operate its business from the Premises. Landlord shall not be liable for the failure of any other tenant or person to abide by the requirements of this Section or to otherwise comply with applicable laws and regulations, and Tenant shall not be excused from the performance of its obligations under this Lease due to such a failure. To the extent that Landlord receives any notice from a governmental entity that the Common Areas of the Project are in violation of any requirement of the Americans with Disabilities Act ("ADA") and the Landlord is obligated pursuant to a final determination to undertake action in order to comply with ADA, then in such event Landlord agrees to undertake such remedial action. If such requirement was in effect as of the date hereof and such violation existed as of the date hereof, Landlord shall be responsible for the cost of curing such violation. If such requirement was not in effect as of the date hereof or such violation did not exist as of the date hereof, then the cost of curing such violation shall be included in Operating Expenses, except to the extent such costs would otherwise be excluded from Operating Expenses pursuant to the terms of Section 4.2 hereof. To the extent that such notice requires action with regard to Tenant's particular use of the Premises or in connection with any alterations or improvements to be constructed at the Premises either by Tenant or on behalf of Tenant, Tenant shall be obligated to undertake such action at Tenant's sole cost and expense. Tenant shall be solely responsible, at Tenant's sole cost and expense, for complying with all requirements of the ADA which relate to the interior of the Premises. Notwithstanding anything to the contrary contained herein, and subject to reimbursement (if applicable) in accordance with Section 4.2 hereinabove, Landlord shall be responsible for all ADA and code compliance of Common Areas including, without limitation, any bathrooms, stairs, and elevators, but shall not be responsible for such compliance within Tenant's Premises to the extent such compliance is caused by Tenant's particular use of the Premises or any construction to the Premises undertaken by Tenant or on behalf of Tenant

6.3. Condition of Premises. Except as otherwise provided in this Lease, Tenant hereby accepts the Premises and the Project in their condition existing as of the Commencement Date of this Lease, subject to all applicable federal, state and local laws, ordinances, regulations and permits governing the use of the Premises, the Project's certificate of occupancy, any applicable conditional use permits or variances, and any easements, covenants or restrictions affecting the use of the Premises or the Project. Tenant acknowledges that it has satisfied itself by its own independent investigation that the Premises and the Project are suitable for its intended use, and that neither Landlord nor Landlord's agents has made any representation or warranty as to the present or future suitability of the Premises, or the Project for the conduct of Tenant's business. Landlord shall deliver the Premises with the electrical system, plumbing system, HVAC system and other mechanical systems and components of the Premises in good working order.

7. Maintenance, Repairs and Alterations.

7.1. Landlord's Obligations. Landlord shall keep the Project (excluding the interior of the Premises and space leased to other occupants of the Project) in good condition and repair. If plumbing pipes, electrical wiring, HVAC ducts or vents within the Premises are in need of repair, Tenant shall immediately notify Landlord, and Landlord shall cause the repairs to be completed within a reasonable time, and, unless necessitated by the negligent or intentional acts of Tenant, its agents, employees or contractors, the entire cost of the repairs shall be considered an Operating Expense and reimbursed in accordance with Section 4.2 herein. Except as provided in Section 9.3, there shall be no abatement of rent or liability to Tenant on account of any injury or interference with Tenant's business with respect to any improvements, alterations or repairs made by Landlord to the Project or any part thereof. Tenant expressly waives the benefits of any statute now or hereafter in effect which would otherwise afford Tenant the right to make repairs at Landlord's expense or to terminate this Lease because of Landlord's failure to keep the Project in good order, condition and repair but only to the extent the provisions of any such statute conflict with the terms and provisions of this Lease; provided, however, nothing in this Section 7 shall be deemed to be a waiver of Tenant's right to a claim of constructive eviction.

7.2. Tenant's Obligations.

(a) Subject to the requirements of Section 7.3, Tenant shall be responsible for keeping the Premises in good condition and repair, at Tenant's sole expense. By way of example, and not limitation, Tenant shall be responsible, at Tenant's sole expense, for repairing and/or replacing, carpet, marble, tile or other flooring, paint, wall coverings, corridor and interior doors and door hardware, telephone and computer equipment, interior glass, window treatments, ceiling tiles, shelving, cabinets, millwork and other tenant improvements, and for the maintenance, repair and/or replacement of any supplemental and/or dedicated HVAC equipment for the Premises which serves the Premises exclusively. In addition, Tenant shall be responsible for the installation, maintenance and repair of all telephone, computer and related cabling from the telephone terminal room on the floor on which the Premises is located to and throughout the Premises, and Tenant shall be responsible for any loss, cost, damage, liability and expense (including attorneys' fees) arising out of or related to the installation, maintenance, repair and replacement of such cabling. If Tenant fails to keep the Premises in good condition and repair, Landlord may, but shall not be obligated to, make any necessary repairs following written notice to Tenant and the expiration of a ten (10) day cure period (except in the event of situations reasonably believed by Landlord to constitute an emergency). If Landlord makes such repairs, Landlord shall bill Tenant for the reasonable cost of the repairs as additional rent, and said additional rent shall be payable by Tenant within ten (10) business days.

(b) On the last day of the Term hereof, or on any sooner termination, Tenant shall surrender the Premises to Landlord in the same condition as received, ordinary wear and tear and casualty damage excepted, clean and free of debris and Tenant's personal property. Tenant shall repair any damage to the Premises occasioned by the installation or removal of Tenant's trade fixtures, furnishings and equipment. Tenant shall leave the electrical distribution systems, plumbing systems, lighting fixtures, HVAC ducts and vents, window treatments, wall coverings, carpets and other floor coverings, doors and door hardware, millwork, ceilings and other tenant improvements at the Premises and in good condition, ordinary wear and tear excepted.

7.3. Alterations and Additions.

(a) Tenant shall not, without Landlord's prior written consent, which may be given or withheld in Landlord's sole discretion, make any alterations, improvements, additions, utility installations or repairs (hereinafter collectively referred to as "Alteration(s)") in, on or about the Premises or the Project. Alterations shall include, but shall not be limited to, the installation or alteration of security or fire protection systems, communication systems, millwork, shelving, file retrieval or storage systems, carpeting or other floor covering, window and wall coverings, electrical distribution systems, lighting fixtures, telephone or computer system wiring, HVAC and plumbing. At the expiration of the Term, Landlord may require the removal of any Alterations installed by Tenant and the restoration of the Premises and the Project to their prior condition, at Tenant's expense. To the extent Landlord's consent is required pursuant to this subsection, then, at the written request of Tenant, Landlord agrees to notify Tenant concurrently with Landlord's decision concerning such Alteration whether Landlord will require Tenant to remove such Alteration at the end of the Term. If a work letter agreement is entered into by Landlord and Tenant, Tenant shall not be obligated to remove the tenant improvements constructed in accordance with the work letter agreement. If, as a result of any Alteration made by Tenant, Landlord is obligated to comply with the Americans With Disabilities Act or any other law or regulation and such compliance requires Landlord to make any improvement or Alteration to any portion of the Project, as a condition to Landlord's consent, Landlord shall have the right to require Tenant to pay to Landlord prior to the construction of any Alteration by Tenant, the entire cost of any improvement or Alteration Landlord is obligated to complete by such law or regulation. Should Landlord permit Tenant to make its own Alterations, Tenant shall use only such contractor as has been expressly approved by Landlord, and Landlord may require Tenant to provide to Landlord, at Tenant's sole cost and expense, a lien and completion bond in an amount equal to one and one-half times the estimated cost of such Alterations, to insure Landlord against any liability for mechanic's and materialmen's liens and to insure completion of the work. In addition, Tenant shall pay to Landlord a fee equal to six percent (6%) of the cost of the Alterations to compensate Landlord for the overhead and other costs it incurs in reviewing the plans for the Alterations and in monitoring the construction of the Alterations. Should Tenant make any Alterations without the prior approval of Landlord, or use a contractor not expressly approved by Landlord, Landlord may, at any time during the Term of this Lease, require that Tenant remove all or part of the Alterations and return the Premises to the condition it was in prior to the making of the Alterations. In the event Tenant makes any Alterations, Tenant agrees to obtain or cause its contractor to obtain, prior to the commencement of any work, "builders all risk" insurance in an amount approved by Landlord and workers compensation insurance. Notwithstanding anything to the contrary contained herein, Landlord will not unreasonably withhold, condition or delay its consent to any non-structural Alterations provided that Tenant otherwise complies with the provisions of this Section 7.3 and that (i) such Alterations are not visible from the exterior of the Premises, and (ii) such Alterations do not affect any of the Building systems or structure. Furthermore, Tenant shall have the right to make cosmetic, non-structural Alterations (consisting of painting, carpeting, wall papering only) (hereinafter, "Cosmetic Alterations") to the Premises without obtaining Landlord's prior written consent, provided that Tenant has given Landlord prior written notice of its intention to make such Alterations and that Tenant otherwise complies with the provisions of this Section 7.3. For purposes of the Lease, it shall be deemed reasonable for Landlord: (i) to require Tenant to perform Alterations during non-business hours if such Alterations will create unreasonable noise, noxious fumes or otherwise interfere with the quiet enjoyment of the other tenants in the Building, and (ii) to require Tenant to perform Alterations in accordance with a reasonable schedule approved by the manager of the Building.

(b) Any Alterations in or about the Premises that Tenant shall desire to make shall be presented to Landlord in written form, with plans and specifications which are sufficiently detailed to obtain a building permit. If Landlord consents to an Alteration, the consent shall be deemed conditioned upon Tenant acquiring a building permit from the applicable governmental agencies, furnishing a copy thereof to Landlord prior to the commencement of the work, and compliance by Tenant with all conditions of said permit in a prompt and expeditious manner. Tenant shall provide Landlord with as-built plans and specifications for any Alterations made to the Premises.

(c) Tenant shall pay, when due, all claims for labor or materials furnished or alleged to have been furnished to or for Tenant at or for use in the Premises, which claims are or may be secured by any mechanic's or materialmen's lien against the Premises or the Project, or any interest therein. If Tenant shall, in good faith, contest the validity of any such lien, Tenant shall furnish to Landlord a surety bond satisfactory to Landlord in an amount equal to not less than one and one half times the amount of such contested lien or claim indemnifying Landlord against liability arising out of such lien or claim. Such bond shall be sufficient in form and amount to free the Project from the effect of such lien. In addition, Landlord may require Tenant to pay Landlord's reasonable attorneys' fees and costs in participating in such action.

(d) Tenant shall give Landlord not less than ten (10) days' advance written notice prior to the commencement of any work in the Premises by Tenant, and Landlord shall have the right to post notices of non-responsibility in or on the Premises or the Project.

(e) All Alterations (whether or not such Alterations constitute trade fixtures of Tenant) which may be made to the Premises by Tenant shall be paid for by Tenant, at Tenant's sole expense, and shall be made and done in a good and workmanlike manner and with new materials satisfactory to Landlord and such Alterations shall be the property of Landlord and remain upon and be surrendered with the Premises at the expiration of the Term of the Lease. Provided Tenant is not in default, Tenant's personal property and equipment, other than that which is affixed to the Premises so that it cannot be removed without material damage to the Premises or the Project, shall remain the property of Tenant and may be removed by Tenant subject to the provisions of Section 7.2(b).

7.4. Failure of Tenant to Remove Property. If this Lease is terminated due to the expiration of its Term or otherwise, and Tenant fails to remove its property as required by Section 7.2(b), in addition to any other remedies available to Landlord under this Lease, and subject to any other right or remedy Landlord may have under applicable law, Landlord may remove any property of Tenant from the Premises and store the same elsewhere at the expense and risk of Tenant.

8. Insurance.

8.1. Insurance-Tenant.

(a) Tenant shall obtain and keep in force during the Term of this Lease a commercial general liability policy of insurance with coverages reasonably acceptable to Landlord, in Landlord's sole discretion, which by way of example and not limitation, protects Tenant and Landlord (as an additional insured) against claims for bodily injury, personal injury and property damage based upon, involving or arising out of the ownership, use, occupancy or maintenance of the Premises and all areas appurtenant thereto. Such insurance shall be on an occurrence basis providing single limit coverage in an amount of not less than Three Million Dollars (\$3,000,000) combined single limit with an "Additional Insured-Managers and Landlords of Premises Endorsement" and contain the "Amendment of the Pollution Exclusion" for damage caused by heat, smoke or fumes from a hostile fire. The policy shall not contain any intra-insured exclusions as between insured persons or organizations, but shall include coverage for liability assumed under this Lease as an "insured contract" for the performance of Tenant's indemnity obligations under this Lease.

(b) Tenant shall obtain and keep in force during the Term of this Lease "special" extended coverage property insurance with coverages reasonably acceptable to Landlord, in Landlord's sole discretion. Said insurance shall be written on a one hundred percent (100%) replacement cost basis on Tenant's personal property, all tenant improvements installed at the Premises by Landlord or Tenant, Tenant's trade fixtures and other property. By way of example and not limitation, such policies shall provide protection against any peril included within the classification "fire and extended coverage," against vandalism and malicious mischief, theft, sprinkler leakage and earthquake damage. If this Lease is terminated as the result of a casualty in accordance with Section 9, the proceeds of said insurance attributable to the replacement of all tenant improvements at the Premises which were paid for by Landlord shall, if permitted by Tenant's insurance company, be paid to Landlord (otherwise Tenant shall turn over the insurance proceeds attributable to tenant improvements at the Premises which were paid for by Landlord to Landlord promptly following Tenant's receipt of such insurance proceeds from Tenant's insurance company). If insurance proceeds are available to repair the tenant improvements, at Landlord's option, all insurance proceeds Tenant is entitled to receive to repair the tenant improvements shall, to the extent permitted by the insurance company, be paid by the insurance company directly to Landlord. Landlord shall select the contractor to repair and/or replace the tenant improvements, and Landlord shall cause the tenant improvements to be repaired and/or replaced in a timely manner to the extent insurance proceeds are available.

(c) Tenant shall, at all times during the Term hereof, maintain in effect workers' compensation insurance as required by applicable law (but not less than \$1,000,000) and business interruption and extra expense insurance satisfactory to Landlord. In addition, Tenant shall maintain in effect during the Term hereof a policy of automobile liability insurance with combined single limit of \$1,000,000.00.

8.2. Insurance-Landlord.

(a) Landlord shall obtain and keep in force a policy of general liability insurance with coverage against such risks and in such amounts as Landlord deems advisable insuring Landlord against liability arising out of the ownership, operation and management of the Project.

(b) Landlord shall also obtain and keep in force during the Term of this Lease a policy or policies of insurance covering loss or damage to the Project in the amount of not less than eighty percent (80%) of the full replacement cost thereof, as determined by Landlord from time to time. The terms and conditions of said policies and the perils and risks covered thereby shall be determined by Landlord, from time to time, in Landlord's sole discretion. In addition, at Landlord's option, Landlord shall obtain and keep in force, during the Term of this Lease, a policy of rental interruption insurance, with loss payable to Landlord, which insurance shall, at Landlord's option, also cover all Operating Expenses. At Landlord's option, Landlord may obtain insurance coverages and/or bonds related to the operation of the parking areas. At Landlord's option, Landlord may obtain coverage for flood and earthquake damages. In addition, Landlord shall have the right to obtain such additional insurance as is customarily carried by owners or operators of other comparable office buildings in the geographical area of the Project. Tenant will not be named as an additional insured in any insurance policies carried by Landlord and shall have no right to any proceeds therefrom. The policies purchased by Landlord shall contain such deductibles as Landlord may determine. In addition to amounts payable by Tenant in accordance with Section 4.2, Tenant shall pay any increase in the property insurance premiums for the Project over what was payable immediately prior to the increase to the extent the increase is specified by Landlord's insurance carrier as being caused by the nature of Tenant's occupancy or any act or omission of Tenant.

8.3. Insurance Policies. Tenant shall deliver to Landlord copies of the insurance policies or certificates of insurance evidencing those coverages and limits required under Section 8.1 within fifteen (15) days prior to the Commencement Date of this Lease, and Landlord shall have the right to approve the terms and conditions of said policies, such approval not to be unreasonably withheld, conditioned or delayed. Tenant's insurance policies shall not be cancelable or subject to reduction of coverage or other modification except after thirty (30)

days prior written notice to Landlord. Tenant shall, at least thirty (30) days prior to the expiration of such policies, furnish Landlord with renewals thereof. Tenant's insurance policies shall be issued by insurance companies authorized to do business in the state in which the Project is located, and said companies shall maintain during the policy term a "General Policyholders' Rating" of at least "A" and a financial rating of at least "Class X" (or such other rating as may be required by any lender having a lien on the Project), as set forth in the most recent edition of "Best Insurance Reports." All insurance obtained by Tenant shall be primary to and not contributory with any similar insurance carried by Landlord, whose insurance shall be considered excess insurance only. Landlord, and at Landlord's option, the holder of any mortgage or deed of trust encumbering the Project and any person or entity managing the Project on behalf of Landlord, shall be named as an additional insured on all insurance policies Tenant is obligated to obtain by Section 8.1 above. Tenant's insurance policies shall not include deductibles in excess of Ten Thousand Dollars (\$10,000).

8.4. Waiver of Subrogation. Landlord waives any and all rights of recovery against Tenant for or arising out of damage to, or destruction of, the Project to the extent that Landlord's insurance policies then in force insure against such damage or destruction and permit such waiver, and only to the extent of the insurance proceeds actually received by Landlord for such damage or destruction. Landlord's waiver shall not relieve Tenant from liability under Section 21 below except to the extent Landlord's insurance company actually satisfies Tenant's obligations under Section 21 in accordance with the requirements of Section 21. Tenant waives any and all rights of recovery against Landlord, Landlord's employees, agents and contractors for liability or damages if such liability or damage is covered by Tenant's insurance policies then in force or the insurance policies Tenant is required to obtain by Section 8.1 (whether or not the insurance Tenant is required to obtain by Section 8.1 is then in force and effect), whichever is broader. Tenant's waiver shall not be limited by the amount of insurance then carried by Tenant or the deductibles applicable thereto. Tenant shall cause the insurance policies it obtains in accordance with this Section 8 to provide that the insurance company waives all right of recovery by subrogation against Landlord in connection with any liability or damage covered by Tenant's insurance policies.

8.5. Coverage. Landlord makes no representation to Tenant that the limits or forms of coverage specified above or approved by Landlord are adequate to insure Tenant's property or Tenant's obligations under this Lease, and the limits of any insurance carried by Tenant shall not limit Tenant's obligations or liability under any indemnity provision included in this Lease or under any other provision of this Lease.

