

# Genaera Liquidating Trust 2009 Trust Financial Statements

## Table of Contents

Introduction.....	1
Grantor Tax Letter (as posted on website) .....	3
Tax Impact to Unitholders (as posted on website).....	5
Financial Statements of the Trust using Liquidation GAAP .....	6

## Introduction

This booklet provides an update to Unitholders and 2009 financial information, including financial statements, of the Genaera Liquidating Trust (the "Trust") as required by Article V, Section 5.9(a) of the Genaera Liquidating Trust Agreement dated June 12, 2009 pursuant to the Plan of Complete Liquidation and Dissolution of Genaera Corporation.

Also included in the booklet is the 2009 Grantor Letter that provides Federal income tax information to allow Unitholders (holder of beneficial interest in the Trust) to determine their pro rata share of taxable income and deductions attributable to their beneficial interest in the Trust. This information was previously distributed and provided on the Trust website, [www.genaera.com](http://www.genaera.com).

## Status of the Trust

As of the date of this report, the Trustee has completed the sale of the trodusquemine and squalamine assets and is in negotiations to monetize the IL9 asset (licensed to MedImmune, Inc., a wholly owned subsidiary of AstraZeneca plc) and the pexiganan acetate asset, which was re-acquired from Access Pharmaceuticals in late 2009. When the disposition of these assets is completed the Trustee will post a report on the Trust website regarding those transactions and also a narrative describing the entire liquidation wind-down process.

PLEASE NOTE that in an effort to conserve costs and maximize potential distributions, all future notices regarding material events, including assets sales and distribution notices, will be provided on the Trust's website, [www.genaera.com](http://www.genaera.com), and will not be mailed to individual Unitholders.

The Trustee can not provide any projection with respect to the timing or amount of distributions to Unitholders for the reasons cited in the footnotes accompanying the Trust financial statements. The Trustee is working diligently to resolve claims and realize the value of the non-cash assets held by the Trust in order to facilitate a distribution.

## General Tax Information

For Federal income tax purposes, the Trust is treated as a "grantor" trust. As such, the Trust is not subject to Federal income tax. Instead, each Unitholder is deemed to own his, her or its proportionate share of the underlying Trust assets and is required to report income and deductions associated with the Trust for the period ending concurrent with the Unitholder's taxable year end.

**IRS Circular 230 Notice Requirement. This communication is not given in the form of a covered opinion, within the meaning of Circular 230 issued by the United States Secretary of the Treasury. Thus, we are required to inform you that you cannot rely upon any tax advice contained in this communication for the purpose of avoiding United States federal tax penalties. In addition, any tax advice contained in this communication may not be used to promote, market or recommend a transaction to another party.**

THE TRUSTEE CAN NOT AND DOES NOT PROVIDE INCOME TAX ADVICE OR GUIDANCE TO ANY UNITHOLDER AS EACH UNITHOLDER MAY HAVE INCOME TAX SITUATIONS THAT REQUIRE TAX REPORTING OTHER THAN WHAT HAS BEEN DESCRIBED IN THIS BOOKLET. THE TRUSTEE RECOMMENDS AND URGES EACH UNITHOLDER TO CONSULT HIS, HER OR ITS TAX ADVISOR ON ALL TAX COMPLIANCE MATTERS.

## **Genaera Liquidating Trust 2009 Trust Financial Statements**

The Trustee had filed the Form 1041 for the Trust as a grantor trust pursuant to Treasury Regulation section 1.671-4(a) and in accordance with Section 6.5(l) of the Plan. For the Unitholders, this booklet has been prepared to be used in the preparation of the information required for Federal income tax reporting.

### **Foreign Persons**

Nonresident alien individuals and foreign corporations ("Foreign Taxpayer(s)") who are Unitholders are subject to special tax rules with respect to their beneficial interest. Due to the complexity of these rules, it is recommended that such Foreign Taxpayers consult their tax advisors regarding their individual income tax circumstances with regard to their beneficial interest.

### **State and Local Income Tax**

Each Unitholder may be required to file state and local income tax returns and may be liable for state income tax as a result of their ownership of a beneficial interest in the Trust. The laws pertaining to income tax in any given state may vary from those of another state and from those applicable to Federal income tax. EACH UNITHOLDER IS URGED TO CONSULT THEIR TAX ADVISORS CONCERNING THIS MATTER.

March 30, 2010  
Southampton, PA

## **Genaera Liquidating Trust 2009 Trust Financial Statements**

### **Genaera Liquidating Trust Tax Information for 2009**

On June 4, 2009, Genaera Corporation's (the "Company") stockholders approved a Plan of Complete Liquidation and Dissolution of the Company (the "Plan"). Pursuant to the Plan, on June 11, 2009, the Company's Board of Directors voted to dissolve the Company, to transfer the Company's assets and liabilities to a liquidating trust and to appoint Argyce LLC as liquidating trustee. On June 12, 2009, Genaera transferred all its remaining assets and liabilities ("Trust Estate") to the Genaera Liquidating Trust ("Trust"). The stock transfer books of the Company were permanently closed on June 12, 2009. The holders of record of Genaera common stock as of the close of business on that date subsequently received on June 12, 2009 a liquidating distribution of non-trading beneficial interests in the Trust on a pro rata basis equal to their former stockholdings in the Company.

The sole purpose of the Trust is to liquidate the Trust Estate and distribute to the beneficiaries the income and proceeds therefrom in an orderly and timely manner after the payment of, or provision for, expenses and liabilities in accordance with the Genaera Liquidating Trust Agreement.

