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INSTITUTIONAL RESEARCH
Healthcare & Biotechnology
TERMINATION REPORT

Genaera Corporation (GENR)

Despite Promising Drug, Difficult Capital Markets Hamper Genaera – Terminating Research Coverage **NEUTRAL**

March 9, 2009

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Current Price $0.17 Old Target $2.00 New Target $0.20

Investment Highlights:

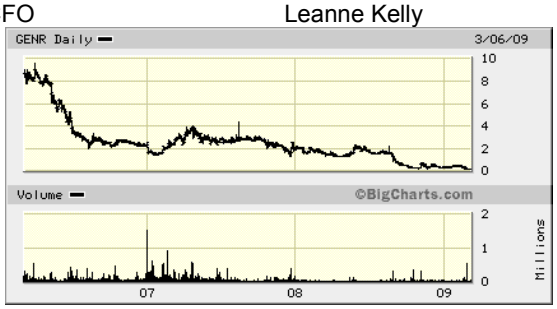
1) **Phase Ib Trial MSI-1436C-102 Cohort 1 data announced:** On February 10th 2009 Genaera announced the data the first cohort in their Phase Ib trial. Data from cohort 1, in which eight doses of 3mg/m2 of MSI-1436 were administered over 21 days to overweight and obese Type II diabetic subjects, demonstrated meaningful improvement in four primary outcomes used to evaluate type 2 diabetes, including (*see Phase Ib Trial MSI-1436C-102 Cohort 1 data announced*):
   - A 9.5% decrease in fasting blood glucose with a resulting 17% differential compared to placebo subjects in the same cohort
   - A 7% decrease in the area under the curve during the oral glucose tolerance test
   - An 11.3% decrease in serum fructosamine, which is used to monitor short-term (2-3 weeks) blood sugar control
   - A 0.4% decrease in hemoglobin A1C (HbA1C), used to monitor longer-term (2-3months) blood sugar control.

2) **Partner MedImmune (now AstraZeneca NYSE:AZN) on IL-9 – Trials Remain on Hold:** MedImmune's three clinical trials of MEDI-528, an anti-IL-9 monoclonal antibody (MAb) targeting interleukin-9 (IL-9), in patients with asthma were voluntarily put on clinical hold in August 2008 due to undisclosed safety concerns. Although the hold continues, it is possible it could be lifted on one or all of the trials in the near future.

Stock Data	
52-Week Range	$0.16 - $2.35
Shares Outstanding (MM)	17.5
Market Capitalization ($MM)	$3
Average Daily Volume	33,128
Book Value/Share	$0.42
Price/Book	0.38X
Cash / Securities ($MM)	$8.1
Cash/Share	$0.46
Insider Ownership	5%
Institutional Ownership	50%
Debt/Capital	0%
Dividend/Yield	$0.00 / 0%
Short Interest / % Float	0.1M / 0.6%

Estimates (Dec)	2006	2007	2008
Revenue	$0.9	$2.7	$1.5
Net Inc. (Loss) ($Mill)	($21.1)	($15.7)	($16.0)
EPS	($0.24)	($0.90)	($0.92)

Management	
President, CEO	John Armstrong
CFO	Leanne Kelly



Price target and ratings changes over the past 3 years:
Initiated May 3, 2005 –Spec. Buy – Target $5.00
Update July 6, 2006 – Spec. Buy – Target $1.50
Downgrade Nov. 13, 2006–Neutral–Target $3.00 (split adj.)
Update August 14, 2008 – Neutral – Target $2.00
Update March 9, 2009 – Neutral – Target $0.20

See last page for important disclosures and analyst certification.