9. Damage or Destruction.

9.1. Effect of Damage or Destruction. If all or part of the Project is damaged by fire, earthquake, flood, explosion, the elements, riot, the release or existence of Hazardous Substances (as defined in Section 22 below) or by any other cause whatsoever (hereinafter collectively referred to as "Damages"), but the Damages are not "Material" (as defined in Section 9.2 below), Landlord shall repair the Damages to the Project as soon as is reasonably possible, and this Lease shall remain in full force and effect. If all or part of the Project is destroyed or Materially Damaged, Landlord shall have the right, in its sole and complete discretion, to repair or to rebuild the Project or to terminate this Lease. Landlord shall use commercially reasonable efforts within sixty (60) days but in no event later than ninety (90) days after the discovery of such Material Damage or destruction notify Tenant in writing of Landlord's intention to repair or to rebuild or to terminate this Lease. Tenant shall in no event be entitled to compensation or damages on account of annoyance or inconvenience in making any repairs, or on account of construction, or on account of Landlord's election to terminate this Lease. Notwithstanding the foregoing, if Landlord shall elect to rebuild or repair the Project after Material Damage or destruction, but in good faith determines that the Premises cannot be substantially repaired within two hundred seventy (270) days after the date of the discovery of the Material Damage or destruction, without payment of overtime or other premiums, and the Damage to the Project will render the entire Premises unusable during said two hundred seventy (270) day period, Landlord shall notify Tenant thereof in writing at the time of Landlord's election to rebuild or repair, and Tenant shall thereafter have a period of fifteen (15) days within which Tenant may elect to terminate this Lease, upon thirty (30) days' advance written notice to Landlord, provided further, however, in the event Landlord pursues reconstruction or restoration of the Project and such reconstruction and restoration is not substantially complete due to delays within Landlord's control, within two hundred two hundred seventy (270) days after the date of the occurrence of the Damage, then Tenant shall have a further right to terminate this Lease upon written notice to Landlord, so long as Tenant's written notice is delivered to Landlord prior to Landlord's delivery of the Premises substantially completed to Tenant. Tenant's termination right described in the preceding sentence shall not apply if the Damage was caused by the negligent or intentional acts of Tenant or its employees, agents, contractors or invitees. Failure of Tenant to exercise said election within said fifteen (15) day period shall constitute Tenant's agreement to accept delivery of the Premises under this Lease whenever tendered by Landlord, provided Landlord thereafter pursues reconstruction or restoration diligently to completion, subject to delays caused by Force Majeure Events, as hereinafter defined. If Landlord is unable to repair the Damage to the Premises or the Project during such two hundred seventy (270) day period due to Force Majeure Events, the two hundred seventy (270) day period shall be extended by the period of delay caused by the Force Majeure Events but no more than sixty (60) additional days at which time Tenant may elect to terminate this Lease. Subject to Section 9.3 below, if Landlord or Tenant terminates this Lease in accordance with this Section 9.1, Tenant shall continue to pay all Base Rent, Operating Expense increases, Real Property Tax increases and other amounts due hereunder which arise prior to the date of termination.

9.2. Definition of Material Damage. "Material Damage" to the Project shall occur if, in Landlord's reasonable judgment, the uninsured cost of repairing the Damage will exceed Twenty-Five Thousand Dollars (\$25,000). If insurance proceeds are available to Landlord in an amount which is sufficient to pay the entire cost of repairing all of the Damage to the Project, the Damage shall be deemed material if the cost of repairing the Damage exceeds One Hundred Thousand Dollars (\$100,000). Damage to the Project shall be deemed Material if (a) the Project cannot be rebuilt or repaired to substantially the same condition it was in prior to the Damage due to laws or regulations in effect at the time the repairs will be made, (b) the holder of any mortgage or deed of trust encumbering the Project requires that insurance proceeds available to repair the Damage in excess of Twenty-Five Thousand Dollars (\$25,000) be applied to the repayment of the indebtedness secured by the mortgage or the deed of trust, or (c) the Damage occurs during the last twelve (12) months of the Term of the Lease.

9.3. Abatement of Rent. If Landlord elects to repair Damage to the Project and all or part of the Premises will be unusable or inaccessible to Tenant in the ordinary conduct of its business until the Damage is repaired, and the Damage was not caused by the negligence or intentional acts of Tenant or its employees, agents, contractors or invitees, Tenant's Base Rent, Tenant's Share of Operating Expense increases and Tenant's Share of Real Property Taxes shall be abated until the repairs are completed in proportion to the amount of the Premises which is unusable or inaccessible to Tenant in the ordinary conduct of its business. Notwithstanding the foregoing, there shall be no abatement of Base Rent, Tenant's Share of Operating Expense increases and Tenant's Share of Real Property Taxes by reason of any portion of the Premises being unusable or inaccessible for a period equal to five (5) consecutive business days or less.

9.4. Tenant's Acts. If such Damage or destruction occurs as a result of the negligence or the intentional acts of Tenant or Tenant's employees, agents, contractors or invitees, and the proceeds of insurance which are actually received by Landlord are not sufficient to pay for the repair of all of the Damage, Tenant shall pay, at Tenant's sole cost and expense, to Landlord upon demand, the difference between the cost of repairing the Damage and the insurance proceeds received by Landlord.

9.5. Tenant's Property. As more fully set forth in Section 21, Landlord shall not be liable to Tenant or its employees, agents, contractors, invitees or customers for loss or Damage to merchandise, tenant improvements, fixtures, automobiles, furniture, equipment, computers, files or other property (hereinafter collectively "Tenant's property") located at the Project. Tenant shall repair or replace all of

Tenant's property at Tenant's sole cost and expense. Tenant acknowledges that it is Tenant's sole responsibility to obtain adequate insurance coverage to compensate Tenant for Damage to Tenant's property.

10. Real and Personal Property Taxes.

10.1. Payment of Taxes. Tenant shall pay to Landlord during the Term hereof, in addition to Base Rent and Tenant's Share of Operating Expense increases, Tenant's Share of the amount by which all "Real Property Taxes" (as defined in Section 10.2 below) for each Comparison Year exceeds the amount of all Real Property Taxes for the Base Year. Tenant's Share of Real Property Tax increases shall be payable by Tenant at the same time, in the same manner and under the same terms and conditions as Tenant pays Tenant's Share of Operating Expense increases as provided in Section 4.2(f) of this Lease. Except as expressly provided in Section 10.4 below, if the Real Property Taxes incurred during any Comparison Year are less than the Real Property Taxes incurred during the Base Year, Tenant shall not be entitled to receive any credit, offset, reduction or benefit as a result of said occurrence.

10.2. Definition of "Real Property Tax." As used herein, the term "Real Property Tax" shall include any form of real estate tax or assessment, general, special, ordinary or extraordinary, improvement bond or bonds imposed on the Project or any portion thereof by any authority having the direct or indirect power to tax, including any city, county, state or federal government, or any school, agricultural, sanitary, fire, street, drainage or other improvement district thereof, as against any legal or equitable interest of Landlord in the Project or in any portion thereof, unless such tax is defined as an Operating Expense by Section 4.2(c). Real Property Taxes shall not include income, inheritance and gift taxes.

10.3. Personal Property Taxes. Tenant shall pay prior to delinquency all taxes assessed against and levied upon trade fixtures, furnishings, equipment and all other personal property of Tenant contained in the Premises or related to Tenant's use of the Premises. If any of Tenant's personal property shall be assessed with Landlord's real or personal property, Tenant shall pay to Landlord the taxes attributable to Tenant within ten (10) days after receipt of a written statement from Landlord setting forth the taxes applicable to Tenant's property.

10.4. Reassessments. From time to time Landlord may challenge the assessed value of the Project as determined by applicable taxing authorities and/or Landlord may attempt to cause the Real Property Taxes to be reduced on other grounds. If Landlord is successful in causing the Real Property Taxes to be reduced or in obtaining a refund, rebate, credit or similar benefit (hereinafter collectively referred to as a "reduction"), Landlord shall to the extent practicable, credit the reduction(s) to Real Property Taxes for the calendar year to which a reduction applies and to recalculate the Real Property Taxes owed by Tenant for years after the year in which the reduction applies based on the reduced Real Property Taxes (if a reduction applies to Tenant's Base Year, the Base Year Real Property Taxes shall be reduced by the amount of the reduction and Tenant's Share of Real Property Tax increases shall be recalculated for all Comparison Years following the year of the reduction based on the lower Base Year amount). All costs incurred by Landlord in obtaining the Real Property Tax reductions shall be considered an Operating Expense and Landlord shall determine, in its sole discretion to which years any reductions will be applied. In addition, all accounting and related costs incurred by Landlord in calculating new Base Years for tenants and in making all other adjustments shall be an Operating Expense.

11. Utilities.

11.1. Services Provided by Landlord. Subject to all governmental rules, regulations and guidelines applicable thereto, Landlord shall use its best efforts to provide HVAC to the Premises for normal office use during the times described in Section 11.4, reasonable amounts of electricity for normal office lighting and fractional horsepower office machines, water in the Premises or in the Common Areas for reasonable and normal drinking and lavatory use, replacement light bulbs and/or fluorescent tubes and ballasts for standard overhead fixtures, and building standard janitorial services. In addition, Tenant shall be responsible for all electricity costs associated with Tenant's use and operation of any dedicated HVAC units and computer rooms.

11.2. Intra-building Network Cabling. In addition to the items described in Section 11.1 above, Landlord shall also provide Tenant with access to a reasonable amount of INC. For purposes of this Section 11.2, a reasonable amount of INC shall not exceed two (2) cable pairs per one thousand (1,000) usable square feet of space in the Premises. If Tenant requires additional INC capacity, the cost of providing, maintaining, repairing and replacing such capacity shall be borne solely by Tenant. Additional INC capacity may only be installed, maintained, repaired and replaced by a contractor approved by Landlord, in Landlord's sole discretion. The Building's minimum point of entry ("MPOE") for telephone service, the INC risers and the telephone terminal rooms located on each floor of the Building may only be accessed with Landlord's prior consent and by contractors approved by Landlord, in Landlord's sole discretion. Tenant shall be responsible for any loss, cost, damage, liability and expense (including attorneys' fees) arising out of or related to the installation, maintenance, repair and replacement of additional INC capacity.

11.3. Occupant Density. Tenant acknowledges that the Building is currently equipped to accommodate a ratio of not more than one Occupant for each two hundred (200) square feet of rentable area in the Premises. For purposes of this Section, "Occupants" shall include employees, visitors, contractors and other people that visit the Premises but shall not include people not employed by Tenant that deliver or pick up mail or other packages at the Premises, employees of Landlord or employees of Landlord's agents or contractors. In the event Tenant exceeds such density ratio in connection with its use of the Premises, however, Tenant understands and acknowledges that Tenant, and not Landlord, shall be solely responsible for any discomfort or inconvenience experienced by Tenant and its Occupants in connection with such use or for any additional wear and tear on the Premises and the Common Areas, or if such excess usage shall result from other than periodic use of the conference facilities in the Premises, any additional use of electricity, water and other utilities, and additional demand by Tenant for other Building services resulting from exceeding such density ratio. To the extent that Tenant's use of the Premises exceeds such density ratio, the cost to (i) supply additional services and utilities to the Premises, (ii) install additional systems and equipment to the Premises, and (iii) if such excess usage shall result from other than periodic use of the conference facilities in the Premises, repair wear and tear to the Premises and the Common Areas occasioned by such usage shall be borne by Tenant solely. Such increased density ratio shall in no way be construed by Tenant as an implicit increase in the number of parking spaces allocated to Tenant in Section 1.13 of the Lease.

11.4. Hours of Service. Building services and utilities shall be provided Monday through Friday from 8:00 a.m. to 5:30 p.m. and Saturdays from 9:00 a.m. to 1:00 p.m. Janitorial services shall be provided Monday through Friday. HVAC and other Building services shall not be provided at other times or on nationally recognized holidays. Tenant acknowledges that there will be no air circulation or temperature control within the Premises when the HVAC is not operating and, consequently, during such times the Premises may not be suitable for human occupation or for the operation of computers and other heat sensitive equipment. Nationally recognized holidays shall include, but shall not necessarily be limited to, New Year's Day, Martin Luther King Jr. Day, Presidents' Day, Memorial Day, Independence Day, Labor Day, Thanksgiving Day and Christmas Day. Landlord shall use its best efforts to provide HVAC to Tenant at times other than those set forth above subject to (a) the payment by Tenant of Landlord's standard charge, as determined by Landlord from time to time, in Landlord's sole discretion, for after hours HVAC and (b) Tenant providing to Landlord at least one (1) business day's advance written notice of Tenant's need for after hours HVAC. As of the date of this Lease, and subject to future increases, the standard charge for after hours HVAC is Forty-Five Dollars (\$45.00) per hour per half floor and Ninety Dollars (\$90.00) per hour per full floor. Tenant shall pay all after hours HVAC charges to Landlord within five (5) business days after Landlord bills Tenant for said charges.

11.5. Excess Usage by Tenant. Notwithstanding the use set forth in Section 1.5, Tenant shall not use Building utilities or services

in excess of those used by the average office building tenant using its premises for ordinary office use. Tenant shall not install at the Premises office machines, lighting fixtures or other equipment which will generate above average heat, noise or vibration at the Premises or which will adversely effect the temperature maintained by the HVAC system. If Tenant does use Building utilities or services in excess of those used by the average office building tenant, Landlord shall have the right, in addition to any other rights or remedies it may have under this Lease, to (a) at Tenant's expense, install separate metering devices at the Premises, and to charge Tenant for its usage, (b) require Tenant to pay to Landlord all costs, expenses and damages incurred by Landlord as a result of such usage, and (c) require Tenant to stop using excess utilities or services.

11.6. Interruptions. Tenant agrees that Landlord shall not be liable to Tenant for its failure to furnish gas, electricity, telephone service, water, HVAC or any other utility services or building services when such failure is occasioned, in whole or in part, by repairs, replacements, or improvements, by any strike, lockout or other labor trouble, by inability to secure electricity, gas, water, telephone service or other utility at the Project, by any accident, casualty or event arising from any cause whatsoever, including the negligence of Landlord, its employees, agents and contractors, by act, negligence or default of Tenant or any other person or entity, or by an other cause, and such failures shall never be deemed to constitute an eviction or disturbance of Tenant's use and possession of the Premises or relieve Tenant from the obligation of paying rent or performing any of its obligations under this Lease. Furthermore, Landlord shall not be liable under any circumstances for loss of property or for injury to, or interference with, Tenant's business, including, without limitation, loss of profits, however occurring, through or in connection with or incidental to a failure to furnish any such services or utilities. Landlord may comply with voluntary controls or guidelines promulgated by any governmental entity relating to the use or conservation of energy, water, gas, light or electricity or the reduction of automobile or other emissions without creating any liability of Landlord to Tenant under this Lease. Notwithstanding anything contained herein to the contrary, if any interruption of utilities or services caused by Landlord's gross negligence or willful misconduct shall continue for more than five (5) consecutive business days and shall render all or any portion of the Premises unusable for the normal conduct of Tenant's business, and if Tenant does not in fact use or occupy such portion of the Premises, then all Base Rent and additional rent payable hereunder with respect to such portion of the Premises which Tenant does not occupy shall be abated from and after the sixth (6th) consecutive business day until full use of such portion of the Premises is restored to Tenant.

12. Assignment and Subletting.

12.1. Landlord's Consent Required. Tenant shall not voluntarily or by operation of law assign, transfer, hypothecate, mortgage, sublet, or otherwise transfer or encumber all or any part of Tenant's interest in this Lease or in the Premises (hereinafter collectively a "Transfer"), without Landlord's prior written consent, which shall not be unreasonably withheld, conditioned or delayed. Landlord shall respond to Tenant's written request for consent hereunder within thirty (30) days after Landlord's receipt of the written request from Tenant. Any attempted Transfer without such consent shall be void and shall constitute a material default and breach of this Lease. Tenant's written request for Landlord's consent shall include, and Landlord's thirty (30) day response period referred to above shall not commence, unless and until Landlord has received from Tenant, all of the following information: (a) financial statements for the proposed assignee or subtenant for the past three (3) years prepared in accordance with generally accepted accounting principles, (b) federal tax returns for the proposed assignee or subtenant for the past three (3) years, (c) a TRW credit report or similar report on the proposed assignee or subtenant, (d) a detailed description of the business the assignee or subtenant intends to operate at the Premises, (e) the proposed effective date of the assignment or sublease, (f) a copy of the proposed sublease or assignment agreement which includes all of the terms and conditions of the proposed assignment or sublease, (g) a detailed description of any ownership or commercial relationship between Tenant and the proposed assignee or subtenant, and (h) a detailed description of any Alterations the proposed assignee or subtenant desires to make to the Premises. If the obligations of the proposed assignee or subtenant will be guaranteed by any person or entity, Tenant's written request shall not be considered complete until the information described in (a), (b) and (c) of the previous sentence has been provided with respect to each proposed guarantor. "Transfer" shall also include the transfer (a) if Tenant is a corporation, and Tenant's stock is not publicly traded over a recognized securities exchange, of more than forty nine percent (49%) of the voting stock of such corporation during the Term of this Lease (whether or not in one or more transfers) or the dissolution, merger or liquidation of the corporation, or (b) if Tenant is a partnership or other entity, of more than forty nine percent (49%) of the profit and loss participation in such partnership or entity during the Term of this Lease (whether or not in one or more transfers) or the dissolution, merger or liquidation of the partnership or entity. If Tenant is a limited or general partnership (or is comprised of two or more persons, individually or as co-partners), Tenant shall not be entitled to change or convert to (i) a limited liability company, (ii) a limited liability partnership or (iii) any other entity which possesses the characteristics of limited liability without the prior written consent of Landlord, which consent may be given or withheld in Landlord's sole discretion. Tenant's sole remedy in the event that Landlord shall wrongfully withhold consent to or disapprove any assignment or sublease shall be to obtain an order by a court of competent jurisdiction that Landlord grant such consent; in no event shall Landlord be liable for damages with respect to its granting or withholding consent to any proposed assignment or sublease. If Landlord shall exercise any option to recapture the Premises, or shall deny a request for consent to a proposed assignment or sublease, Tenant shall indemnify, defend and hold Landlord harmless from and against any and all losses, liabilities, damages, costs and claims that may be made against Landlord by the proposed assignee or subtenant, or by any brokers or other persons claiming a commission or similar compensation in connection with the proposed assignment or sublease.

12.2. Leveraged Buy-Out. Subject to the provisions of Section 12.8, the involvement by Tenant or its assets in any transaction, or series of transactions (by way of merger, sale, acquisition, financing, refinancing, transfer, leveraged buy-out or otherwise) whether or not a formal assignment or hypothecation of this Lease or Tenant's assets occurs, shall be considered to be an assignment of this Lease by Tenant to which Landlord may reasonably withhold its consent unless after such transaction or series of transactions the surviving entity will have a net worth of no less than Ten Million and No/100 Dollars (\$10,000,000.00).

12.3. Standard For Approval. Landlord shall not unreasonably withhold, condition or delay its consent to a Transfer provided that Tenant has complied with each and every requirement, term and condition of this Section 12. Tenant acknowledges and agrees that each requirement, term and condition in this Section 12 is a reasonable requirement, term or condition. It shall be deemed reasonable for Landlord to withhold its consent to a Transfer if any requirement, term or condition of this Section 12 is not complied with or: (a) the Transfer would cause Landlord to be in violation of its obligations under another lease or agreement to which Landlord is a party; (b) in Landlord's reasonable judgment, a proposed assignee or subtenant has a smaller net worth than Tenant had on the date this Lease was entered into with Tenant or is less able financially to pay the rents due under this Lease as and when they are due and payable; (c) a proposed assignee's or subtenant's business will impose a burden on the Project's parking facilities, elevators, Common Areas or utilities that is greater than the burden imposed by Tenant, in Landlord's reasonable judgment; (d) the terms of a proposed assignment or subletting will allow the proposed assignee or subtenant to exercise a right of renewal, right of expansion, right of first offer, right of first refusal or similar right held by Tenant; (e) a proposed assignee or subtenant refuses to enter into a written assignment agreement or sublease, reasonably satisfactory to Landlord, which provides that it will abide by and assume all of the terms and conditions of this Lease for the term of any assignment or sublease and containing such other terms and conditions as Landlord reasonably deems necessary; (f) the use of the Premises by the proposed assignee or subtenant will not be identical to the use permitted by this Lease; (g) any guarantor of this Lease refuses to consent to the Transfer or to execute a written agreement reaffirming the guaranty; (h) Tenant is in default as defined in Section 13.1 at the time of the request; (i) if requested by Landlord, the assignee or subtenant refuses to sign a non-disturbance and attornment agreement in favor of Landlord's lender; (j)

Landlord has sued or been sued by the proposed assignee or subtenant or has otherwise been involved in a legal dispute with the proposed assignee or subtenant; (k) the assignee or subtenant is involved in a business which is not in keeping with the then current standards of the Project; (l) the proposed assignee or subtenant is an existing tenant of the Project or is a person or entity then negotiating with Landlord for the lease of space in the Project; (m) the assignment or sublease will result in there being more than one subtenant of the Premises (*e.g.*, the assignee or subtenant intends to use the Premises as an executive suite); (n) the assignee or subtenant is a governmental or quasi-governmental entity or an agency, department or instrumentality of a governmental or quasi-governmental agency; or (o) the terms of a proposed assignment or subletting will allow the proposed assignee or subtenant to pay a base rent less than the prevailing rental rate in the Building at the time of Tenant's request to such Transfer.

12.4. Additional Terms and Conditions. The following terms and conditions shall be applicable to any Transfer:

(a) Regardless of Landlord's consent, no Transfer shall release Tenant from Tenant's obligations hereunder or alter the primary liability of Tenant to pay the rent and other sums due Landlord hereunder and to perform all other obligations to be performed by Tenant hereunder or release any guarantor from its obligations under its guaranty.

(b) Landlord may accept rent from any person other than Tenant pending approval or disapproval of an assignment or subletting.

(c) Neither a delay in the approval or disapproval of a Transfer, nor the acceptance of rent, shall constitute a waiver or estoppel of Landlord's right to exercise its rights and remedies for the breach of any of the terms or conditions of this Section 12.

(d) The consent by Landlord to any Transfer shall not constitute a consent to any subsequent Transfer by Tenant or to any subsequent or successive Transfer by an assignee or subtenant. However, Landlord may consent to subsequent Transfers or any amendments or modifications thereto without notifying Tenant or anyone else liable on the Lease and without obtaining their consent, and such action shall not relieve such persons from liability under this Lease.

(e) In the event of any default under this Lease, Landlord may proceed directly against Tenant, any guarantors or anyone else responsible for the performance of this Lease, including any subtenant or assignee, without first exhausting Landlord's remedies against any other person or entity responsible therefor to Landlord, or any security held by Landlord.

(f) Landlord's written consent to any Transfer by Tenant shall not constitute an acknowledgment that no default then exists under this Lease nor shall such consent be deemed a waiver of any then existing default.

(g) The discovery of the fact that any financial statement relied upon by Landlord in giving its consent to an assignment or subletting was materially false shall, at Landlord's election, render Landlord's consent null and void.

(h) Landlord shall not be liable under this Lease or under any sublease to any subtenant.

(i) No assignment or sublease may be modified or amended without Landlord's prior written consent.

(j) Any assignee of, or subtenant under, this Lease shall, by reason of accepting such assignment or entering into such sublease, be deemed, for the benefit of Landlord, to have assumed and agreed to conform and comply with each and every term, covenant, condition and obligation herein to be observed or performed by Tenant during the term of said assignment or sublease, other than such obligations as are contrary or inconsistent with provisions of an assignment or sublease to which Landlord has specifically consented in writing.

12.5. Additional Terms and Conditions Applicable to Subletting. The following terms and conditions shall apply to any subletting by Tenant of all or any part of the Premises and shall be deemed included in all subleases under this Lease whether or not expressly incorporated therein:

(a) Tenant hereby absolutely and unconditionally assigns and transfers to Landlord all of Tenant's interest in all rentals and income arising from any sublease entered into by Tenant, and Landlord may collect such rent and income and apply same toward Tenant's obligations under this Lease; provided, however, that until a default shall occur in the performance of Tenant's obligations under this Lease, Tenant may receive, collect and enjoy the rents accruing under such sublease. Landlord shall not, by reason of this or any other assignment of such rents to Landlord nor by reason of the collection of the rents from a subtenant, be deemed to have assumed or recognized any sublease or to be liable to the subtenant for any failure of Tenant to perform and comply with any of Tenant's obligations to such subtenant under such sublease, including, but not limited to, Tenant's obligation to return any Security Deposit. Tenant hereby irrevocably authorizes and directs any such subtenant, upon receipt of a written notice from Landlord stating that a default exists in the performance of Tenant's obligations under this Lease, to pay to Landlord the rents due as they become due under the sublease. Tenant agrees that such subtenant shall have the right to rely upon any such statement and request from Landlord, and that such subtenant shall pay such rents to Landlord without any obligation or right to inquire as to whether such default exists and notwithstanding any notice from or claim from Tenant to the contrary.

(b) In the event Tenant shall default in the performance of its obligations under this Lease, Landlord at its option and without any obligation to do so, may require any subtenant to attorn to Landlord, in which event Landlord shall undertake the obligations of Tenant under such sublease from the time of the exercise of said option to the termination of such sublease; provided, however, Landlord shall not be liable for any prepaid rents or Security Deposit paid by such subtenant to Tenant or for any other prior defaults of Tenant under such sublease.

12.6. Transfer Premium from Assignment or Subletting. Landlord shall be entitled to receive from Tenant (as and when received by Tenant) as an item of additional rent one-half of all amounts received by Tenant from the subtenant or assignee in excess of the amounts payable by Tenant to Landlord hereunder (hereinafter the "Transfer Premium"). The Transfer Premium shall be reduced by the reasonable brokerage commissions and legal fees actually paid by Tenant in order to assign the Lease or to sublet a portion of the Premises. "Transfer Premium" shall mean all Base Rent, additional rent or other consideration of any type whatsoever payable by the assignee or subtenant in excess of the Base Rent and additional rent payable by Tenant under this Lease. If less than all of the Premises is transferred, the Base Rent and the additional rent shall be determined on a per rentable square foot basis. Transfer Premium shall also include, but not be limited to, key money and bonus money paid by the assignee or subtenant to Tenant in connection with such Transfer, and any payment in excess of fair market value for services rendered by Tenant to the assignee or subtenant or for assets, fixtures, inventory, equipment, or furniture transferred by Tenant to the assignee or subtenant in connection with such Transfer. For purposes of calculating the Transfer Premium, expenses will be amortized over the life of the sublease.

12.7. Landlord's Option to Recapture Space. Notwithstanding anything to the contrary contained in this Section 12, Landlord shall have the option, by giving written notice to Tenant within thirty (30) days after receipt of any request by Tenant (i) to assign this Lease, or (ii) to sublease space in the Premises if the term of such sublease expires during the last twelve (12) months of the Term of the Lease, to terminate this Lease with respect to said space as of the date thirty (30) days after Landlord's election. In the event of a recapture by Landlord, if this Lease shall be canceled with respect to less than the entire Premises, the Base Rent, Tenant's Share of Operating Expense increases, Tenant's Share of Real Property Tax increases and the number of parking spaces Tenant may use shall be adjusted on the basis of

the number of rentable square feet retained by Tenant in proportion to the number of rentable square feet contained in the original Premises, and this Lease as so amended shall continue thereafter in full force and effect, and upon request of either party, the parties shall execute written confirmation of same. If Landlord recaptures only a portion of the Premises, it shall construct and erect at its sole cost such partitions as may be required to sever the space to be retained by Tenant from the space recaptured by Landlord. Landlord may, at its option, lease any recaptured portion of the Premises to the proposed subtenant or assignee or to any other person or entity without liability to Tenant. Tenant shall not be entitled to any portion of the profit, if any, Landlord may realize on account of such termination and reletting. Tenant acknowledges that the purpose of this Section 12.7 is to enable Landlord to receive profit in the form of higher rent or other consideration to be received from an assignee or sublessee, to give Landlord the ability to meet additional space requirements of other tenants of the Project and to permit Landlord to control the leasing of space in the Project. Tenant acknowledges and agrees that the requirements of this Section 12.7 are commercially reasonable and are consistent with the intentions of Landlord and Tenant.

12.8. Permitted Transfers. Notwithstanding anything to the contrary contained in this Section 12 of the Lease, provided Tenant is not in default after expiration of all applicable notice and cure periods, Tenant shall have the right, without Landlord's consent, upon thirty (30) days advance written notice to Landlord, to assign the Lease or sublet the whole or any part of the Premises (a) to any entity or entities which are owned by Tenant, or which owns Tenant, (b) in connection with the sale or transfer of substantially all of the assets of the Tenant or the sale or transfer of substantially all of the outstanding ownership interests in Tenant, or (c) in connection with a merger, consolidation or other corporate reorganization of Tenant (each of the transactions referenced in the above subparagraphs (a), (b), and (c) are hereinafter referred to as a "Permitted Transfer," and each surviving entity shall hereinafter be referred to as a "Permitted Transferee"); provided, that such assignment or sublease is subject to the following conditions:

- (i) Tenant shall remain fully liable under the terms of the Lease;
- (ii) such Permitted Transfer shall be subject to all of the terms, covenants and conditions of the Lease;
- (iii) such Permitted Transferee has a net worth at least equal to Ten Million and No/100 Dollars (\$10,000,000.00); and
- (iv) such Permitted Transferee shall expressly assume the obligations of Tenant under the Lease by a document reasonably satisfactory to Landlord.

12.9. Landlord's Expenses. In the event Tenant shall assign this Lease or sublet the Premises or request the consent of Landlord to any Transfer, then Tenant shall pay Landlord's reasonable costs and expenses incurred in connection therewith, including, but not limited to, attorneys', architects', accountants', engineers' or other consultants' fees.

13. Default; Remedies.

13.1. Default by Tenant. Landlord and Tenant hereby agree that the occurrence of any one or more of the following events is a material default by Tenant under this Lease and that said default shall give Landlord the rights described in Section 13.2. Landlord or Landlord's authorized agent shall have the right to execute and deliver any notice of default, notice to pay rent or quit or any other notice Landlord gives Tenant.

(a) Tenant's failure to make any payment of Base Rent, Tenant's Share of Operating Expense increases, Tenant's Share of Real Property Tax increases, charges for after hours HVAC, late charges, or any other payment required to be made by Tenant hereunder, as and when due, where such failure shall continue for a period of three (3) days after written notice thereof from Landlord to Tenant. In the event that Landlord serves Tenant with a notice to pay rent or quit pursuant to applicable unlawful detainer statutes, such notice shall also constitute the notice required by this Section 13.1(a).

(b) The abandonment of the Premises by Tenant in which event Landlord shall not be obligated to give any notice of default to Tenant.

(c) The failure of Tenant to comply with any of its obligations under Sections 6.1, 6.2(b), 7.2, 7.3, 8, 12, 18, 20, 22, 23, 25, 33, 34, and 55 and 59 where Tenant fails to comply with its obligations or fails to cure any earlier breach of such obligation within ten (10) business days following written notice from Landlord to Tenant. In the event Landlord serves Tenant with a notice to quit or any other notice pursuant to applicable unlawful detainer statutes, said notice shall also constitute the notice required by this Section 13.1(c).

(d) The failure by Tenant to observe or perform any of the covenants, conditions or provisions of this Lease to be observed or performed by Tenant (other than those referenced in Sections 13.1(a), (b) and (c), above), where such failure shall continue for a period of ten (10) business days after written notice thereof from Landlord to Tenant; provided, however, that if the nature of Tenant's non-performance is such that more than ten (10) business days are reasonably required for its cure, then Tenant shall not be deemed to be in default if Tenant commences such cure within said ten (10) business day period and thereafter diligently pursues such cure to completion. In the event that Landlord serves Tenant with a notice to quit pursuant to applicable unlawful detainer statutes, said notice shall also constitute the notice required by this Section 13.1(d).

(e) (i) The making by Tenant or any guarantor of Tenant's obligations hereunder of any general arrangement or general assignment for the benefit of creditors; (ii) Tenant or any guarantor becoming a "debtor" as defined in 11 U.S.C. 101 or any successor statute thereto (unless, in the case of a petition filed against Tenant or guarantor, the same is dismissed within sixty (60) days); (iii) the appointment of a trustee or receiver to take possession of substantially all of Tenant's assets located at the Premises or of Tenant's interest in this Lease, where possession is not restored to Tenant within thirty (30) days; (iv) the attachment, execution or other judicial seizure of substantially all of Tenant's assets located at the Premises or of Tenant's interest in this Lease, where such seizure is not discharged within thirty (30) days; or (v) the insolvency of Tenant. In the event that any provision of this Section 13.1(e) is contrary to any applicable law, such provision shall be of no force or effect.

(f) The discovery by Landlord that any financial statement, representation or warranty given to Landlord by Tenant, or by any guarantor of Tenant's obligations hereunder was materially false at the time given. Tenant acknowledges that Landlord has entered into this Lease in material reliance on such information.

(g) If Tenant is a corporation, a partnership, or a limited liability company, the dissolution or liquidation of Tenant.

(h) If Tenant's obligations under this Lease are guaranteed; (i) the death of a guarantor, (ii) the termination of a guarantor's liability with respect to this Lease other than in accordance with the terms of such guaranty, (iii) a guarantor becoming insolvent or the subject of a bankruptcy filing, (iv) a guarantor's refusal to honor the guaranty, or (v) a guarantor's breach of its guaranty obligation on an anticipatory breach basis.

13.2. Remedies.

(a) In the event of any material default or breach of this Lease by Tenant, Landlord may, at any time thereafter, with or without notice or demand, and without limiting Landlord in the exercise of any right or remedy which Landlord may have by reason of such default:

(i) Terminate Tenant's right to possession of the Premises. Upon any such termination, Tenant shall immediately surrender possession of the Premises to Landlord. Landlord reserves all rights and remedies available to it pursuant to the terms and conditions of this Lease as well as under applicable law. Tenant hereby grants Landlord the full and free right to enter the Premises with or without process of law. Tenant releases Landlord of any liability for any damage resulting therefrom and waives any right to claim damage for such re-entry. Tenant also agrees that Landlord's right to re-lease or any other right given to Landlord as a consequence of Tenant's default hereunder or by operation of law is not relinquished. On termination of Tenant's right of possession, Landlord shall be entitled to recover from Tenant: (i) the unpaid rent which had been earned at the time of the termination; (ii) the amount by which the unpaid rent which would have been earned after termination until the time of the award exceeds the amount of any rental, if any, received for the Premises during such time period; (iii) the amount by which the unpaid rent for the balance of the Term of the Lease after the time of award exceeds the amount of any rent to be received (net of re-letting expenses as described below) from any replacement tenant occupying the Premises at the time of the award, or, if the Premises are not occupied at the time of the award by a rent-paying replacement tenant, the full amount of the rent to be earned hereunder for the balance of the Term of the Lease discounted to net present value assuming a discount rate of one percent (1%) above the discount rate of the Federal Reserve Bank of Richmond in effect at the time of the award; and provided further, however, that Landlord shall repay to Tenant the excess of the foregoing amount over any rent received for the Premises during the balance of the Term of the Lease (net of reletting expenses as described below) similarly discounted; and (iv) at the time of the award any other amount necessary to compensate Landlord for all the damage proximately caused by Tenant's failure to perform its obligations under this Lease or which in the ordinary course of events would likely result therefrom, including but not limited to, all costs and expenses attributable to recovering possession of the Premises, re-letting expenses (including the costs and expenses of any necessary repairs, renovations and alterations to the Premises), costs of carrying the Premises (including but not limited to, Landlord's payment of real property taxes and insurance premiums), actual legal fees and associated costs and expenses, the unamortized portion of all brokerage commissions paid in connection with this Lease and all costs of tenant improvements (amortized without interest on a straight line basis over the initial Term of the Lease), and reimbursement of any deferred rent or other Lease execution inducement.

(ii) maintain Tenant's right of possession in which event Landlord shall have the remedy which permits Landlord to continue this Lease in effect after Tenant's breach and abandonment and recover rent as it becomes due. Acts of maintenance or preservation, efforts to relet the Premises, or removal or storage of Tenant's personal property, shall not constitute a termination of Tenant's right to possession or act as an acceptance of any surrender of the Premises. Landlord shall not be required to relet any or all of the Premises prior to leasing other vacant space at the Project, nor shall Landlord be required to accept a tenant: (i) that does not otherwise meet Landlord's financial and other criteria, nor (ii) a tenant who intends to make a use other than the use permitted by the Lease.

(iii) collect sublease rents (or appoint a receiver to collect such rent) and otherwise perform Tenant's obligations at the Premises, it being agreed, however, that the appointment of a receiver for Tenant shall not constitute an election by Landlord to terminate this Lease.

(iv) pursue any other remedy now or hereafter available to Landlord under the laws or judicial decisions of the state in which the Premises are located.

(b) No remedy or election hereunder shall be deemed exclusive, but shall, wherever possible, be cumulative with all other remedies at law or in equity. The expiration or termination of this Lease and/or the termination of Tenant's right to possession of the Premises shall not relieve Tenant of liability under any indemnity provisions of this Lease as to matters occurring or accruing during the Term hereof or by reason of Tenant's occupancy of the Premises.

(c) If Tenant abandons or vacates the Premises, Landlord may re-enter the Premises and such re-entry shall not be deemed to constitute Landlord's election to accept a surrender of the Premises or to otherwise relieve Tenant from liability for its breach of this Lease. No surrender of the Premises shall be effective against Landlord unless Landlord has entered into a written agreement with Tenant in which Landlord expressly agrees to (i) accept a surrender of the Premises and (ii) relieve Tenant of liability under the Lease. The delivery by Tenant to Landlord of possession of the Premises shall not constitute the termination of the Lease or the surrender of the Premises.

13.3. Default by Landlord. Landlord shall not be in default under this Lease unless Landlord fails to perform obligations required of Landlord within thirty (30) days after written notice by Tenant to Landlord and to the holder of any mortgage or deed of trust encumbering the Project whose name and address shall have theretofore been furnished to Tenant in writing, specifying wherein Landlord has failed to perform such obligation; provided, however, that if the nature of Landlord's obligation is such that more than thirty (30) days are required for its cure, then Landlord shall not be in default if Landlord commences performance within such thirty (30) day period and thereafter diligently pursues the same to completion. In no event shall Tenant have the right to terminate this Lease as a result of Landlord's default, and Tenant's remedies shall be limited to damages and/or an injunction. This Lease and the obligations of Tenant hereunder shall not be affected or impaired because Landlord is unable to fulfill any of its obligations hereunder or is delayed in doing so, if such inability or delay is caused by reason of a Force Majeure Event, and the time for Landlord's performance shall be extended for the period of any such delay. Any claim, demand, right or defense by Tenant that arises out of this Lease or the negotiations which preceded this Lease shall be barred unless Tenant commences an action thereon, or interposes a defense by reason thereof, within the earlier to occur of (i) the expiration of the applicable statute of limitations with respect to the inaction, omission, event or action that gave rise to such claim, demand, right or defense, and (ii) eighteen (18) months after the expiration or earlier termination of this Lease.

13.4. Late Charges. Tenant hereby acknowledges that late payment by Tenant to Landlord of Base Rent, Tenant's Share of Operating Expense increases, Tenant's Share of Real Property Tax increases, parking charges, after hours HVAC charges, or other sums due hereunder will cause Landlord to incur costs not contemplated by this Lease, the exact amount of which will be extremely difficult to ascertain. Such costs include, but are not limited to, processing and accounting charges and late charges which may be imposed on Landlord by the terms of any mortgage or trust deed encumbering the Project. Accordingly, if any installment of Base Rent, Tenant's Share of Operating Expense increases, Tenant's Share of Real Property Tax increases, parking charges, after hours HVAC charges or any other sum due from Tenant shall not be received by Landlord when such amount shall be due, then, without any requirement for notice or demand to Tenant, Tenant shall immediately pay to Landlord a late charge equal to six percent (6%) of such overdue amount. The parties hereby agree that such late charge represents a fair and reasonable estimate of the costs Landlord will incur by reason of late payment by

Tenant. Acceptance of such late charge by Landlord shall in no event constitute a waiver of Tenant's default with respect to such overdue amount, nor prevent Landlord from exercising any of the other rights and remedies granted hereunder including the assessment of interest under Section 13.5.