3) **Maintaining Neutral Recommendation – Lowering Target Price: We are maintaining our Neutral recommendation but lowering our price target to $0.20 (from $2.00) based on book value discounted 50% for near-term cash burn and expected shareholder dilution due to capital financing needs.** The current difficult capital raising conditions and overall market sentiment continue to hamper Genaera's progress. This has resulted in reduced visibility on trial progression and partnership prospects. While we note that Trodusquemine appears to be progressing satisfactorily though early-stage clinical testing and MedImmune may have the clinical holds lifted, **we are terminating research coverage at this time due to a lack of definitive near- and medium-term catalysts.**

PIPELINE PRODUCTS

MSI-1436 (Trodusquemine

MSI-1436 (trodusquemine) is an inhibitor of PTP1B (Protein Tyrosine Phosphatase 1B), an enzyme which plays a critical role in both insulin and leptin signaling. This drug inhibits PTP1B activity in liver tissue and is known to cross the blood-brain barrier. Preclinical data described weight loss in wild type and genetically obese rodents during MSI-1436 therapy. Body composition analyses demonstrate that the weight loss is targeted to adipose tissue with sparing of lean mass. Although the drug is manufactured synthetically, MSI-1436 is a naturally-occurring cholestane originally derived from the liver of the dogfish shark, *Squalus acanthias*.

Phase Ib Trial for Overweight and Obese Type II Diabetes Patients (MSI-1436C-102)

This trial is to establish multiple dose pharmacokinetics (PK) and expands the safety database for MSI-1436 in a population of overweight and obese adult type II diabetic subjects who are poorly controlled on metformin. The study also evaluates key secondary outcomes in this population, including oral glucose tolerance and insulin sensitivity, satiety and weight loss. The trial uses multiple ascending doses in 3 initial cohorts is planned (23 days in-house, 42 day total follow-up) with additional cohorts if required to explore higher dose safety and PK. The initial projected initial doses are 3, 6, and 10 mg/m2 with the first 3 cohorts likely to be every third day (q3d) dosing for 21 days enrolling 7 obese and overweight type 2 diabetic patients (naïve or metformin failures) per cohort (5 treated, 2 placebo). The Primary Endpoints are safety and multiple dose PK with Secondary Endpoints of oral glucose tolerance and insulin sensitivity; satiety and weight loss.

➔ **Phase Ib Trial MSI-1436C-102 Cohort 1 data announced:** On February 10th 2009 Genaera announced the data the first cohort in their Phase Ib trial. Data from cohort 1, in which eight doses of 3mg/m2 of MSI-1436 were administered over 21 days to overweight and obese Type II diabetic subjects, demonstrated meaningful improvement in four primary outcomes used to evaluate type 2 diabetes, including:

- A 9.5% decrease in fasting blood glucose with a resulting 17% differential compared to placebo subjects in the same cohort
- A 7% decrease in the area under the curve during the oral glucose tolerance test
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Phase I Trial for Overweight and Obese Type II Diabetes Patients (MSI-1436C-103)

On January 18, 2008, Genaera announced that dosing had begun in study MSI-1436C-103, the **ascending single dose** Phase I study of trodusquemine (MSI-1436), in overweight and obese type II diabetics. MSI-1436 is a novel therapeutic for the treatment of type II diabetes and obesity which works centrally and peripherally to regulate insulin and leptin receptor signaling through inhibition of its novel target enzyme PTP-1B. The randomized, vehicle-controlled study is enrolling otherwise healthy overweight and obese type II diabetic volunteers to evaluate the safety, tolerability, and pharmacokinetics of ascending single doses of intravenously administered MSI-1436 in this special population. The ascending single dose protocol will initially enroll approximately 28 subjects at four dose levels (3, 6, 10, and 15 mg/m2). Details of the trial design can be seen at http://clinicaltrials.gov/ct2/show/NCT00606112

Interim Phase I results were favorable and presented at the CBI 4th Annual Obesity Drug Development Summit on July 25, 2008:

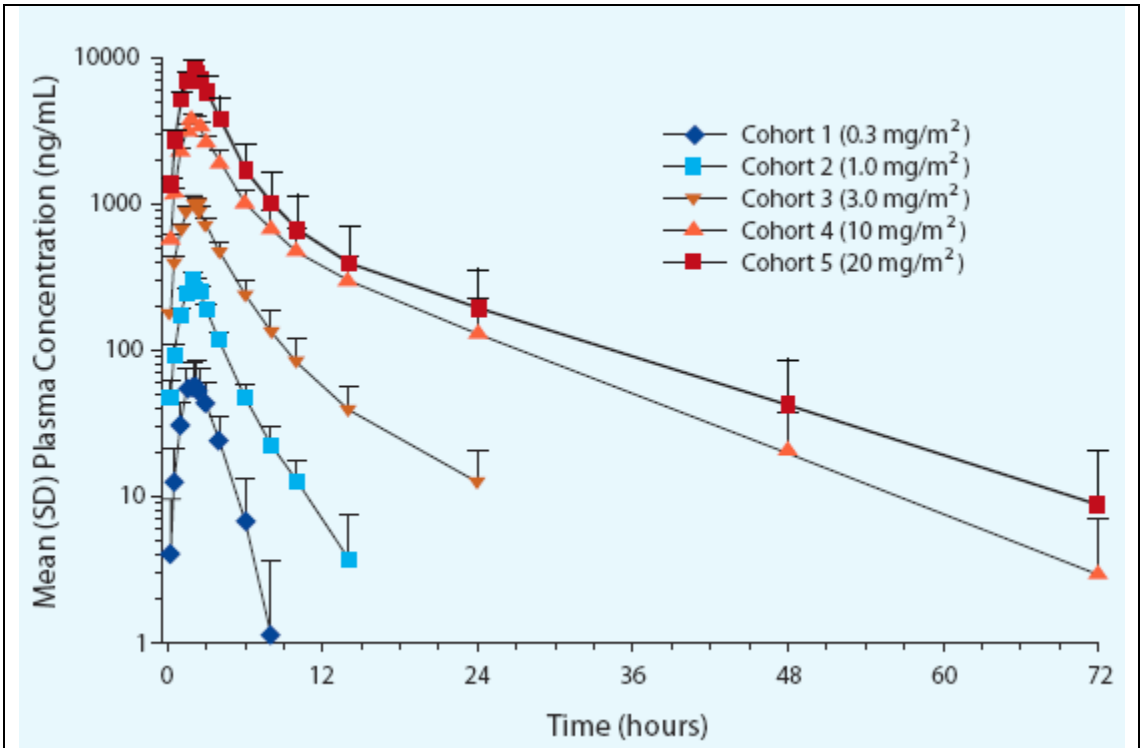
- ✓ No Serious Adverse Events (SAEs) Reported
- ✓ There were no discontinuations due to Adverse Events
- ✓ No significant changes in vital signs, cardiovascular, clinical or hematology parameters
- ✓ There were no safety signals, and the AE profile was consistent with that of placebo (vehicle)

Drug-related Adverse Events:
Two (2/28) grade 1 infusion site reactions
One (1/28) grade 1 nausea

Phase I Results Presented at NAASO for Overweight Obese Non-Diabetic (MSI-1436C-101)

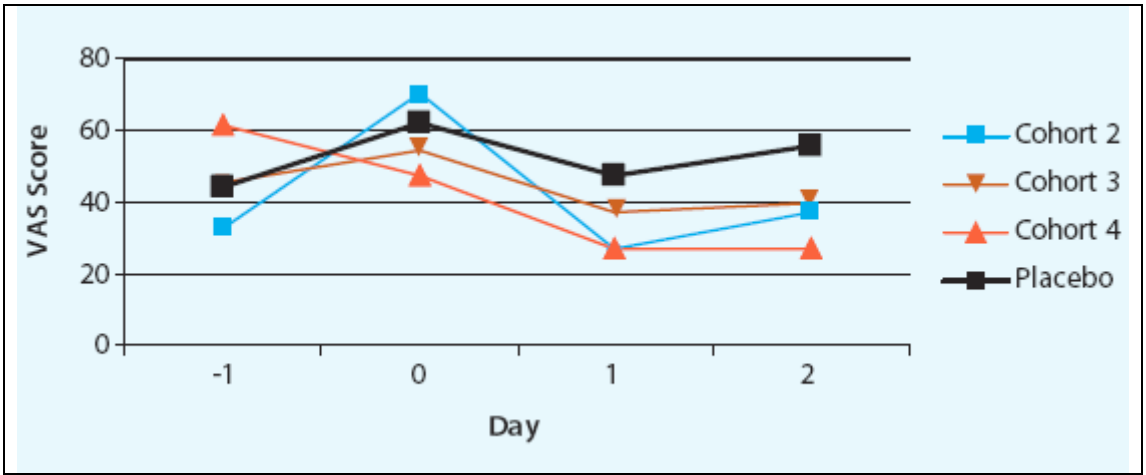
Phase I **single ascending dose** clinical trial results in overweight and obese (non-diabetic) volunteers were presented at the North American Association for the Study of Obesity (NAASO) Annual Meeting on October 25, 2007.