13.5. Interest on Past-due Obligations. Except as expressly herein provided, any amount due to Landlord that is not paid when due shall bear interest at the lesser of ten percent (10%) per annum, or the maximum rate permitted by applicable law. Payment of such interest shall not excuse or cure any default by Tenant under this Lease; provided, however, that interest shall not be payable on late charges incurred by Tenant nor on any amounts upon which late charges are paid by Tenant.

13.6. Payment of Rent and Security Deposit After Default. If Tenant fails to pay Base Rent, Tenant's Share of Operating Expense increases, Tenant's Share of Real Property Tax increases, parking charges or any other monetary obligation due hereunder on the date it is due, after Tenant's third failure to pay any monetary obligation on the date it is due, at Landlord's option, all monetary obligations of Tenant hereunder shall thereafter be paid by cashiers check, and Tenant shall, upon demand, provide Landlord with an additional Security Deposit equal to three (3) months' Base Rent. If Landlord has required Tenant to make said payments by cashiers check or to provide an additional Security Deposit, Tenant's failure to make a payment by cashiers check or to provide an additional Security Deposit, shall be a material default hereunder.

14. Landlord's Right to Cure Default; Payments by Tenant. All covenants and agreements to be kept or performed by Tenant under this Lease shall be performed by Tenant at Tenant's sole cost and expense and without any reduction of rent. If Tenant shall fail to perform any of its obligations under this Lease, within a reasonable time after such performance is required by the terms of this Lease, Landlord may, but shall not be obligated to, after three (3) days' prior written notice to Tenant, make any such payment or perform any such act on Tenant's behalf without waiving its rights based upon any default of Tenant and without releasing Tenant from any obligations hereunder. Tenant shall pay to Landlord, within ten (10) days after delivery by Landlord to Tenant of statements therefor, an amount equal to the expenditures reasonably made by Landlord in connection with the remedying by Landlord of Tenant's defaults pursuant to the provisions of this Section 14.

15. Condemnation. If any portion of the Premises or the Project are taken under the power of eminent domain, or sold under the threat of the exercise of said power (all of which are herein called "Condemnation"), this Lease shall terminate as to the part so taken as of the date the condemning authority takes title or possession, whichever first occurs; provided that if so much of the Premises or Project are taken by such Condemnation as would substantially and adversely affect the operation and profitability of Tenant's business conducted from the Premises, and said taking lasts for ninety (90) days or more, Tenant shall have the option, to be exercised only in writing within thirty (30) days after Landlord shall have given Tenant written notice of such taking (or in the absence of such notice, within thirty (30) days after the condemning authority shall have taken possession), to terminate this Lease as of the date the condemning authority takes such possession. If a taking lasts for less than ninety (90) days, Tenant's rent shall be abated during said period but Tenant shall not have the right to terminate this Lease. If Tenant does not terminate this Lease in accordance with the foregoing, this Lease shall remain in full force and effect as to the portion of the Premises remaining, except that the rent, Tenant's Share of Operating Expenses and Tenant's Share of Real Property Tax increases shall be reduced in the proportion that the usable floor area of the Premises taken bears to the total usable floor area of the Premises. Common Areas taken shall be excluded from the Common Areas usable by Tenant and no reduction of rent shall occur with respect thereto or by reason thereof. Landlord shall have the option in its sole discretion to terminate this Lease as of the taking of possession by the condemning authority, by giving written notice to Tenant of such election within thirty (30) days after receipt of notice of a taking by Condemnation of any part of the Premises or the Project; provided that if such taking does not involve the Premises all leases for spaces similarly affected are also terminated. Any award for the taking of all or any part of the Premises or the Project under the power of eminent domain or any payment made under threat of the exercise of such power shall be the property of Landlord, whether such award shall be made as compensation for diminution in value of the leasehold, for good will, for the taking of the fee, as severance damages, or as damages for tenant improvements; provided, however, that Tenant shall be entitled to any separate award for loss of or damage to Tenant's removable personal property, loss of profits and for moving expenses. In the event that this Lease is not terminated by reason of such Condemnation, and subject to the requirements of any lender that has made a loan to Landlord encumbering the Project, Landlord shall to the extent of severance damages received by Landlord in connection with such Condemnation, repair any damage to the Project caused by such Condemnation except to the extent that Tenant has been reimbursed therefore by the condemning authority. This Section, not general principles of law or the State of Maryland Code of Civil Procedure shall govern the rights and obligations of Landlord and Tenant with respect to the Condemnation of all or any portion of the Project.

16. Vehicle Parking.

16.1. Use of Parking Facilities. During the Term and subject to the rules and regulations attached hereto as Exhibit "C", as modified by Landlord from time to time (the "Rules"), Tenant shall be entitled to use the number of parking spaces set forth in Section 1.13 in the parking facility of the Project at no additional charge. Landlord may, in its sole discretion, assign tandem parking spaces to Tenant and designate the location of any reserved parking spaces. For purposes of this Lease, a "parking space" refers to the space in which one (1) motor vehicle is intended to park (e.g., a tandem parking stall includes two tandem parking spaces). Landlord reserves the right at any time to relocate Tenant's reserved and unreserved parking spaces within the Project. If Tenant commits or allows in the parking facility any of the activities prohibited by the Lease or the Rules, then Landlord shall have the right, without notice, in addition to such other rights and remedies that it may have, to remove or tow away the vehicle involved and charge the cost to Tenant, which cost shall be immediately payable by Tenant upon demand by Landlord. Tenant's parking rights are the personal rights of Tenant and Tenant shall not transfer, assign, or otherwise convey its parking rights separate and apart from this Lease.

16.2. Intentionally Omitted.

17. Broker's Fee. Tenant and Landlord each represent and warrant to the other that neither has had any dealings or entered into any agreements with any person, entity, broker or finder other than the persons, if any, listed in Section 1.15, in connection with the negotiation of this Lease, and no other broker, person, or entity is entitled to any commission or finder's fee in connection with the negotiation of this Lease, and Tenant and Landlord each agree to indemnify, defend and hold the other harmless from and against any claims, damages, costs, expenses, attorneys' fees or liability for compensation or charges which may be claimed by any such unnamed broker, finder or other similar party by reason of any dealings, actions or agreements of the indemnifying party.

18. Estoppel Certificate.

18.1. Delivery of Certificate. Tenant shall at any time upon not less than ten (10) business days' prior written notice from Landlord execute, acknowledge and deliver to Landlord a statement in writing certifying such information as Landlord may reasonably request including, but not limited to, the following: (a) that this Lease is unmodified and in full force and effect (or, if modified, stating the nature of such modification and certifying that this Lease, as so modified, is in full force and effect) (b) the date to which the Base Rent and other charges are paid in advance and the amounts so payable, (c) that there are not, to Tenant's knowledge, any uncured defaults or unfulfilled obligations on the part of Landlord, or specifying such defaults or unfulfilled obligations, if any are claimed, (d) that all tenant improvements to be constructed by Landlord, if any, have been completed in accordance with Landlord's obligations and (e) that Tenant has taken possession of the Premises. Any such statement may be conclusively relied upon by any prospective purchaser or encumbrancer of the Project.

18.2. Failure to Deliver Certificate. If Tenant shall fail to execute and deliver such statement within such ten (10) business day period, then Landlord shall send Tenant a second written request for such statement. If Tenant shall fail to so execute and deliver such written statement within five (5) business days after this second request then, at Landlord's option, the failure of Tenant to deliver such statement within such time shall constitute a material default of Tenant hereunder, or it shall be conclusive upon Tenant that (a) this Lease is in full force

and effect, without modification except as may be represented by Landlord, (b) there are no uncured defaults in Landlord's performance, (c) not more than one month's Base Rent has been paid in advance, (d) all tenant improvements to be constructed by Landlord, if any, have been completed in accordance with Landlord's obligations and (e) Tenant has taken possession of the Premises.

19. Landlord's Liability. Tenant acknowledges that Landlord shall have the right to transfer all or any portion of its interest in the Project and to assign this Lease to the transferee. Tenant agrees that in the event of such a transfer Landlord shall automatically be released from all liability under this Lease from and after such transfer; and Tenant hereby agrees to look solely to Landlord's transferee for the performance of Landlord's obligations hereunder after the date of the transfer. Upon such a transfer, Landlord shall, at its option, return Tenant's Security Deposit to Tenant or transfer Tenant's Security Deposit to Landlord's transferee and, in either event, Landlord shall have no further liability to Tenant for the return of its Security Deposit. Subject to the rights of any lender holding a mortgage or deed of trust encumbering all or part of the Project, Tenant agrees to look solely to Landlord's equity interest in the Project (including insurance proceeds and condemnation awards) for the collection of any judgment requiring the payment of money by Landlord arising out of (a) Landlord's failure to perform its obligations under this Lease or (b) the negligence or willful misconduct of Landlord, its partners, employees and agents. No other property or assets of Landlord shall be subject to levy, execution or other enforcement procedure for the satisfaction of any judgment or writ obtained by Tenant against Landlord. No partner, employee or agent of Landlord shall be personally liable for the performance of Landlord's obligations hereunder or be named as a party in any lawsuit arising out of or related to, directly or indirectly, this Lease and the obligations of Landlord hereunder. The obligations under this Lease do not constitute personal obligations of the individual partners of Landlord and Tenant shall not seek recourse against the individual partners of Landlord or their assets.

20. Indemnity. Except as set forth in Section 8.4 of the Lease, Tenant hereby agrees to indemnify, defend and hold harmless Landlord and its employees, partners, agents, lenders and ground lessors (said persons and entities are hereinafter collectively referred to as the "Landlord Indemnified Parties") from and against any and all liability, loss, cost, damage, claims, loss of rents, liens, judgments, penalties, fines, settlement costs, investigation costs, the cost of consultants and experts, attorneys' fees, court costs and other legal expenses, the effect of environmental contamination, the removal, remediation and/or abatement of Hazardous Substances (as said term is defined in Section 22 of the Lease) and other expenses (hereinafter collectively referred to as "Damages") arising out of or related to a "Landlord Indemnified Matter," as defined below. For purposes of this Section 20, a "Landlord Indemnified Matter" shall mean any matter for which one or more of the Landlord Indemnified Parties incurs liability or Damages if the liability or Damages arise out of or involve, (i) Tenant or its employees, agents, contractors, invitees, subtenants, assignees or licensees, (all of said persons or entities are hereinafter collectively referred to individually as a "Tenant Party" or collectively as "Tenant Parties") negligent use of the Premises or the Project; (ii) any negligent act or omission of a Tenant Party; (iii) Tenant's failure to perform any of its obligations under the Lease; (iv) the existence, use or disposal of any Hazardous Substance brought on to the Project by a Tenant Party; or (v) any other matter for which Tenant has agreed to indemnify Landlord pursuant to any other provision of this Lease. Except as set forth in Section 8.4 of the Lease, Landlord hereby agrees to indemnify, defend and hold harmless Tenant and its shareholders, affiliated entities, employees, partners, agents, and lenders (said persons and entities are hereinafter collectively referred to as the "Tenant Indemnified Parties") from and against any and all Damages arising out of or related to "Tenant Indemnified Matters," as defined below. For purposes of this Section 20, a "Tenant Indemnified Matter" shall mean any matter for which one or more of the Tenant Indemnified Parties incurs liability or Damages if the liability or Damages arise out of or involve, (i) Landlord or its employees, contractors, partners agents, lenders and ground lessors (said persons are hereinafter collectively referred to as "Landlord Parties") negligent use, occupancy or operation of the Project; (ii) any negligent act or omission of a Landlord Party; (iii) Landlord's failure to perform any of its obligations under the Lease; (iv) the existence, use or disposal of any Hazardous Substances brought on to the Project by a Landlord Party; or (v) any other matters for which Landlord has agreed to indemnify Tenant pursuant to any other provisions of this Lease. Landlord's and Tenant's obligations hereunder shall include, but shall not be limited to (a) compensating the Landlord Indemnified Parties or the Tenant Indemnified Parties, as the case may be, for damages arising out of Landlord Indemnified Matters or Tenant Indemnified Matters, as applicable, and (ii) providing defense, with counsel reasonably satisfactory to such indemnified party, at the indemnifying party's sole expense, of any claims, actions or proceedings arising out of or relating to a Landlord Indemnified Matter or a Tenant Indemnified Matter, as the case may be, whether or not litigated or reduced to judgment and whether or not well founded. The indemnified parties need not first pay any Damages to be indemnified hereunder. This indemnity is intended to apply to the fullest extent permitted by applicable law. Each party's obligations under this Section shall survive the expiration or termination of the Lease.

21. Exemption of Landlord from Liability. Tenant hereby agrees that Landlord shall not be liable for injury to Tenant's business or any loss of income therefrom or for loss of or damage to the merchandise, tenant improvements, fixtures, furniture, equipment, computers, files, automobiles, or other property of Tenant, Tenant's employees, agents, contractors or invitees, or any other person in or about the Project, nor shall Landlord be liable for injury to the person of Tenant, Tenant's employees, agents, contractors or invitees, whether such damage or injury is caused by or results from any cause whatsoever including, but not limited to, theft, criminal activity at the Project, negligent security measures, bombings or bomb scares, Hazardous Substances or Medical Waste, fire, steam, electricity, gas, water or rain, flooding, breakage of pipes, sprinklers, plumbing, air conditioning or lighting fixtures, or from any other cause, whether said damage or injury results from conditions arising upon the Premises or upon other portions of the Project, or from other sources or places, or from new construction or the repair, alteration or improvement of any part of the Project, unless the cause of the damage or injury arises out of Landlord's or its employees, agents or contractors grossly negligent or intentional acts. Landlord shall not be liable for any damages arising from any act or neglect of any employees, agents, contractors or invitees of any other tenant, occupant or user of the Project, nor from the failure of Landlord to enforce the provisions of the lease of any other tenant of the Project. Tenant, as a material part of the consideration to Landlord hereunder, hereby assumes all risk of damage to Tenant's property or business or injury to persons, in, upon or about the Project arising from any cause, excluding Landlord's gross negligence or willful misconduct or the gross negligence or willful misconduct of its employees, agents or contractors, and Tenant hereby waives all claims in respect thereof against Landlord, its employees, agents and contractors.

22. Hazardous Material. For purposes of this Lease, the term "Hazardous Material" means any hazardous substance, hazardous waste, infectious waste, or toxic substance, material, or waste which becomes regulated or is defined as such by any local, state or federal governmental authority. Except for small quantities of ordinary office supplies such as copier toners, liquid paper, glue, ink and common household cleaning materials, Tenant shall not cause or permit any Hazardous Material to be brought, kept or used in or about the Premises or the Project by Tenant, its agents, employees, contractors, or invitees. Tenant hereby agrees to indemnify Landlord from and against any breach by Tenant of the obligations stated in the preceding sentence, and agrees to defend and hold Landlord harmless from and against any and all claims, judgments, damages, penalties, fines, costs, liabilities, or losses (including, without limitation, diminution in value of the Project, damages for the loss or restriction or use of rentable space or of any amenity of the Project, damages arising from any adverse impact on marketing of space in the Project, sums paid in settlement of claims, attorneys' fees, consultant fees and expert fees) which arise during or after the Term of this Lease as result of such breach. This indemnification of Landlord by Tenant includes, without limitation, costs incurred in connection with any investigation of site conditions and any cleanup, remedial removal, or restoration work required due to the presence of Hazardous Material. Tenant shall promptly notify Landlord of any release of a Hazardous Material in the Premises or at the Project of which Tenant becomes aware, whether caused by Tenant or any other person or entity. The provisions of this Section 22 shall survive the termination of the Lease.

22.1. Definition and Consent. The term "Hazardous Substance" as used in this Lease shall mean any product, substance, chemical, material or waste whose presence, nature, quantity and/or intensity of existence, use, manufacture, disposal, transportation, spill, release or affect, either by itself or in combination with other materials expected to be on the Premises, is either: (a) potentially injurious to the public health, safety or welfare, the environment or the Premises, (b) regulated or monitored by any governmental entity, (c) a basis for liability of Landlord to any governmental entity or third party under any federal, state or local statute or common law theory or (d) defined as a hazardous material or substance by any federal, state or local law or regulation. Except for small quantities of ordinary office supplies such as copier toner, liquid paper, glue, ink and common household cleaning materials, Tenant shall not cause or permit any Hazardous Substance to be brought, kept, or used in or about the Premises or the Project by Tenant, its agents, employees, contractors or invitees.

22.2. Duty to Inform Landlord. If Tenant knows, or has reasonable cause to believe, that a Hazardous Substance, or a condition involving or resulting from same, has come to be located in, on or under or about the Premises or the Project, Tenant shall immediately give

written notice of such fact to Landlord. Tenant shall also immediately give Landlord (without demand by Landlord) a copy of any statement, report, notice, registration, application, permit, license, given to or received from, any governmental authority or private party, or persons entering or occupying the Premises, concerning the presence, spill, release, discharge of or exposure to, any Hazardous Substance or contamination in, on or about the Premises or the Project.

22.3. Inspection; Compliance. Landlord and Landlord's employees, agent, contractors and lenders shall have the right to enter the Premises at any time in the case of an emergency, and otherwise at reasonable times upon reasonable prior notice, for the purpose of inspecting the condition of the Premises and for verifying compliance by Tenant with this Section 22. Landlord shall have the right to employ experts and/or consultants in connection with its examination of the Premises and with respect to the installation, operation, use, monitoring, maintenance, or removal of any Hazardous Substance on or from the Premises. The costs and expenses of any such inspections shall be paid by the party requesting same, unless a contamination, caused or materially contributed to by Tenant, is found to exist or be imminent, or unless the inspection is requested or ordered by governmental authority as the result of any such existing or imminent violation or contamination. In any such case, Tenant shall upon request reimburse Landlord for the cost and expenses of such inspection.

23. Medical Waste.

23.1. Disposal of Medical Waste. Tenant hereby agrees, at Tenant's sole expense, to dispose of its medical waste in compliance with all federal, state and local laws, rules and regulations relating to the disposal of medical waste and to dispose of the medical waste in a prudent and reasonable manner. Tenant shall not place any medical waste in refuse containers emptied by Landlord's janitorial staff or in the Project's refuse containers. At Landlord's option, in Landlord's sole discretion, Landlord shall have the right, upon sixty (60) days' advance written notice to Tenant, at any time and from time to time, to elect to provide medical waste disposal services to Tenant. If Landlord elects to provide medical waste disposal services to Tenant, all costs incurred by Landlord in providing such services shall be paid by Tenant to Landlord as additional rent. Landlord may bill Tenant for said costs based upon the actual cost of providing said services to Tenant, as determined by Landlord, in Landlord's sole discretion, or Landlord may bill said expenses based upon Tenant's Share of the total cost of providing said services.

23.2. Duty to Inform Landlord. Within ten (10) days following Landlord's written request, Tenant shall provide Landlord with any information requested by Landlord concerning the existence, generation or disposal of medical waste at the Premises, including, but not limited to, the following information: (a) the name, address and telephone number of the person or entity employed by Tenant to dispose of its medical waste, including a copy of any contract with said person or entity, (b) a list of each type of medical waste generated by Tenant at the Premises and a description of how Tenant disposes of said medical waste, (c) a copy of any laws, rules or regulations in Tenant's possession relating to the disposal of the medical waste generated by Tenant, and (d) copies of any licenses or permits obtained by Tenant in order to generate or dispose of said medical waste. Tenant shall also immediately provide to Landlord (without demand by Landlord) a copy of any notice, registration, application, permit, or license given to or received from any governmental authority or private party, or persons entering or occupying the Premises, concerning the presence, release, exposure or disposal of any medical waste in or about the Premises or the Project.

23.3. Inspection; Compliance. Landlord and Landlord's employees, agents, contractors and lenders shall have the right to enter the Premises at any time in the case of an emergency, and otherwise at reasonable times upon reasonable prior notice, for the purpose of verifying compliance by Tenant with this Section 23. Landlord shall have the right to employ experts and/or consultants in connection with its examination of the Premises and with respect to the generation and disposal of medical waste on or from the Premises. The cost and expenses of any such inspection shall be paid by Landlord, unless it is determined that Tenant is not disposing of its medical waste in a manner permitted by applicable law, in which case Tenant shall immediately reimburse Landlord for the cost of such inspection.

24. Tenant Improvements. Tenant acknowledges and agrees that Landlord shall not be obligated to construct any tenant improvements on behalf of Tenant except as stated in the work letter agreement (the "Work Letter") attached to this Lease as Schedule 1. If a space plan is attached to the Work Letter, the space plan shall not be binding on Landlord unless the space plan has been approved by Landlord in writing. Except as set forth in a Work Letter, it is specifically understood and agreed that Landlord has no obligation and has made no promises to alter, remodel, improve, renovate, repair or decorate the Premises, the Project, or any part thereof, or to provide any allowance for such purposes, and that no representations respecting the condition of the Premises or the Project have been made by Landlord to Tenant.

See Addendum Paragraph 3

25. Subordination.

25.1. Effect of Subordination. This Lease, and any Option (as defined in Section 26 below) granted hereby, upon Landlord's written election, shall be subject and subordinate to any ground lease, mortgage, deed of trust, or any other hypothecation or security now or hereafter placed upon the Project and to any and all advances made on the security thereof and to all renewals, modifications, consolidations, replacements and extensions thereof. Notwithstanding such subordination, Tenant's right to quiet possession of the Premises shall not be disturbed if Tenant is not in default and so long as Tenant shall pay the rent and observe and perform all of the provisions of this Lease, unless this Lease is otherwise terminated pursuant to its terms. At the request of any mortgagee, trustee or ground lessor, Tenant shall attorn to such person or entity. If any mortgagee, trustee or ground lessor shall elect to have this Lease and any Options granted hereby prior to the lien of its mortgage, deed of trust or ground lease, and shall give written notice thereof to Tenant, this Lease and such Options shall be deemed prior to such mortgage, deed of trust or ground lease, whether this Lease or such Options are dated prior or subsequent to the date of said mortgage, deed of trust or ground lease or the date of recording thereof. In the event of the foreclosure of a security device, the new owner shall not (a) be liable for any act or omission of any prior landlord or with respect to events occurring prior to its acquisition of title, (b) be liable for the breach of this Lease by any prior landlord, (c) be subject to any offsets or defenses which Tenant may have against the prior landlord or (d) be liable to Tenant for the return of its Security Deposit.

25.2. Execution of Documents. Tenant agrees to execute and acknowledge any documents Landlord reasonably requests that Tenant execute to effectuate an attornment, a subordination, or to make this Lease or any Option granted herein prior to the lien of any mortgage, deed of trust or ground lease, as the case may be. Tenant's failure to execute such documents within ten (10) business days after written demand shall constitute a material default by Tenant hereunder.

26. Options.

26.1. Definition. As used in this Lease, the word "Option" has the following meaning: (1) the right or option to extend the Term of this Lease or to renew this Lease, and (2) the option or right of first refusal to lease the Premises or the right of first offer to lease the Premises or the right of first refusal to lease other space within the Project or the right of first offer to lease other space within the Project, and (3) the right or option to terminate this Lease prior to its expiration date or to reduce the size of the Premises. Any Option granted to Tenant by Landlord must be evidenced by a written option agreement attached to this Lease as a rider or addendum or said option shall be of no force or effect.

26.2. Options Personal. Each Option granted to Tenant in this Lease, if any, is personal to the original Tenant and may be exercised only by the original Tenant while occupying the entire Premises and may not be exercised or be assigned, voluntarily or involuntarily, by or to any person or entity other than Tenant, including, without limitation, any permitted transferee as defined in Section 12. The Options, if any,

herein granted to Tenant are not assignable separate and apart from this Lease, nor may any Option be separated from this Lease in any manner, either by reservation or otherwise. If at any time an Option is exercisable by Tenant, the Lease has been assigned, or a sublease exists as to any portion of the Premises, the Option shall be deemed null and void and neither Tenant nor any assignee or subtenant shall have the right to exercise the Option.

26.3. Multiple Options. In the event that Tenant has multiple Options to extend or renew this Lease a later Option cannot be exercised unless the prior Option to extend or renew this Lease has been so exercised.

26.4. Effect of Default on Options. Tenant shall have no right to exercise an Option (i) during the time commencing from the date Landlord gives to Tenant a notice of default pursuant to Section 13.1 and continuing until the noncompliance alleged in said notice of default is cured, or (ii) if Tenant is in default beyond applicable notice and cure periods of any of the terms, covenants or conditions of this Lease. The period of time within which an Option may be exercised shall not be extended or enlarged by reason of Tenant's inability to exercise an Option because of the provisions of this Section 26.4.

26.5. Intentionally Omitted.

26.6. Notice of Exercise of Option. Notwithstanding anything to the contrary contained in Section 40, Tenant may only exercise an option by delivering its written notice of exercise to Landlord by certified mail, return receipt and date of delivery requested. It shall be Tenant's obligation to prove that such notice was so sent in a timely manner and was delivered to Landlord by the U.S. Postal Service.

See Addendum Paragraph 4

27. Landlord Reservations. Landlord shall have the right: (a) to change the name and address of the Project or Building upon not less than ninety (90) days prior written notice; (b) to provide and install Building standard graphics on or near the door of the Premises and such portions of the Common Areas as Landlord shall determine, in Landlord's sole discretion the cost of which shall be included as an Operating Expense reimbursable in accordance with Section 4.2 herein; (c) to permit any tenant the exclusive right to conduct any business as long as such exclusive right does not conflict with any rights expressly given herein; and (d) to place signs, notices or displays upon the roof, interior, exterior or Common Areas of the Project. Tenant shall not use a representation (photographic or otherwise) of the Building or the Project or their name(s) in connection with Tenant's business or suffer or permit anyone, except in an emergency, to go upon the roof of the Building. Landlord reserves the right to use the exterior walls of the Premises, and the area beneath, adjacent to and above the Premises, together with the right to install, use, maintain and replace equipment, machinery, pipes, conduits and wiring through the Premises, which serve other parts of the Project, provided that Landlord's use does not unreasonably interfere with Tenant's use of the Premises.

28. Changes to Project. Landlord shall have the right, in Landlord's sole discretion, from time to time, to make changes to the size, shape, location, number and extent of the improvements comprising the Project (hereinafter referred to as "Changes") including, but not limited to, the Project interior and exterior, the Common Areas, elevators, escalators, restrooms, HVAC, electrical systems, communication systems, fire protection and detection systems, plumbing systems, security systems, parking control systems, driveways, entrances, parking spaces, parking areas and landscaped areas so long as such Changes do not have a permanent material adverse effect on Tenant's access to or use and enjoyment of the Premises. In connection with the Changes, Landlord may, among other things, erect scaffolding or other necessary structures at the Project, limit or eliminate access to portions of the Project, including portions of the Common Areas, or perform work in the Building, which work may create noise, dust or leave debris in the Building. Tenant hereby agrees that such Changes and Landlord's actions in connection with such Changes shall in no way constitute a constructive eviction of Tenant or entitle Tenant to any abatement of rent. Landlord shall have no responsibility or for any reason be liable to Tenant for any direct or indirect injury to or interference with Tenant's business arising from the Changes, nor shall Tenant be entitled to any compensation or damages from Landlord for any inconvenience or annoyance occasioned by such Changes or Landlord's actions in connection with such Changes. Landlord shall use reasonable efforts to minimize unreasonable interference with Tenant's use and occupancy of the Premises during Landlord's actions in connection with such Changes.

29. Substitution of Other Premises. Landlord shall have the right, but not more than once during the Term of this Lease, to move Tenant to any other comparable, leasable space in the Building provided that said space shall be approximately the same size as the Premises and that Landlord shall pay the cost of moving Tenant's furniture and equipment to the new space as well as the reasonable cost of rewiring Tenant's computers, Tenant's cost of replacing existing stationery on hand and other similar, customary and reasonable moving costs. The new space shall include tenant improvements that are substantially equivalent to the tenant improvements contained in the Premises, and the cost of any required tenant improvements shall be paid by Landlord. If Landlord elects to relocate Tenant, Landlord shall give Tenant written notice of its election and Tenant shall have thirty (30) days thereafter to agree to be relocated in accordance with the terms and conditions of this Section 29 or to elect to terminate this Lease. If Tenant elects to terminate this Lease within said thirty (30) day period or fails to respond to Landlord's notice within said thirty (30) day period, this Lease shall then terminate on the date which is sixty (60) days after the date Landlord gave Tenant its written notice electing to relocate Tenant. Landlord shall have no liability to Tenant as a result of Tenant's election to terminate this Lease. Prior to said termination, Landlord and Tenant shall perform all of their obligations under this Lease. If Tenant elects to be relocated, Landlord shall deliver substitute space to Tenant not more than one hundred eighty (180) days after (a) Tenant agrees to be relocated and (b) approves plans for the construction of required tenant improvements at the new space, if any. Tenant shall not unreasonably withhold or delay its approval of any plans for the construction of tenant improvements. Landlord shall give Tenant thirty (30) days' advance notice of the estimated move in date. Landlord agrees to coordinate such move outside of regular business hours as defined in Section 11.4. Prior to the date that Tenant is moved to the new space, Tenant shall remain in the Premises and shall continue to perform all of its obligations under this Lease. After Tenant moves into the new space, this Lease shall remain in full force and effect and be deemed applicable to such new space, except as to Base Rent, Tenant's Share of Operating Expense increases, Tenant's Share of Real Property Tax increases and the number of parking spaces Tenant shall be entitled to use, all of which shall be adjusted based on the relationship between the number of rentable square feet in the original Premises and the number of rentable square feet in the substituted space. Upon Tenant's election to be relocated, Landlord and Tenant shall amend this Lease to provide for the relocation of the Premises.

30. Holding Over. If Tenant remains in possession of the Premises or any part thereof after the expiration or earlier termination of the term hereof with Landlord's consent, such occupancy shall be a tenancy from month to month upon all the terms and conditions of this Lease pertaining to the obligations of Tenant, except that the Base Rent payable shall be one hundred fifty percent (150%) of the Base Rent payable immediately preceding the termination date of this Lease, and all Options, if any, shall be deemed terminated and be of no further effect. If Tenant remains in possession of the Premises or any part thereof after the expiration of the Term hereof without Landlord's consent, Tenant shall, at Landlord's option, be treated as a tenant at sufferance or a trespasser. Nothing contained herein shall be construed to constitute

Landlord's consent to Tenant holding over at the expiration or earlier termination of the Term. In addition, in the event that Tenant remains in possession of the Premises for more than forty-five (45) days following the expiration or earlier termination of the Term of the Lease, Tenant hereby agrees to indemnify, hold harmless and defend Landlord from any cost, loss, claim or liability (including attorneys' fees) Landlord may incur as a result of Tenant's failure to surrender possession of the Premises to Landlord upon the termination of this Lease.

31. Landlord's Access.

31.1. Access. Landlord and Landlord's agents, contractors and employees shall have the right to enter the Premises at reasonable times and upon reasonable notice (except in the event of an emergency) for the purpose of inspecting the Premises, performing any services required of Landlord, showing the Premises to prospective purchasers, lenders, or tenants, undertaking safety measures and making alterations, repairs, improvements or additions to the Premises or to the Project. In the event of an emergency, Landlord may gain access to the Premises by any reasonable means, and Landlord shall not be liable to Tenant for damage to the Premises or to Tenant's property resulting from such access. Landlord may at any time place on or about the Building for sale or for lease signs and Landlord may at any time during the last one hundred twenty (120) days of the Term hereof place on or about the Premises for lease signs.

31.2. Keys. Landlord shall have the right to retain keys to the locks on the entry doors to the Premises and all interior doors at the Premises. At Landlord's option, Landlord may require Tenant to obtain all keys to door locks at the Premises from Landlord's engineering staff or Landlord's locksmith and to only use Landlord's engineering staff or Landlord's locksmith to change locks at the Premises. Tenant shall pay Landlord's or its locksmith's standard charge for all keys and other services obtained from Landlord's engineering staff or locksmith.

32. Security Measures. Tenant hereby acknowledges that Landlord shall have no obligation whatsoever to provide guard service or other security measures for the benefit of the Premises or the Project, and Landlord shall have no liability to Tenant due to its failure to provide such services. Tenant assumes all responsibility for the protection of Tenant, its agents, employees, contractors and invitees and the property of Tenant and of Tenant's agents, employees, contractors and invitees from acts of third parties. Nothing herein contained shall prevent Landlord, at Landlord's sole option, from implementing security measures for the Project or any part thereof, in which event Tenant shall participate in such security measures and the cost thereof shall be included within the definition of Operating Expenses, and Landlord shall have no liability to Tenant and its agents, employees, contractors and invitees arising out of Landlord's negligent provision of security measures. Landlord shall have the right, but not the obligation, to require all persons entering or leaving the Project to identify themselves to a security guard and to reasonably establish that such person should be permitted access to the Project.

33. Easements. Landlord reserves to itself the right, from time to time, to grant such easements, rights and dedications that Landlord deems necessary or desirable, and to cause the recordation of parcel maps and restrictions, so long as such easements, rights, dedications, maps and restrictions do not unreasonably interfere with the use of the Premises by Tenant. Tenant shall sign any of the aforementioned documents within ten (10) business days after Landlord's request and Tenant's failure to do so shall constitute a material default by Tenant. The obstruction of Tenant's view, air, or light by any structure erected in the vicinity of the Project, whether by Landlord or third parties, shall in no way affect this Lease or impose any liability upon Landlord.

34. Transportation Management. Tenant shall fully comply at its sole expense with all present or future programs implemented or required by any governmental or quasi-governmental entity or Landlord to manage parking, transportation, air pollution, or traffic in and around the Project or the metropolitan area in which the Project is located.

35. Severability. The invalidity of any provision of this Lease as determined by a court of competent jurisdiction shall in no way affect the validity of any other provision hereof.

36. Time of Essence. Time is of the essence with respect to each of the obligations to be performed by Tenant and Landlord under this Lease.

37. Definition of Additional Rent. All monetary obligations of Tenant to Landlord under the terms of this Lease, including, but not limited to, Base Rent, Tenant's Share of Operating Expenses, Tenant's Share of Real Property Taxes, late charges and charges for after hours HVAC shall be deemed to be rent.

38. Incorporation of Prior Agreements. This Lease and the attachments listed in Section 1.16 contain all agreements of the parties with respect to the lease of the Premises and any other matter mentioned herein. No prior or contemporaneous agreement or understanding pertaining to any such matter shall be effective. Except as otherwise stated in this Lease, Tenant hereby acknowledges that no real estate broker nor Landlord or any employee or agents of any of said persons has made any oral or written warranties or representations to Tenant concerning the condition or use by Tenant of the Premises or the Project or concerning any other matter addressed by this Lease.

39. Amendments. This Lease may be modified in writing only, signed by the parties in interest at the time of the modification.

40. Notices. Subject to the requirements of Section 26.6 of this Lease, all notices required or permitted by this Lease shall be in writing and may be delivered (a) in person (by hand, by messenger or by courier service), (b) by U.S. Postal Service regular mail, (c) by U.S. Postal Service certified mail, return receipt requested, (d) by U.S. Postal Service Express Mail, Federal Express or other overnight courier, or (e) by facsimile transmission, and shall be deemed sufficiently given if served in a manner specified in this Section 40. Any notice permitted or required hereunder, and any notice to pay rent or quit or similar notice, shall be deemed personally delivered to Tenant on the date the notice is personally delivered to any employee of Tenant at the Premises. The addresses set forth in Section 1.17 of this Lease shall be the address of each party for notice purposes. Landlord or Tenant may by written notice to the other specify a different address for notices purposes, except that upon Tenant's taking possession of the Premises, the Premises shall constitute Tenant's address for the purpose of mailing or delivering notices to Tenant. A copy of all notices required or permitted to be given to Landlord hereunder shall be concurrently transmitted to such party or parties at such addresses as Landlord may from time to time hereinafter designate by written notice to Tenant. Any notice sent by regular mail or by certified mail, return receipt requested, shall be deemed given three (3) days after deposited with the U.S. Postal Service. Notices delivered by U.S. Express Mail, Federal Express or other courier shall be deemed given on the date delivered by the carrier to the appropriate party's address for notice purposes. If any notice is transmitted by facsimile transmission, the notice shall be deemed delivered upon telephone confirmation of receipt of the transmission thereof at the appropriate party's address for notice purposes. A copy of all notices delivered to a party by facsimile transmission shall also be mailed to the party on the date the facsimile transmission is completed. If notice is received on Saturday, Sunday or a legal holiday, it shall be deemed received on the next business day. Nothing contained herein shall be construed to limit Landlord's right to serve any notice to pay rent or quit or similar notice by any method permitted by applicable law, and any such notice shall be effective if served in accordance with any method permitted by applicable law whether or not the requirements of this Section have been met.

41. Waivers. No waiver by Landlord or Tenant of any provision hereof shall be deemed a waiver of any other provision hereof or of any subsequent breach by Landlord or Tenant of the same or any other provision. Landlord's consent to, or approval of, any act shall not be deemed to render unnecessary the obtaining of Landlord's consent to or approval of any subsequent act by Tenant. The acceptance of rent hereunder by Landlord shall not be a waiver of any preceding breach by Tenant of any provision hereof, other than the failure of Tenant to pay the particular rent so accepted, regardless of Landlord's knowledge of such preceding breach at the time of acceptance of such rent. No acceptance by Landlord of partial payment of any sum due from Tenant shall be deemed a waiver by Landlord of its right to receive the full amount due, nor shall any endorsement or statement on any check or accompanying letter from Tenant be deemed an accord and satisfaction.

42. Covenants. This Lease shall be construed as though the covenants contained herein are independent and not dependent and Tenant hereby waives the benefit of any statute to the contrary. All provisions of this Lease to be observed or performed by Tenant are both covenants and conditions.

43. Binding Effect; Choice of Law. Subject to any provision hereof restricting assignment or subletting by Tenant, this Lease shall bind the parties, their heirs, personal representatives, successors and assigns. This Lease shall be governed by the laws of the state in which the Project is located and any litigation concerning this Lease between the parties hereto shall be initiated in the county in which the Project is located.

44. Attorneys' Fees. If Landlord or Tenant brings an action to enforce the terms hereof or declare rights hereunder, the prevailing party in any such action, or appeal thereon, shall be entitled to its reasonable attorneys' fees and court costs to be paid by the losing party as fixed by the court in the same or separate suit, and whether or not such action is pursued to decision or judgment. The attorneys' fee award shall not be computed in accordance with any court fee schedule, but shall be such as to fully reimburse all attorneys' fees and court costs reasonably incurred in good faith. Landlord shall be entitled to reasonable attorneys' fees and all other costs and expenses incurred in the preparation and service of notices of monetary default and consultations in connection therewith, whether or not a legal action is subsequently commenced in connection with such default. Landlord and Tenant agree that attorneys' fees incurred with respect to defaults and bankruptcy are actual pecuniary losses within the meaning of Section 365(b)(1)(B) of the Bankruptcy Code or any successor statute.

45. Auctions. Tenant shall not conduct, nor permit to be conducted, either voluntarily or involuntarily, any auction upon the Premises or the Common Areas. The holding of any auction on the Premises or Common Areas in violation of this Section 45 shall constitute a material default hereunder.