The pharmacokinetic profile of Trodusquemine showed a consistent pattern with minimal subject-to-subject variability and linearity across the range of doses studied as shown:



Source: First in Human Use of MSI-1436 (Trodusquemine), a Centrally and Peripherally Acting Selective PTP1B Inhibitor Anthony DelConte, MD1; Philip Leese, MD2; James Ellis, BA1; Michael Gast, MD, PhD11Plymouth Meeting, Pennsylvania, USA; 2Overland Park, Kansas, USA

The question "How Hungry Are You?" using a Visual Analog Scale (VAS) of Hunger and Satiety was asked to patients on the day of check-in (Day -1), day of infusion (Day 0), and the following 2 days. The questions were asked prior to and 2 hours after lunch on each day. Answers given before lunch are shown here. (Cohort 1 data were not available.)



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MSI-1436 appeared well tolerated, with no evidence of serious adverse events. However, Genaera closed enrollment in the 40 mg/m2 cohort (not shown above) due to the occurrence of nausea which although transient, was felt to be drug related. The Company saw no medical need, at this point in development, to take Study 101 to the point of organ toxicity because single doses of 40 mg/m2 are well above the anticipated clinical effect dose.

Phase I Trial for Type II Diabetes (Non-Overweight Non-Obese) Patients

On January 24, 2008, Genaera announced their IND for trodusquemine (MSI-1436) in type II diabetes (non-overweight non-obese) went into effect. It is not expected to begin enrolling patients until sometime in 2009.

IL-9 (MEDI-528) for Asthma (Currently on Clinical Hold)

IL-9 is currently in Phase II clinical trials for asthma. Genaera entered into an agreement with MedImmune (now AstraZeneca NYSE:AZN) in April 2001, whereby Genaera could receive up to $55 million in milestone payments and an estimated 10% royalty on sales. MedImmune/AstraZeneca is responsible for conducting all clinical trials.

The initial Phase II MEDI-528 results presented October 23, 2007 at the Chest Physicians Meeting appeared to be encouraging. See "*A Single Dose Of Medi-528, A Monoclonal Antibody Against Interleukin-9, Is Well Tolerated In Mild And Moderate Asthmatics In The Phase Ii Trial Mi-Cp-138*" which can be found at http://meeting.chestjournal.org/cgi/content/abstract/132/4/478

On March 19, 2008, Genaera announced that MedImmune initiated its 4th Phase IIa clinical trial of MEDI-528 (anti-IL-9 monoclonal antibody), in patients with asthma. Details of the trial can be found at http://clinicaltrials.gov/ct2/show/NCT00590720

➔ In August 2008, MedImmune reported that it had voluntarily suspended 3 ongoing Phase II studies of MEDI-528, and that its IND application for MEDI-528 for the treatment of asthma was placed on clinical hold by the FDA.

MANAGEMENT

John Armstrong, Jr., President and Chief Executive Officer: Mr. Armstrong brings to Genaera over thirty-seven years of executive responsibility in the pharmaceutical industry, with a manufacturing emphasis. He has previously served as CEO of Mills Biopharmaceuticals, a subsidiary of UroCor, Inc., and as Vice President of Business Development at UroCor. Mr. Armstrong was also President and Chief Operating Officer at Oread, Inc. Mr. Armstrong spent from 1991 to 1998 with the DuPont Merck Pharmaceutical Company where he served in various executive positions, including as President of ENDO Laboratories, and President of the global

manufacturing/quality division. Prior to that Mr. Armstrong served in numerous roles of increasing responsibility in manufacturing operations at Merck, Sharp and Dohme, Stuart Pharmaceuticals and Marion Merrell Dow.