46. Signs. Tenant shall not place any sign upon the Premises (including on the inside or the outside of the doors or windows of the Premises) or the Project without Landlord's prior written consent, which may be given or withheld in Landlord's sole discretion. Landlord shall have the right to place any sign it deems appropriate on any portion of the Project except the interior of the Premises. Any sign Landlord permits Tenant to place upon the Premises shall be maintained by Tenant, at Tenant's sole expense. If Landlord permits Tenant to include its name in the Building's directory, the cost of placing Tenant's name in the directory and the cost of any subsequent modifications thereto shall be paid by Tenant, at Tenant's sole expense.

See Addendum Paragraph 5

47. Merger. The voluntary or other surrender of this Lease by Tenant, or a mutual cancellation thereof, or a termination by Landlord, shall not result in the merger of Landlord's and Tenant's estates, and shall, at the option of Landlord, terminate all or any existing subtenancies or may, at the option of Landlord, operate as an assignment to Landlord of any or all of such subtenancies.

48. Quiet Possession. Subject to the other terms and conditions of this Lease, and the rights of any lender, and provided Tenant is not in default hereunder, Tenant shall have quiet possession of the Premises for the entire term hereof, subject to all of the provisions of this Lease.

49. Authority. If Tenant is a corporation, trust, general or limited partnership, or other entity, Tenant, and each individual executing this Lease on behalf of such entity, represents and warrants that such individual is duly authorized to execute and deliver this Lease on behalf of said entity, that said entity is duly authorized to enter into this Lease, and that this Lease is enforceable against said entity in accordance with its terms. If Tenant is a corporation, trust or partnership, Tenant shall deliver to Landlord upon demand evidence of such authority satisfactory to Landlord.

50. Conflict. Except as otherwise provided herein to the contrary, any conflict between the printed provisions, exhibits, addenda or riders of this Lease and the typewritten or handwritten provisions, if any, shall be controlled by the typewritten or handwritten provisions.

51. Multiple Parties. If more than one person or entity is named as Tenant herein, the obligations of Tenant shall be the joint and several responsibility of all persons or entities named herein as Tenant. Service of a notice in accordance with Section 40 on one Tenant shall be deemed service of notice on all Tenants.

52. Interpretation. This Lease shall be interpreted as if it was prepared by both parties and ambiguities shall not be resolved in favor of Tenant because all or a portion of this Lease was prepared by Landlord. The captions contained in this Lease are for convenience only and shall not be deemed to limit or alter the meaning of this Lease. As used in this Lease the words tenant and landlord include the plural as well as the singular. Words used in the neuter gender include the masculine and feminine gender. Notwithstanding anything to the contrary contained in this Lease, if the Term of the Lease has not commenced within twenty-one (21) years after the date of this Lease, this Lease shall automatically terminate on the twenty-first (21st) anniversary of such date. The sole purpose of this provision is to avoid any interpretation of this Lease as a violation of the Rule Against Perpetuities, or any other rule of law or equity concerning restraints on alienation.

53. Prohibition Against Recording. Neither this Lease, nor any memorandum, affidavit or other writing with respect thereto, shall be recorded by Tenant or by anyone acting through, under or on behalf of Tenant. Landlord shall have the right to record a memorandum of this Lease, and Tenant shall execute, acknowledge and deliver to Landlord for recording any memorandum prepared by Landlord.

54. Relationship of Parties. Nothing contained in this Lease shall be deemed or construed by the parties hereto or by any third party to create the relationship of principal and agent, partnership, joint venturer or any association between Landlord and Tenant.

55. Rules and Regulations. Tenant agrees to abide by and conform to the Rules and to cause its employees, suppliers, customers and invitees to so abide and conform. Landlord shall have the right, from time to time, to modify, amend and enforce the Rules. Landlord shall not be responsible to Tenant for the failure of other persons including, but not limited to, other tenants, their agents, employees and invitees to comply with the Rules.

56. Right to Lease. Landlord reserves the absolute right to effect such other tenancies in the Project as Landlord in its sole discretion shall determine, and Tenant is not relying on any representation that any specific tenant or number of tenants will occupy the Project.

57. Security Interest. In consideration of the covenants and agreements contained herein, and as a material consideration to Landlord for entering into this Lease, Tenant hereby unconditionally grants to Landlord a continuing security interest in and to all personal property of

Tenant located or left at the Premises and the Security Deposit, if any, and any advance rent payment or other deposit, now in or hereafter delivered to or coming into the possession, custody or control of Landlord, by or for the account of Tenant, together with any increase in profits or proceeds from such property. The security interest granted to Landlord hereunder secures payment and performance of all obligations of Tenant under this Lease now or hereafter arising or existing, whether direct or indirect, absolute or contingent, or due or to become due. In the event of a default under this Lease which is not cured within the applicable grace period, if any, Landlord is and shall be entitled to all the rights, powers and remedies granted a secured party under the State of Maryland Commercial Code and otherwise available at law or in equity, including, but not limited to, the right to retain as damages the personal property, Security Deposit and other funds held by Landlord, without additional notice or demand regarding this security interest. Tenant agrees that it will execute such other documents or instruments as may be reasonably necessary to carry out and effectuate the purpose and terms of this Section, or as otherwise reasonably requested by Landlord, including without limitation, execution of a UCC-1 financing statement. Tenant's failure to execute such documents within ten (10) days after written demand shall constitute a material default by Tenant hereunder. Tenant hereby waives any rights it may have under the State of Maryland Civil Code which are inconsistent with Landlord's rights under this Section. Landlord's rights under this Section are in addition to Landlord's rights under Sections 5 and 13.

58. Security for Performance of Tenant's Obligations. Notwithstanding any Security Deposit held by Landlord pursuant to Section 5 and any security interest held by Landlord pursuant to Section 57, Tenant hereby agrees that in the event of a default by Tenant, Landlord shall be entitled to seek and obtain a writ of attachment and/or a temporary protective order and Tenant hereby waives any rights or defenses to contest such a writ of attachment and/or temporary protective order on the basis of the State of Maryland Code of Civil Procedure or any other related statute or rule.

59. Financial Statements. From time to time, at Landlord's request, Tenant shall cause the following financial information to be delivered to Landlord, at Tenant's sole cost and expense, upon not less than ten (10) days' advance written notice from Landlord: (a) a current financial statement for Tenant and Tenant's financial statements for the previous two accounting years, (b) a current financial statement for any guarantor(s) of this Lease and the guarantor's financial statements for the previous two accounting years and (c) such other financial information pertaining to Tenant or any guarantor as Landlord or any lender or purchaser of Landlord may reasonably request. All financial statements shall be prepared in accordance with generally accepted accounting principals consistently applied and, if such is the normal practice of Tenant, shall be audited by an independent certified public accountant. Tenant hereby authorizes Landlord, from time to time, without notice to Tenant, to obtain a credit report or credit history on Tenant from any credit reporting company. Notwithstanding the foregoing, so long as Tenant is a publicly traded company, Tenant needs only to submit its annual report to comply with the provisions of this Section 59.

60. Attachments. The items listed in Section 1.16 are a part of this Lease and are incorporated herein by this reference.

61. Confidentiality. Tenant acknowledges and agrees that the terms of this Lease are confidential and constitute proprietary information of Landlord. Disclosure of the terms hereof could adversely affect the ability of Landlord to negotiate other leases with respect to the Project and may impair Landlord's relationship with other tenants of the Project. Tenant agrees that it and its partners, officers, directors, employees, brokers, and attorneys, if any, shall not disclose the terms and conditions of this Lease to any other person or entity without the prior written consent of Landlord which may be given or withheld by Landlord, in Landlord's sole discretion. It is understood and agreed that damages alone would be an inadequate remedy for the breach of this provision by Tenant, and Landlord shall also have the right to seek specific performance of this provision and to seek injunctive relief to prevent its breach or continued breach.

62. Effect of Force Majeure Events. Landlord's and Tenant's time to perform their respective obligations under this Lease because of, from or through strike or other labor problems, acts of God, riot, insurrection, governmental actions or requirements, or any other cause beyond the reasonable control of Landlord or Tenant, as the case may be, shall extend such party's time to perform by the period of such delay or such prevention which shall be deemed added to the time herein provided for the performance of any such obligation (hereinafter, a "Force Majeure Event"). Notwithstanding the foregoing, Tenant's failure to pay Base Rent, additional rent or any other sums due hereunder shall not be excused by any Force Majeure Event.

63. OFAC Certification.

63.1. Tenant certifies that: (i) it is not acting, directly or indirectly, for or on behalf of any person, group, entity, or nation named by any Executive Order or the United States Treasury Department as a terrorist, "Specially Designated National and Blocked Person," or other banned or blocked person, entity, nation, or transaction pursuant to any law, order, rule, or regulation that is enforced or administered by the Office of Foreign Assets Control; and (ii) it is not engaged in this transaction, directly or indirectly on behalf of, or instigating or facilitating this transaction, directly or indirectly on behalf of, any such person, group, entity, or nation.

63.2. Tenant hereby agrees to defend, indemnify, and hold harmless Landlord from and against any and all claims, damages, losses, risks, liabilities, and expenses (including attorney's fees and costs) arising from or related to any breach of the foregoing certification.

64. WAIVER OF JURY TRIAL. LANDLORD AND TENANT HEREBY WAIVE THEIR RESPECTIVE RIGHT TO TRIAL BY JURY OF ANY CAUSE OF ACTION, CLAIM, COUNTERCLAIM OR CROSS-COMPLAINT IN ANY ACTION, PROCEEDING AND/OR HEARING BROUGHT BY EITHER LANDLORD AGAINST TENANT OR TENANT AGAINST LANDLORD ON ANY MATTER WHATSOEVER ARISING OUT OF, OR IN ANY WAY CONNECTED WITH, THIS LEASE, THE RELATIONSHIP OF LANDLORD AND TENANT, TENANT'S USE OR OCCUPANCY OF THE PREMISES, OR ANY CLAIM OF INJURY OR DAMAGE, OR THE ENFORCEMENT OF ANY REMEDY UNDER ANY LAW, STATUTE, OR REGULATION, EMERGENCY OR OTHERWISE, NOW OR HEREAFTER IN EFFECT.

LANDLORD AND TENANT ACKNOWLEDGE THAT THEY HAVE CAREFULLY READ AND REVIEWED THIS LEASE AND EACH TERM AND PROVISION CONTAINED HEREIN AND, BY EXECUTION OF THIS LEASE, SHOW THEIR INFORMED AND VOLUNTARY CONSENT THERETO. THE PARTIES HEREBY AGREE THAT, AT THE TIME THIS LEASE IS EXECUTED, THE TERMS OF THIS LEASE ARE COMMERCIALY REASONABLE AND EFFECTUATE THE INTENT AND PURPOSE OF LANDLORD AND TENANT WITH RESPECT TO THE PREMISES. TENANT ACKNOWLEDGES THAT IT HAS BEEN GIVEN THE OPPORTUNITY TO HAVE THIS LEASE REVIEWED BY ITS LEGAL COUNSEL PRIOR TO ITS EXECUTION. PREPARATION OF THIS LEASE BY LANDLORD OR LANDLORD'S AGENT AND SUBMISSION OF SAME TO TENANT SHALL NOT BE DEEMED AN OFFER BY LANDLORD TO LEASE THE PREMISES TO TENANT OR THE GRANT OF AN OPTION TO TENANT TO LEASE THE PREMISES. THIS LEASE SHALL BECOME BINDING UPON LANDLORD AND TENANT ONLY WHEN FULLY EXECUTED BY BOTH PARTIES AND WHEN LANDLORD HAS DELIVERED A FULLY EXECUTED ORIGINAL OF THIS LEASE TO TENANT.

LANDLORD

TENANT

THE REALTY ASSOCIATES FUND V, L.P.,
a Delaware limited partnership

REXAHN PHARMACEUTICALS, INC.,
a Delaware corporation

By: Realty Associates Fund V LLC, a Massachusetts limited liability company, general partner

By: Realty Associates Advisors LLC, a Delaware limited liability company, manager

By: Realty Associates Advisors Trust, a Massachusetts business trust, manager

By: _____
[Officer]

By:

Tae Heum Jeong

(Print Name)

Its: Senior Vice President and CFO

(Print Title)

addendum

THIS ADDENDUM (the "Addendum") is attached to the Lease dated as of June 5, 2009 by and between **THE REALTY ASSOCIATES FUND V, L.P.**, a Delaware limited partnership ("Landlord") and **REXAHN PHARMACEUTICALS, INC.**, a Delaware corporation ("Tenant") and incorporated herein by reference thereto. To the extent that there are any conflicts between the provisions of the Lease and the provisions of this Addendum, the provisions of this Addendum shall supersede the conflicting provisions of the Lease.

1. **Base Rent Increase.** Section 4.3 of the Lease is hereby deleted in its entirety and the following Section 4.3 is substituted in its place: The Base Rent set forth in Section 1.8 hereinabove shall be adjusted during the Term of the Lease as follows:

Lease Period in Months	Annual Base Rent	Monthly Base Rent
7/01/09 – 6/30/10	\$ 76,524.00	\$ 6,377.00
7/01/10 – 6/30/11	\$ 140,312.28	\$ 11,692.69
7/01/11 – 6/30/12	\$ 156,874.20	\$ 13,072.85
7/01/12 – 6/30/13	\$ 160,796.04	\$ 13,399.67
7/01/13 – 6/30/14	\$ 164,815.92	\$ 13,734.66

2. **Security Deposit.** Section 5 of the Lease is hereby amended by adding the following at the end of Section 5:

(a) The security deposit shall be in the form of an irrevocable, unconditional letter of credit (the "Security Deposit L/C") in the amount set forth in Section 1.10, as security for Tenant's full and faithful performance of Tenant's obligations hereunder. The Security Deposit L/C shall be delivered to Landlord at Tenant's sole cost and expense. The Security Deposit L/C shall be issued by and drawn on a bank reasonably acceptable to Landlord, in Landlord's sole discretion, and shall name Landlord as Beneficiary. The Security Deposit L/C shall be substantially in the form attached hereto as Exhibit D. If the maturity date of the Security Deposit L/C is prior to the end of the Term of the Lease, Tenant shall renew the Security Deposit L/C as often as is necessary with the same bank or financial institution (or a similar bank or financial institution reasonably acceptable to Landlord) and upon the same terms and conditions, not less than thirty (30) days prior to the purported expiration date of the Security Deposit L/C. In the event that Tenant fails to timely renew the Security Deposit L/C as aforesaid, Landlord shall be entitled to draw against the entire amount of the Security Deposit L/C. The Security Deposit L/C shall be assignable by Landlord and upon such assignment to any party assuming in writing the lessor interest in this Lease, Landlord shall be relieved from all liability to Tenant therefor.

(b) Upon the occurrence of any default by Tenant in the payment of Base Rent or upon the occurrence of the events described in Section 13.1 of the Lease or in the event that Landlord terminates this Lease in accordance with the terms hereof following a default by Tenant, Landlord shall have the right to draw the entire amount of the Security Deposit L/C. Landlord agrees to copy Tenant on any notice to the issuing bank requesting a draw against the Security Deposit L/C. In the event that Tenant defaults in making any money payment required to be made by Tenant under the terms of this Lease other than the payment of Base Rent, then Landlord shall be entitled to draw upon so much of the Security Deposit L/C as equals the defaulted payment(s), plus any interest or other charges due thereon in accordance with this Lease. If Landlord elects to make a partial draw upon the Security Deposit L/C, Tenant shall promptly restore the Security Deposit L/C to its original amount within ten (10) days after written demand herefor. Landlord's election to make a partial draw upon the Security Deposit L/C shall in no event prejudice or waive Landlord's right to terminate this Lease if permitted under applicable provisions of this Lease, nor shall such election prejudice or waive any other remedy of Landlord reserved under the terms of this Lease, including the right to draw the entire amount of the Security Deposit L/C, if applicable. The Security Deposit L/C shall be available for payment against the presentation of a sight draft by the Landlord together with a certificate from Landlord that Tenant is in default of its obligations hereunder beyond expiration of any applicable notice and cure periods and that Landlord is entitled, by the terms of this Lease, to draw upon the Security Deposit L/C. The proceeds of the Security Deposit L/C, if drawn by Landlord pursuant to the terms hereof, shall be held by Landlord and applied to reduce any amount owed by Tenant to Landlord. Interest shall be payable in accordance with Section 5 of the Lease for any Security Deposit L/C proceeds held on account.

(c) In the event that (1) Landlord draws the full amount of the Security Deposit L/C as a result of a default by Tenant, (2) this Lease is not terminated by Landlord as a result of such default, (3) such default is fully cured by Tenant, and (4) there is no outstanding uncured default by Tenant, then the balance of the sums drawn (after the payment of any sums related to the curing of any defaults) shall be applied first to obtain a replacement letter of credit as security for Tenant's performance hereunder, and the remaining balance, if any, will be refunded to Tenant. Upon the termination of this Lease and the payment in full to Landlord of all damages, costs and expenses to which Landlord is entitled, the balance of any funds drawn from the Security Deposit L/C after satisfying such obligations in full shall be refunded to Tenant.

(d) To the extent that the Security Deposit L/C is either lost or the issuing bank will not honor the Security Deposit L/C, Tenant personally guarantees the proceeds of the Security Deposit L/C and will immediately remit to Landlord the amount of the Security Deposit in cash to be held in accordance with this Section 5 of the Lease.

(e) (1) Notwithstanding anything to the contrary contained in Section 5 of the Lease, provided (i) Tenant has not been in default under the Lease beyond the expiration of any applicable notice and cure period at anytime during the Term of the Lease, and (ii) Tenant provides evidence satisfactory to Landlord that Tenant has received a cash infusion of at least Eight Million Dollars (\$8,000,000.00) in cash within the first six (6) months of the Term, Landlord shall permit the Security Deposit L/C to be amended (at Tenant's sole cost and expense) to reduce the face amount of the Security Deposit L/C to Fifty Thousand and No/100 Dollars (\$50,000.00) as of the first day of the seventh (7th) full calendar month of the Term. The remaining Fifty Thousand and No/100 Dollars (\$50,000.00) shall be reduced according to the following schedule:

Date of Reduction	Reduction Amount	New Face Amount
1 st day of the 19 th month of the Term of the Lease	\$ 12,500.00	\$ 37,500.00

1 st day of the 32 nd month of the Term of this Lease	\$ 12,500.00	\$ 25,000.00
1 st day of the 44 th month of the Term of this Lease	\$ 12,500.00	\$ 12,500.00
1 st day of the 57 th month of the Term of this Lease	\$ 12,500.00	\$ 0.00

Add-1

(2) Notwithstanding anything to the contrary contained in Section 5 of the Lease, in the event the conditions contained in subsection (1) above are not met but provided Tenant has not been in default under the Lease beyond the expiration of any applicable notice and cure period at anytime during the Term of the Lease, Landlord shall permit the Security Deposit L/C to be amended (at Tenant's sole cost and expense) to reduce the face amount of the Security Deposit L/C according to the following schedule:

Date of Reduction	Reduction Amount	New Face Amount
1 st day of the 13 th month of the Term of the Lease	\$ 20,000.00	\$ 80,000.00
1 st day of the 25 th month of the Term of this Lease	\$ 20,000.00	\$ 60,000.00
1 st day of the 37 th month of the Term of this Lease	\$ 20,000.00	\$ 40,000.00
1 st day of the 49 th month of the Term of this Lease	\$ 20,000.00	\$ 20,000.00

In no event shall a reduction to the amount of the Security Deposit L/C be deemed to have occurred absent a written amendment to the Security Deposit L/C by the issuing bank. It shall be Tenant's sole obligation to obtain such written amendment from the issuing bank. If Tenant is in default beyond the expiration of any applicable notice and cure period prescribed under the Lease at anytime during the Term of this Lease, then Tenant's right thereafter to reduce the amount of the Security Deposit L/C set forth in this subparagraph (e) shall no longer apply and shall become null and void and of no further force and effect."

3. Tenant Improvements.

a. Tenant hereby agrees to accept the Premises in its "as-is" condition existing on the Commencement Date, subject to Landlord's completion of "Improvements" defined in subsection (b) below.

b. Landlord shall construct improvements ("Improvements") for the Premises in accordance with the Work Letter Agreement attached hereto as Schedule 1. In connection thereto, Landlord hereby grants to Tenant an "Improvement Allowance" of up to One Hundred Thousand and No/100 Dollars (\$100,000.00) which Improvement Allowance shall be used only for the items specified in the Cost Breakdown, as that term is defined in the Work Letter Agreement, and for telephone and data cabling and wiring in the Premises. In the event the total cost of construction of the Improvements exceeds the Improvement Allowance, Tenant shall pay to Landlord the sum in excess of the Improvement Allowance by cashier's check, which payment shall be made within five (5) days of Landlord's notice to Tenant that Landlord is prepared to commence construction. In the event the actual cost of the Improvements is less than the Improvement Allowance, the unused portion of the Improvement Allowance shall not be paid or refunded to Tenant or be available to Tenant as a credit against any obligations of Tenant under the Lease.

c. To the extent the Improvements are not substantially completed by the Commencement Date, Landlord shall permit Tenant to move into the Premises as of the Commencement Date provided Tenant agrees to pay any additional costs incurred by Landlord to complete the Improvements after the Commencement Date due to Tenant's occupancy of the Premises during such construction. Tenant hereby acknowledges that the Improvements may be constructed in accordance with this Paragraph while Tenant is in occupancy of the Premises, and Landlord's actions in connection with such Improvements shall in no way constitute a constructive eviction of Tenant or entitle Tenant to any abatement of rent. Unless directly caused by Landlord's or Landlord's agents gross negligence or willful misconduct, Landlord shall have no responsibility or for any reason be liable to Tenant for any direct or indirect injury to or interference with Tenant's business arising from the construction of the Improvements, nor shall Tenant be entitled to any compensation or damages from Landlord for any inconvenience or annoyance occasioned by such construction or Landlord's actions in connection with such construction. Notwithstanding the foregoing, Landlord shall use commercially reasonable efforts to minimize unreasonable interference with Tenant's use and occupancy of the Premises during any such construction.

4. Options to Renew.

(a) Subject to the provisions of Section 26 of the Lease, and provided that Tenant is not in default at the time of Tenant's exercise of the applicable Option or at the commencement of the extended term, Tenant shall have one (1) five (5) year Option to renew this Lease. Tenant shall provide to Landlord on a date which is prior to the date that the Option period would commence (if exercised) by at least two hundred seventy (270) days and not more than three hundred sixty-five (365) days, a written notice of the exercise of the Option to extend the Lease for such additional Option term, time being of the essence. Such notice shall be given in accordance with Section 40 of the Lease, as amended by Section 26.6. If notification of the exercise of the Option is not so given and received, all Options granted hereunder shall automatically expire. Base Rent applicable to the Premises for the Option term shall be equal to the "Fair Market Rental" as hereinafter defined. All other terms and conditions of the Lease shall remain the same, except that after Tenant's exercise of the Option, Tenant shall have no further Option to renew the Lease.

(b) If the Tenant exercises the Option, the Landlord shall determine the Fair Market Rental by using its good faith judgment. Landlord shall provide Tenant with written notice of such amount within fifteen (15) days after Tenant exercises its Option. Tenant shall have fifteen (15) days ("Tenant's Review Period") after receipt of Landlord's notice of the new base rent within which to accept such rental. In the event Tenant fails to accept in writing such rental proposal by Landlord, then such proposal shall be deemed rejected and Landlord and Tenant shall attempt to agree upon such Fair Market Rental, using their best good faith efforts. If Landlord and Tenant fail to reach agreement within fifteen (15) days following Tenant's Review Period ("Outside Agreement Date") then the parties shall each within ten (10) days following the Outside Agreement Date appoint a real estate broker who shall be licensed in the State of Maryland and who specializes in the field of commercial office space leasing in the Rockville, Maryland market, has at least five (5) years of experience and is recognized within the field as being reputable and ethical. If one party does not timely appoint a broker, then the broker appointed by the other party shall promptly appoint a broker for such party. Such two individuals shall each determine within ten (10) days after their appointment such base rent. If such individuals do not agree on Fair Market Rental, then the two individuals shall, within five (5) days, render separate written reports of their determinations and together appoint a third similarly qualified individual having the qualifications described above. If the two brokers are unable to agree upon a third broker, the third broker shall be appointed by the President of the Montgomery County Board of Realtors. In the event the Montgomery County Board of Realtors is no longer in existence, the third broker shall be

appointed by the President of its successor organization. If no successor organization is in existence, the third broker shall be appointed by the Chief Judge of the Circuit Court of Montgomery County, Maryland. The third individual shall within ten (10) days after his or her appointment make a determination of such Fair Market Rental. The third individual shall determine which of the determinations of the first two individuals is closest to his own and the determination that is closest shall be final and binding upon the parties, and such determination may be enforced in any court of competent jurisdiction. Landlord and Tenant shall each bear the cost of its broker and shall share equally the cost of the third broker. Upon determination of the base rent payable pursuant to this Section, the parties shall promptly execute an amendment to this Lease stating the rent so determined.

(c) The term "Fair Market Rental" shall mean the annual amount per rentable square foot that a willing, comparable renewal tenant would pay and a willing, comparable landlord of a similar office building would accept at arm's length for similar space, giving appropriate consideration to the following matters: (i) annual rental rates per rentable square foot; (ii) the type of escalation clauses (including, without limitation, operating expenses, real estate taxes, and CPI) and the extent of liability under the escalation clauses (i.e., whether determined on a "net lease" basis or by increases over a particular base year or base dollar amount); (iii) rent abatement provisions reflecting free rent and/or no rent during the lease term; (iv) length of lease term; (v) size and location of premises being leased; (vi) the value of the tenant improvements; and (vii) other generally applicable terms and conditions of tenancy for similar space; provided, however, Tenant shall not be entitled to any tenant improvement or refurbishment allowance. The Fair Market Rental may also designate periodic rental increases, a new Base Year and similar economic adjustments. The Fair Market Rental shall be the Fair Market Rental in effect as of the beginning of the applicable Option period, even though the determination may be made in advance of that date, and the parties may use recent trends in rental rates in determining the proper Fair Market Rental as of the beginning of the applicable Option period.

5. **Signs.** Section 46 of the Lease is hereby modified by adding the following to the end of Section 46: "Landlord will provide, at Landlord's sole cost and expense, suite entry signage and Building directory signage. The design, size, location and materials of such signage shall be in accordance with Landlord's standard Building signage package. The cost of any changes in the Building standard graphics on the door to the Premises or the Building directory following their initial installation are subject to Landlord's approval and shall be paid by Tenant, at Tenant's sole cost and expense. Tenant shall also have the right, at Landlord's sole cost and expense, and subject to all applicable codes and regulations and Landlord's signage and design criteria, and otherwise subject to Landlord's prior approval, to place one line of signage on the Building identity monument sign for the Building's major tenants. The signage rights granted to Tenant in this Section 46 are personal to the original Tenant and may not be assigned by or to any person or entity other than Tenant. In addition, Tenant shall have the right, at Tenant's sole cost and expense and subject to Landlord's prior written approval, which approval shall not be unreasonably withheld, conditioned or delayed, to install a reception area sign mounted on the wall behind the existing receptionist desk and visible from Tenant's reception area per Tenant's reasonable specifications as to size, color and material."

exhibit b

verification letter

REXAHN PHARMACEUTICALS, INC., a Delaware corporation ("Tenant") hereby certifies that it has entered into a lease with **THE REALTY ASSOCIATES FUND V, L.P.**, a Delaware limited partnership ("Landlord") and verifies the following information as of the _____ day of _____, 20__:

Number of Rentable Square Feet in Premises: _____

Commencement Date: _____

Lease Termination Date: _____

Tenant's Share: _____

Initial Base Rent: _____

Billing Address for Tenant: _____

Attention: _____

Telephone Number: _____

Federal Tax I.D. No.: _____

Tenant acknowledges and agrees that all tenant improvements Landlord is obligated to make to the Premises, if any, have been completed and that Tenant has accepted possession of the Premises and that as of the date hereof, there exist no offsets or defenses to the obligations of Tenant under the Lease. Tenant acknowledges that it has inspected the Premises and found them suitable for Tenant's intended commercial purposes.

TENANT

REXAHN PHARMACEUTICALS, INC.,

By: _____

Tae Heum Jeong
(print name)

Its: Senior Vice President and CFO
(print title)

ACKNOWLEDGED AND AGREED TO:

LANDLORD

THE REALTY ASSOCIATES FUND V, L.P.,
a Delaware limited partnership

By: Realty Associates Fund V LLC, a Massachusetts limited liability company, general partner

By: Realty Associates Advisors LLC, a Delaware limited liability company, manager

By: Realty Associates Advisors Trust, a Massachusetts business trust, manager

By: _____
[Officer]

exhibit c

rules and regulations

GENERAL RULES

Tenant shall faithfully observe and comply with the following Rules and Regulations.

1. Tenant shall not alter any locks or install any new or additional locks or bolts on any doors or windows of the Premises without obtaining Landlord's prior written consent, which consent shall not be unreasonably withheld, conditioned or delayed. Tenant shall bear the cost of any lock changes or repairs required by Tenant. Keys required by Tenant must be obtained from Landlord at a reasonable cost to be established by Landlord.
2. All doors opening to public corridors shall be kept closed at all times except for normal ingress and egress to the Premises. Tenant shall assume any and all responsibility for protecting the Premises from theft, robbery and pilferage, which includes keeping doors locked and other means of entry to the Premises closed.
3. Landlord reserves the right to close and keep locked all entrance and exit doors of the Project except during the Project's normal hours of business as defined in Section 11.4 of the Lease. Tenant, its employees and agents must be sure that the doors to the Project are securely closed and locked when leaving the Premises if it is after the normal hours of business of the Project. Tenant, its employees, agents or any other persons entering or leaving the Project at any time when it is so locked, or any time when it is considered to be after normal business hours for the Project, may be required to sign the Project register. Access to the Project may be refused unless the person seeking access has proper identification or has a previously received authorization for access to the Project. Landlord and its agents shall in no case be liable for damages for any error with regard to the admission to or exclusion from the Project of any person. In case of invasion, mob, riot, public excitement, or other commotion, Landlord reserves the right to prevent access to the Project during the continuance thereof by any means it deems appropriate for the safety and protection of life and property.
4. No furniture, freight or equipment of any kind shall be brought into the Project without Landlord's prior authorization. All moving activity into or out of the Project shall be scheduled with Landlord and done only at such time and in such manner as Landlord designates. Landlord shall have the right to prescribe the weight, size and position of all safes and other heavy property brought into the Project and also the times and manner of moving the same in and out of the Project. Safes and other heavy objects shall, if considered necessary by Landlord, stand on supports of such thickness as is necessary to properly distribute the weight, and Tenant shall be solely responsible for the cost of installing all supports. Landlord will not be responsible for loss of or damage to any such safe or property in any case. Any damage to any part of the Project, its contents, occupants or visitors by moving or maintaining any such safe or other property shall be the sole responsibility and expense of Tenant.
5. The requirements of Tenant will be attended to only upon application at the management office for the Project or at such office location designated by Landlord. Tenant shall not ask employees of Landlord to do anything outside their regular duties without special authorization from Landlord.
6. Tenant shall not disturb, solicit, or canvass any occupant of the Project and shall cooperate with Landlord and its agents to prevent the same. Tenant, its employees and agents shall not loiter in or on the entrances, corridors, sidewalks, lobbies, halls, stairways, elevators, or any Common Areas for the purpose of smoking tobacco products or for any other purpose, nor in any way obstruct such areas, and shall use them only as a means of ingress and egress for the Premises. Smoking shall not be permitted in the Common Areas.
7. The toilet rooms, urinals and wash bowls shall not be used for any purpose other than that for which they were constructed, and no foreign substance of any kind whatsoever shall be thrown therein. The expense of any breakage, stoppage or damage resulting from the violation of this rule shall be borne by the tenant who, or whose employees or agents, shall have caused it.
8. Except for vending machines intended for the sole use of Tenant's employees and invitees, no vending machine or machines other than fractional horsepower office machines shall be installed, maintained or operated upon the Premises without the written consent of Landlord.
9. Tenant shall not use or keep in or on the Premises or the Project any kerosene, gasoline or other inflammable or combustible fluid or material. Tenant shall not bring into or keep within the Premises or the Project any animals, birds, bicycles or other vehicles.
10. Tenant shall not use, keep or permit to be used or kept, any foul or noxious gas or substance in or on the Premises, or permit or allow the Premises to be occupied or used in a manner offensive or objectionable to Landlord or other occupants of the Project by reason of noise, odors, or vibrations, or to otherwise interfere in any way with the use of the Project by other tenants.
11. No cooking shall be done or permitted on the Premises, nor shall the Premises be used for the storage of merchandise, for loading or for any improper, objectionable or immoral purposes. Notwithstanding the foregoing, Underwriters' Laboratory approved equipment and microwave ovens may be used in the Premises for heating food and brewing coffee, tea, hot chocolate and similar beverages for employees and visitors of Tenant, provided that such use is in accordance with all applicable federal, state and city laws, codes, ordinances, rules and regulations; and provided further that such cooking does not result in odors escaping from the Premises.
12. Landlord shall have the right to approve where and how telephone wires are to be introduced to the Premises. No boring or cutting for wires shall be allowed without the consent of Landlord. The location of telephone call boxes and other office equipment affixed to the Premises shall be subject to the approval of Landlord, such approval not to be unreasonably withheld, conditioned or delayed. Tenant shall not mark, drive nails or screws, or drill into the partitions, woodwork or plaster contained in the Premises or in any way deface the Premises or any part thereof without Landlord's prior written consent. Tenant shall not install any radio or television antenna, satellite dish, loudspeaker or other device on the roof or exterior walls of the Project without Landlord's prior written consent, which such consent shall not be

unreasonably withheld, conditioned or delayed. Tenant shall not interfere with broadcasting or reception from or in the Project or elsewhere.

13. Landlord reserves the right to exclude or expel from the Project any person who, in the judgment of Landlord, is intoxicated or under the influence of liquor or drugs, or who shall in any manner do any act in violation of any of these Rules and Regulations.

14. Tenant shall not waste electricity, water or air conditioning and agrees to cooperate fully with Landlord to ensure the most effective operation of the Project's heating and air conditioning system, and shall refrain from attempting to adjust any controls. Tenant shall not without the prior written consent of Landlord use any method of heating or air conditioning other than that supplied by Landlord.

15. Tenant shall store all its trash and garbage within the interior of the Premises. No material shall be placed in the trash boxes or receptacles if such material is of such nature that it may not be disposed of in the ordinary and customary manner of removing and disposing of trash in the vicinity of the Project without violation of any law or ordinance governing such disposal. All trash, garbage and refuse disposal shall be made only through entry-ways and elevators provided for such purposes at such times as Landlord shall designate.

16. Tenant shall comply with all safety, fire protection and evacuation procedures and regulations reasonably established by Landlord or any governmental agency.

17. No awnings or other projection shall be attached to the outside walls or windows of the Project by Tenant. No curtains, blinds, shades or screens shall be attached to or hung in any window or door of the Premises without the prior written consent of Landlord. All electrical ceiling fixtures hung in the Premises must be fluorescent and/or of a quality, type, design and bulb color approved by Landlord. Tenant shall abide by Landlord's regulations concerning the opening and closing of window coverings which are attached to the windows in the Premises. The skylights, windows, and doors that reflect or admit light and air into the halls, passageways or other public places in the Project shall not be covered or obstructed by Tenant, nor shall any bottles, parcels or other articles be placed on the windowsills.

18. Tenant shall not employ any person or persons other than the janitor of Landlord for the purpose of cleaning the Premises unless otherwise agreed to in writing by Landlord. Except with the prior written consent of Landlord, no person or persons other than those approved by Landlord shall be permitted to enter the Project for the purpose of cleaning same. Landlord shall in no way be responsible to Tenant for any loss of property on the Premises, however occurring, or for any damage done to the effects of Tenant or any of its employees or other persons by the janitor of Landlord. Janitor service shall include ordinary dusting and cleaning by the janitor assigned to such work and shall not include cleaning of carpets or rugs, except normal vacuuming, or moving of furniture and other special services. Window cleaning shall be done only by Landlord at reasonable intervals and as Landlord deems necessary.

PARKING RULES

1. Parking areas shall be used only for parking by vehicles no longer than full size, passenger automobiles herein called "Permitted Size Vehicles".

2. Tenant shall not permit or allow any vehicles that belong to or are controlled by Tenant or Tenant's employees, suppliers, shippers, customers, or invitees to be loaded, unloaded, or parked in areas other than those designated by Landlord for such activities. Users of the parking area will obey all posted signs and park only in the areas designated for vehicle parking.

3. Parking stickers or identification devices shall be the property of Landlord and shall be returned to Landlord by the holder thereof upon termination of the holder's parking privileges. Tenant will pay such replacement charges as is reasonably established by Landlord for the loss of such devices. Loss or theft of parking identification stickers or devices from automobiles must be reported to the parking operator immediately. Any parking identification stickers or devices reported lost or stolen found on any unauthorized car will be confiscated and the illegal holder will be subject to prosecution.

4. Landlord reserves the right to relocate all or a part of parking spaces from floor to floor, within one floor, and/or to reasonably adjacent off site locations(s), and to allocate them between compact and standard size and tandem spaces, as long as the same complies with applicable laws, ordinances and regulations.

5. Unless otherwise instructed, every person using the parking area is required to park and lock his own vehicle. Landlord will not be responsible for any damage to vehicles, injury to persons or loss of property, all of which risks are assumed by the party using the parking area.

6. Validation of visitor parking, if established, will be permissible only by such method or methods as Landlord may establish at rates determined by Landlord, in Landlord's sole discretion.

7. The maintenance, washing, waxing or cleaning of vehicles in the parking structure or Common Areas is prohibited.

8. Tenant shall be responsible for seeing that all of its employees, agents and invitees comply with the applicable parking rules, regulations, laws and agreements. Garage managers or attendants are not authorized to make or allow any exceptions to these Parking Rules and Regulations. Landlord reserves the right to terminate parking rights for any person or entity that willfully refuses to comply with these rules and regulations.

9. Every driver is required to park his own car. Where there are tandem spaces, the first car shall pull all the way to the front of the space leaving room for a second car to park behind the first car. The driver parking behind the first car must leave his key with the parking attendant. Failure to do so shall subject the driver of the second car to a Fifty Dollar (\$50.00) fine. Refusal of the driver to leave his key when parking in a tandem space shall be cause for termination of the right to park in the parking facilities. The parking operator, or his employees or agents, shall be authorized to move cars that are parked in tandem should it be necessary for the operation of the garage. Tenant agrees that all responsibility for damage to cars or the theft of or from cars is assumed by the driver, and further agrees that Tenant will hold Landlord harmless for any such damages or theft.

10. No vehicles shall be parked in the parking garage overnight. The parking garage shall only be used for daily parking and no vehicle or other property shall be stored in a parking space.