Leanne Kelly, Chief Financial Officer: Ms. Kelly has served as Genaera's Senior Vice President of Corporate Communications since November 2006. Prior to that, she had served as Vice President, Finance since January 2006, Interim Chief Financial Officer in 2003 and Controller since December 2002. Prior to joining Genaera, Ms. Kelly was Controller of Lamina Ceramics, Inc. Ms. Kelly also served as Senior Financial Analyst and SEC Accountant at Luminant Worldwide Corporation and Senior Auditor with KPMG, LLP.

RISKS

We believe a position with Genaera Corporation involves the following risks:

- **Need to Raise Additional Funds:** Genaera had $8.1M in cash as of December 31st which we project to yield approximately 7 months at our projected burn rate. Unless a substantial partnership agreement occurs, we believe that Genaera may be required to raise additional funds ,which has the possibility to significantly dilute existing shareholders.

- **Clinical Trial and Regulatory Risks:** Serious unwanted and unexpected side effects, lack of efficacy or insufficient clinical data may delay or preclude regulatory approval of some or all of Genaera's drug candidates.

- **Sector Rotation:** Genaera is a small specialty pharmaceuticals company often kept in a portfolio with similar companies. In such cases, a significant event for one company may have a material impact on the valuation of all similar companies regardless of their unique qualities.

GENAERA
Consolidated Income Statement
(in $000, except EPS)

FYE December 31

Segment Revenue Estimates	2005	2006	2007	1Q08	2Q08	3Q08	4Q08	2008
Obesity Revenue - U.S.	-	-	-	-	-	-	-	-
Obesity Revenue - ROW	-	-	-	-	-	-	-	-
Milestones / IL-9	0.4	0.9	2.7	1.3	-	0.1	0.1	1.5
Net Sales	0.4	0.9	2.7	1.3	-	0.1	0.1	1.5
Cost of Sales	-	-	-	-	-	-	-	-
Gross Profit	0.4	0.9	2.7	1.3	-	0.1	0.1	1.5
Research & Development	21.7	17.6	13.1	3.8	3.5	2.1	2.3	11.7
Sales & Marketing	-	-	-	-	-	-	-	-
General & Administrative	5.9	6.0	6.7	2.2	1.4	1.5	1.4	6.5
Total Operating Expenses	27.7	23.6	19.8	6.0	4.9	3.6	3.7	18.2
Income from Operations	(27.3)	(22.7)	(17.1)	(4.7)	(4.9)	(3.5)	(3.6)	(16.7)
Interest Income	0.9	1.6	1.2	0.2	0.1	0.1	-	0.4
Interest Expense	-	-	-	-	-	-	-	-
Foreign Exchange Gain(Loss)	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
Total Other Income/Expense	0.9	1.6	1.2	0.2	0.1	0.1	-	0.4
Income Before Tax	(26.4)	(21.1)	(15.9)	(4.5)	(4.8)	(3.4)	(3.6)	(16.3)
Provision for Income Taxes	-	-	(0.2)	(0.3)	-	-	-	(0.3)
Net Income	(26.4)	(21.1)	(15.7)	(4.2)	(4.8)	(3.4)	(3.6)	(16.0)
Preferred Dividends-paid	-	-	-	-	-	-	-	-
Preferred Dividends-deemed	-	-	-	-	-	-	-	-
Net income to common stock	(26.4)	(21.1)	(15.7)	(4.2)	(4.8)	(3.4)	(3.6)	(16.0)
EPS - Basic & Diluted	($0.44)	($0.24)	($0.90)	($0.24)	($0.27)	($0.19)	($0.21)	($0.92)
Shares Outstanding - Basic & Diluted	60.6	87.0	17.5	17.5	17.5	17.5	17.4	17.5

5/15/07 1:6 Reverse Split

Balance Sheets
(in $millions)