Landlord reserves the right at any time to change or rescind any one or more of these Rules and Regulations, or to make such other and further reasonable Rules and Regulations as in Landlord's judgment may from time to time be necessary for the management, safety, care and cleanliness of the Project, and for the preservation of good order therein, as well as for the convenience of other occupants and tenants therein. Landlord may waive any one or more of these Rules and Regulations for the benefit of any particular tenant, but no such waiver by

Landlord shall be construed as a waiver of such Rules and Regulations in favor of any other tenant, nor prevent Landlord from thereafter enforcing any such Rules or Regulations against any or all tenants of the Project. Tenant shall be deemed to have read these Rules and Regulations and to have agreed to abide by them as a condition of its occupancy of the Premises.

exhibit D

FORM OF LETTER OF CREDIT
IRREVOCABLE STANDBY LETTER OF CREDIT
NUMBER _____

LETTER OF CREDIT AMOUNT	ISSUE DATE	EXPIRY DATE
US [AMOUNT]	[DATE]	[DATE]

BENEFICIARY:

[LANDLORD]
C/O TA ASSOCIATES REALTY
28 STATE STREET
BOSTON, MASSACHUSETTS 02109
ATTENTION: LEASE ADMINISTRATOR

APPLICANT:

[TENANT]
[ADDRESS OF PROPERTY]

WITH COPY TO:

[PROPERTY MANAGER]
[ADDRESS]

GENTLEMEN:

WE HEREBY ISSUE OUR IRREVOCABLE STANDBY LETTER OF CREDIT IN YOUR FAVOR FOR THE ACCOUNT OF THE ABOVE REFERENCED APPLICANT IN THE AGGREGATE AMOUNT OF US [AMOUNT] WHICH IS AVAILABLE BY PAYMENT OF YOUR DRAFT(S), AT SIGHT, DRAWN ON OURSELVES, WHEN ACCOMPANIED BY THE FOLLOWING DOCUMENTS:

1. A STATEMENT PURPORTEDLY SIGNED BY AN AUTHORIZED REPRESENTATIVE OF [LANDLORD] (HEREIN CALLED "THE LANDLORD") STATING THAT: "THIS CERTIFIES THAT A DEFAULT EXISTS PURSUANT TO THAT CERTAIN DEED OF LEASE BETWEEN [LANDLORD], LANDLORD AND [TENANT], TENANT, AS AMENDED FROM TIME TO TIME."

-OR-

"[TENANT] (THE "TENANT") HAS FAILED TO RENEW OR REPLACE THIS LETTER OF CREDIT THIRTY (30) DAYS BEFORE ITS CURRENT EXPIRATION DATE AND LANDLORD IS ACCORDINGLY ENTITLED TO DRAW UPON THIS LETTER OF CREDIT."

2. THE ORIGINAL OF THIS LETTER OF CREDIT.

IT IS A CONDITION OF THIS LETTER OF CREDIT THAT IT SHALL BE DEEMED AUTOMATICALLY EXTENDED WITHOUT WRITTEN AMENDMENT FOR ONE YEAR FROM THE PRESENT OR ANY FUTURE EXPIRY DATE UNLESS AT LEAST FORTY-FIVE (45) DAYS PRIOR TO SUCH EXPIRATION DATE, WE NOTIFY YOU IN WRITING AT THE ABOVE ADDRESS BY EXPRESS COURIER THAT WE ELECT NOT TO RENEW THIS LETTER OF CREDIT FOR ANY SUCH ADDITIONAL PERIODS(S). UPON RECEIPT BY YOU OF SUCH NOTICE, YOU MAY DRAW HEREUNDER BY PRESENTATION OF YOUR DRAFT AT SIGHT ON US.

PARTIAL DRAWINGS ARE PERMITTED.

THIS LETTER OF CREDIT IS TRANSFERABLE BY BENEFICIARY.

THIS IRREVOCABLE LETTER OF CREDIT SETS FORTH IN FULL THE TERMS OF OUR UNDERTAKING. THIS UNDERTAKING SHALL NOT IN ANY WAY BE MODIFIED, AMENDED, AMPLIFIED OR INCORPORATED BY REFERENCE TO ANY DOCUMENT OR CONTRACT REFERRED TO HEREIN.

WE HEREBY AGREE WITH YOU THAT DRAFT(S) DRAWN UNDER AND IN COMPLIANCE WITH THE TERMS AND CONDITIONS OF THIS CREDIT SHALL BE DULY HONORED IF PRESENTED TOGETHER WITH DOCUMENT(S) AS SPECIFIED ABOVE AND THE ORIGINAL OF THIS CREDIT, AT OUR OFFICE LOCATED AT **[MUST BE ADDRESS LOCAL TO _____ AREA]** ON OR BEFORE THE ABOVE STATED EXPIRY DATE. DRAFT(S) DRAWN UNDER THIS CREDIT MUST SPECIFICALLY REFERENCE OUR CREDIT NUMBER. DRAFTS DRAWN IN COMPLIANCE WITH THE TERMS OF THIS LETTER OF CREDIT SHALL BE HONORED BY US WITHOUT INQUIRY AS OF THE TRUTH OF THE STATEMENTS SET FORTH IN THE DRAW REQUEST AND REGARDLESS OF WHETHER APPLICANT DISPUTES THE CONTENT OR ACCURACY OF SUCH STATEMENTS. FACSIMILE DRAWINGS ARE PERMITTED. IF A DRAFT IS PRESENTED TO US BY FACSIMILE TO OUR FAX NUMBER _____, THE ORIGINAL LETTER OF CREDIT IS NOT REQUIRED.

WE HEREBY ENGAGE WITH YOU THAT DRAWINGS PRESENTED UNDER AND IN COMPLIANCE WITH THE TERMS OF THIS LETTER OF CREDIT WILL BE DULY HONORED WITHIN TWO (2) BUSINESS DAYS AFTER OUR RECEIPT OF YOUR PRESENTATION OF THE CERTIFICATE AND ANY SUCH DOCUMENTS AT THE ABOVE ADDRESS.

EXCEPT AS OTHERWISE EXPRESSLY STATED HEREIN, THIS LETTER OF CREDIT IS SUBJECT TO THE UNIFORM CUSTOMS AND PRACTICE FOR DOCUMENTARY CREDITS, ESTABLISHED BY THE INTERNATIONAL CHAMBER OF COMMERCE, AS IN EFFECT ON THE DATE OF ISSUANCE OF THIS CREDIT.

SINCERELY,

AUTHORIZED
REPRESENTATIVE

SCHEDULE 1

work letter agreement

1. Tenant Improvements. Landlord shall furnish and install, in or for the benefit of the Premises, the improvements ("Improvements") described in the Space Plan attached hereto as Schedule 1-A. All architectural and engineering work for such Improvements and any required occupancy permits for the Premises shall also be provided at Landlord's sole cost and expense, subject to reimbursement by Tenant pursuant to Paragraph 5 below.

2. Plans and Specifications.

2.1. Space Plan. The Space Plan is attached hereto as Schedule 1-A.

2.2. Plans. Based on the approved Space Plan, Landlord shall cause its architects and engineers to prepare and submit to Tenant for approval detailed plans, specifications and working drawings ("Plans") for the construction of Tenant's leasehold improvements to the Premises ("Improvements"). Landlord reserves the right to approve any space planner, architect or engineer if employed by Tenant. As used herein, the term "Improvements" shall include all non-base building work to be done in the Premises pursuant to the Plans, including, but not limited to: demolition work, partitioning, doors, ceiling, floor coverings, wall finishes (including paint and wall coverings), window coverings, electrical (excluding the cost of computer cabling, Tenant's telephone system and wiring, and any other special electrical or wiring dedicated to the Tenant's operations or business), plumbing, heating, ventilating and air conditioning, fire protection, cabinets and other millwork. If Tenant has leased an entire floor, the Improvements shall include finished toilet rooms, corridors and elevator vestibules. Landlord shall submit the Plans to Tenant for approval within fifteen (15) business days following Tenant's approval of the Space Plan. Within three (3) days after receipt by Tenant of the Plans, Tenant (i) shall give its written approval with respect thereto, or (ii) shall notify Landlord in writing of its disapproval and state with specificity the grounds for such disapproval and the revisions or modifications necessary in order for Tenant to give its approval. Within five (5) days following Landlord's receipt of Tenant's disapproval, Landlord shall submit to Tenant for approval the requested revisions or modifications. Within three (3) days following receipt by Tenant of such revisions or modifications, Tenant shall give its written approval with respect thereto or shall request other revisions or modifications therein. After approval of the Plans by Tenant, no further changes to the Plans shall be made without the prior written approval of Landlord.

3. Specifications for Building Standard Improvements. Specifications and details for building standard improvements ("Standards") are available in the office of the Building. Except as specified in Section 4 below, the Space Plan and Plans shall be consistent with the Standards, and no deviations shall be permitted from the Standards without Landlord's consent as set forth in Section 4 below.

4. Grounds for Disapproval. Tenant may request deviations from the Standards for Improvements provided that the deviations ("Non-Standards") shall not be of lesser quality than the Standards. Landlord shall not be required to approve any item of the Space Plan, the Plans or the Non-Standards that (a) does not conform to applicable governmental regulations or is disapproved by any governmental agency; (b) requires building service (including electrical power) beyond the level normally provided to other tenants in the Building; or (c) overloads the floors.

5. Improvement Cost and Allowance.

5.1. Cost Breakdown. Within a reasonable period following approval of the Plans, Landlord shall provide Tenant with a breakdown of the estimated total cost of the Improvements ("Cost Breakdown"), including, without limitation: construction cost of the Improvements; architectural and engineering fees relating to the preparation and review of the Space Plan and the Plans (inclusive of the initial Space Plan and all design work above and below the ceiling); governmental agency plan check, permit and other fees; sales and use taxes; testing and inspection costs; and construction fees (including general contractor's overhead and supervision fees). Within five (5) days after receipt by Tenant of the Cost Breakdown, Tenant shall either approve the same in writing or shall provide Landlord with a detailed list of revisions to the approved Plans.

5.2. Improvement Allowance. Landlord hereby grants to Tenant an "Improvement Allowance", of up to One Hundred Thousand and No/100 Dollars (\$100,000.00) which Improvement Allowance shall be used only for the items specified in the Cost Breakdown, and for telephone and data cabling and wiring in the Premises. In the event that the Cost Breakdown exceeds the Improvement Allowance, Tenant shall pay to Landlord the sum in excess of the Improvement Allowance by cashier's check, which payment shall be made within five (5) days of Landlord's notice to Tenant that Landlord is prepared to commence construction.

5.3. No Refund. If the actual cost of the Improvements does not exceed the Improvement Allowance, the unused portion of the Improvement Allowance shall not be paid or refunded to Tenant or be available to Tenant as a credit against any obligations of Tenant under the Lease.

6. Construction of Improvements.

6.1 Construction. Within a reasonable period following approval of the Plans by Tenant, Landlord shall instruct its contractor to secure a building permit and commence construction of the Improvements in accordance with the Plans.

6.2 Change in Plans. If there are any changes requested by Tenant after the final approval by Landlord and Tenant of the Plans and Landlord approves such change, then upon the completion of any required revisions to the Plans, Landlord shall notify Tenant of the cost which will be chargeable to Tenant by reason of such change and Tenant shall notify Landlord whether Tenant desires to proceed with such change. Until such time as Tenant has approved such change and Landlord has received payment in full of the total costs of such change (including payment for all architectural and engineering costs and related design expenses), Landlord shall not be obligated to stop or alter any work to incorporate the desired change and may continue to work on Tenant's Premises in accordance with the Plans.

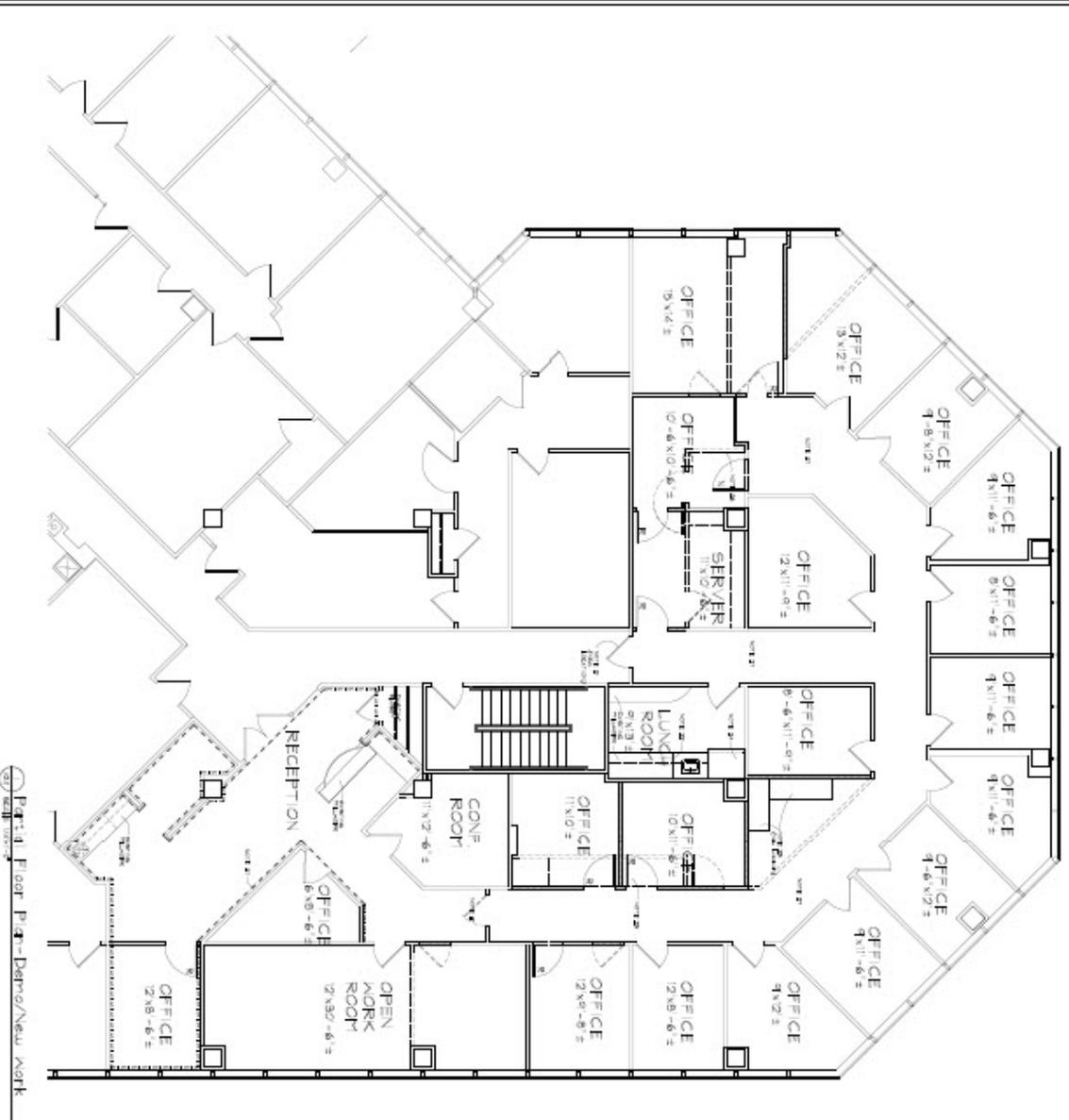
6.3 Completion. Landlord shall endeavor to cause the contractor to substantially complete construction of the Improvements in a diligent manner, but Landlord shall not be liable for any loss or damage as a result of delays in construction or delivery of possession of the Premises.

7. **Commencement Date.** The Commencement Date and Tenant's obligation to pay rent under the Lease shall be governed by Section 3 of the Lease.

8. **Final Inspection.** Tenant together with Landlord and Landlord's contractor shall make a final inspection of the Premises to ensure that the construction has been accomplished substantially in accordance with the Plans. A punch list (the "Punch List") of items to be completed or corrected shall be prepared at the time of such inspection. Landlord agrees to use reasonable efforts to complete all items on such Punch List as soon as reasonably possible thereafter.

9. **Incorporation.** This Agreement is and shall be incorporated by reference in the Lease, and all of the terms and conditions of the Lease are and shall be incorporated herein by this reference.

schedule 1-a
improvements



- REVISIONS**
1. Add to schedule 1-a, items 1-10, to be performed as part of the demo/new work.
 2. Add to schedule 1-a, items 11-20, to be performed as part of the demo/new work.
 3. Add to schedule 1-a, items 21-30, to be performed as part of the demo/new work.
 4. Add to schedule 1-a, items 31-40, to be performed as part of the demo/new work.
 5. Add to schedule 1-a, items 41-50, to be performed as part of the demo/new work.
 6. Add to schedule 1-a, items 51-60, to be performed as part of the demo/new work.
 7. Add to schedule 1-a, items 61-70, to be performed as part of the demo/new work.
 8. Add to schedule 1-a, items 71-80, to be performed as part of the demo/new work.
 9. Add to schedule 1-a, items 81-90, to be performed as part of the demo/new work.
 10. Add to schedule 1-a, items 91-100, to be performed as part of the demo/new work.
 11. Add to schedule 1-a, items 101-110, to be performed as part of the demo/new work.
 12. Add to schedule 1-a, items 111-120, to be performed as part of the demo/new work.
 13. Add to schedule 1-a, items 121-130, to be performed as part of the demo/new work.
 14. Add to schedule 1-a, items 131-140, to be performed as part of the demo/new work.
 15. Add to schedule 1-a, items 141-150, to be performed as part of the demo/new work.
 16. Add to schedule 1-a, items 151-160, to be performed as part of the demo/new work.
 17. Add to schedule 1-a, items 161-170, to be performed as part of the demo/new work.
 18. Add to schedule 1-a, items 171-180, to be performed as part of the demo/new work.
 19. Add to schedule 1-a, items 181-190, to be performed as part of the demo/new work.
 20. Add to schedule 1-a, items 191-200, to be performed as part of the demo/new work.
 21. Add to schedule 1-a, items 201-210, to be performed as part of the demo/new work.
 22. Add to schedule 1-a, items 211-220, to be performed as part of the demo/new work.
 23. Add to schedule 1-a, items 221-230, to be performed as part of the demo/new work.
 24. Add to schedule 1-a, items 231-240, to be performed as part of the demo/new work.
 25. Add to schedule 1-a, items 241-250, to be performed as part of the demo/new work.
 26. Add to schedule 1-a, items 251-260, to be performed as part of the demo/new work.
 27. Add to schedule 1-a, items 261-270, to be performed as part of the demo/new work.
 28. Add to schedule 1-a, items 271-280, to be performed as part of the demo/new work.
 29. Add to schedule 1-a, items 281-290, to be performed as part of the demo/new work.
 30. Add to schedule 1-a, items 291-300, to be performed as part of the demo/new work.

Urie · Bates
ARCHITECTS



Rexahn
PHARMACEUTICALS
Pharmaceuticals, Inc.
Suite 455
15245 Shady Grove Rd
Rockville, MD 20850

LEASE EXHIBIT
Pricing Notes

Scale: 1/8" = 1'-0"
Date: 10/1/10
Sheet: A2.0

CERTIFICATION

I, Chang H. Ahn, Chief Executive Officer of Rexahn Pharmaceuticals, Inc. certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2009 of Rexahn Pharmaceuticals, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: August 10, 2009

/s/ Chang H. Ahn

Chang H. Ahn
Chief Executive Officer

CERTIFICATION

I, Tae Heum Jeong, Chief Financial Officer of Rexahn Pharmaceuticals, Inc. certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2009 of Rexahn Pharmaceuticals, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: August 10, 2009

/s/ Tae Heum Jeong

Tae Heum Jeong
Chief Financial Officer

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 June 30, 2009 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Chang H. Ahn, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Sec. 1350, as adopted pursuant to Sec. 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 result of operations of the Company.

Dated: August 10, 2009

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

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

A signed original of this written statement required by 18 U.S.C. Sec. 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.

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 June 30, 2009 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. Sec. 1350, as adopted pursuant to Sec. 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 result of operations of the Company.

Dated: August 10, 2009

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. Sec. 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.