Assets:	12/31/04	12/31/05	12/31/06	12/31/07	12/31/08
Cash and Cash Equivalents	$32.2	$32.2	$33.8	$20.9	$8.1
Accrued Interest	0.0	0.0	0.0	0.0	0.0
Prepaid Expenses	0.6	0.9	0.6	0.3	0.2
Assets Available for Sale	0.0	0.0	0.0	0.0	0.0
Other Current	0.0	0.0	0.0	0.0	0.0
Total Current Assets	$32.8	$33.1	$34.4	$21.2	$8.3
Property & Equip, net	0.7	0.9	0.8	0.4	0.1
Patents	0.0	0.0	0.0	0.0	0.0
Goodwill	0.0	0.0	0.0	0.0	0.0
Other Assets	0.0	0.0	0.0	0.1	0.0
TOTAL ASSETS	$33.5	$34.0	$35.2	$21.7	$8.4
Liabilities:					
Accounts Payable	$3.9	$5.9	$2.4	$3.4	$1.0
Accrued Expenses	0.0	0.0	0.0	0.0	0.0
Accrued Wages	0.0	0.0	0.0	0.0	0.0
Other Current Liabilities	0.0	0.0	0.0	0.0	0.0
Current Portion of LTD	0.0	0.0	0.0	0.0	0.0
Total Current Liabilities	$3.9	$5.9	$2.4	$3.4	$1.0
Deferred Revenue LT	0.0	0.0	0.0	0.0	0.0
Long-Term Note	0.0	0.0	0.0	0.0	0.0
Deferred Taxes	0.0	0.0	0.0	0.0	0.0
Other Long-Term Liabilities	0.5	1.8	1.8	0.1	0.0
Minority Interest	0.0	0.0	0.0	0.0	0.0
Stockholders' Equity	29.1	26.3	31.0	18.2	7.4
TOTAL LIAB. & EQ	$33.5	$34.0	$35.2	$21.7	$8.4

DISCLOSURES

Initiated May 3, 2005 – Spec. Buy – Price Target $5.00
Update July 6, 2006 – Spec. Buy – Price Target $1.50
Downgrade November 13, 2006 – Neutral – Price Target $3.00 (split adjusted)
Update August 14, 2008 – Neutral – Price Target $2.00
Update March 9, 2009 – Neutral – Price Target $0.20

Analyst Certification: The analyst(s) whose name appears on this research report certifies that 1) all of the views expressed in this report accurately reflect his personal views about any and all of the subject securities or issuers discussed; and 2) no part of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst in this research report; and 3) All Dawson James employees, including the analyst(s) responsible for preparing this research report, may be eligible to receive non-product or service specific monetary bonus compensation that is based upon various factors, including total revenues of Dawson James and its affiliates as well as a portion of the proceeds from a broad pool of investment vehicles consisting of components of the compensation generated by investment banking activities, including but not limited to shares of stock and/or warrants, which may or may not include the securities referenced in this report.

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Ratings definitions: 1) Speculative Buy: the stock is expected to appreciate and produce a total return of at least 30% over the next 12-18 months but **the volatility and investment risk is substantially higher** than our "Strong Buy" recommendation; **2) Strong Buy:** the stock is expected to appreciate and produce a total return of at least 30% over the next 12-18 months; **3) Buy:** the stock is expected to appreciate and produce a total return of at least 20% over the next 12-18 months; **4) Neutral:** the stock is fairly valued for the next 12-18 months; **5) Sell:** the stock is expected to decline at least 20% over the next 12-18 months and should be sold; **6) Sell Short:** the stock is expected to decline at least 30% over next 12-18 months and should be sold short, however **the volatility and investment risk is substantially higher** than our "Sell" recommendation; **7) Under Review:** the previous rating and/or price target is suspended due to a significant event which now requires additional analysis and the previous rating and/or price target cannot be relied upon; and **8) Restricted:** coverage cannot be initiated or has been temporarily suspended to comply with applicable regulations and/or firm policies in certain circumstances such as investment banking or an advisory capacity involving the company.

	Company Coverage		**Investment Banking**	
Ratings Distribution	# of Companies	% of Total	# of Companies	% of Totals
Speculative Buy	6	60%	4	67%
Strong Buy	1	10%	0	0%
Buy	1	10%	0	0%
Neutral	2	20%	2	100%
Sell	0	0%	0	0%
Sell Short	0	0%	0	0%
Under Review	0	0%	0	0%
Restricted	0	0%	0	0%
Total	10	100%	6	60%

Information about valuation methods and risks can be found in the "STOCK VALUATION" and "RISKS" sections of this report.

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