The Trust is treated for tax purposes as a grantor trust and, as such, will be disregarded for Federal income tax purposes. You will be treated as having a direct interest in an allocable portion of each asset and liability of the Trust. Consequently, an allocable portion of all items of Trust income, deductions and credits must be reported by you on your income tax return. Enclosed is a grantor's letter to advise you of taxable income and deductions of the Trust which should be reported on your 2009 tax returns.

We recommend that you consult your tax advisor concerning the specific tax consequences and tax reporting relating to the tax information provided on the grantor's letter. The Trustee can not and will not provide advice on the personal tax treatment of the tax information.

You previously should have received through your broker a Form 1099-DIV from the Company and related tax information concerning the 2009 distribution of beneficial interest in the Trust based on your shares in the Company. The distribution would have been listed in Box 9 of the Form 1099-DIV.

If you have any questions, please refer to the Trust's website at [www.genaera.com](http://www.genaera.com) or write to:

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President and CEO  
Argyce LLC, Trustee  
610 Second Street Pike  
Southampton, PA 18966  
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**Genaera Liquidating Trust  
2009 Trust Financial Statements**

**Genaera Liquidating Trust  
Employer ID Number: 27-6082987  
Grantor Letter Statement of Income/ (Loss)  
Year Ended December 31, 2009**

	In whole dollars	Per 1,000 shares	Per 100 shares	Per share
Interest income	\$ 94.66	\$ 0.01	\$ 0.00	\$ 0.0000
<b>(Enter on Form 1040, Schedule B, Part I, Line 1)</b>				
Passive income (loss) from estates and trust				
Income				
Other revenues				
Total passive income	\$ 193,811.26			
Expenses				
Other business expenses	55,230.07			
Outside services	55,696.34			
Research	4,160.06			
Total passive expenses	115,086.47			
 Total passive income (loss) from estates and trusts	 78,724.79	 \$ 4.51	 \$ 0.45	 \$ 0.0005
<b>(Enter on Form 1040, Schedule E, Part III)</b>				
Other deductions subject to 2% limitation				
Legal and professional fees	111,597.85			
Trustee fees	149,592.38			
Total other deductions subject to 2% limitation	261,190.23	\$ 14.96	\$ 1.50	\$ 0.015
<b>(Enter on Form 1040, Schedule A, Line 22)</b>				
 Other non-deductible expenses	 6.08			
 Net income per books	 \$ (182,370.78)			
 Total units outstanding	 17,464,630			

**Genaera Liquidating Trust**  
**2009 Trust Financial Statements**  
(Unaudited) (Amounts in thousands)

<b>Statement of Operations</b>	
<b>For the period June 12, 2009 through December 31, 2009</b>	
<b>Revenues:</b>	
Revenue	\$261
<b>Expenses:</b>	
General & administrative expenses	243
Income from operations	18
Net income	\$18

<b>Balance Sheet</b>	
<b>As of December 31, 2009</b>	
<b>Assets:</b>	
Cash	\$373
Receivables	5
Prepaid expenses & other assets	57
Drug development programs/intellectual property	3,719
<b>Total Assets</b>	<b>\$4,154</b>
<b>Liabilities:</b>	
Accounts payable	\$63
Accrued expenses	61
<b>Total Liabilities</b>	125
<b>Equity:</b>	
Beneficiaries' equity	4,011
Retained earnings	18
<b>Total Trust Equity</b>	<b>4,029</b>
<b>Total Liabilities &amp; Trust Equity</b>	<b>\$4,154</b>

<b>Statement of Cash Flows</b>	
<b>For the period June 12, 2009 through December 31, 2009</b>	
Net income	\$18
Decrease in accounts payable & accrued expenses	(914)
Decrease in receivables	133
Net decrease in cash	(\$764)
Cash at the beginning of the period	\$1,137
Cash at the end of the period	\$373

<b>Statement of Changes in Trust Equity</b>	
<b>For the period June 12, 2009 through December 31, 2009</b>	
Beginning balance June 12, 2009	\$4,211
Sale of intellectual property/development assets	(200)
Net income	18
Ending balance December 31, 2009	\$4,029

See accompanying notes to these financial statements

# Genaera Liquidating Trust 2009 Trust Financial Statements

## Notes to Financial Statements

### Note 1 - Organization

The Trust was established on June 12, 2009, pursuant to Genaera Corporation's ("Genaera") Plan of Complete Liquidation and Dissolution of the Company (the "Plan"). Pursuant to the Plan, the Trust was established for the purpose of liquidating and distributing the assets of Genaera in accordance with Treasury Regulation section 301.7701-4(d), with no objective for the Trust to continue or engage in the conduct of a trade or business. Pursuant to the Plan, on the Effective Date, Genaera transferred all of its assets to the Trust. On the Effective Date, the common stock transfer books of Genaera were permanently closed and all shares of its common stock were cancelled. Holders of record of Genaera common stock as of the close of business on June 12, 2009 became holders of non-trading beneficial interests in the Trust on a pro rata basis equal to their former shareholdings in Genaera on June 12, 2009.

The Trust Agreement sets forth a time limit of three years for the disposition of the Trust's assets and distribution to the unit holders unless the Trustee determines that an extension is necessary to facilitate or complete the recovery and liquidation of the Trust assets and winding up of its affairs.

The accompanying financial statements for the Trust are unaudited. In the opinion of the Trustee, the financial statements reflect all adjustments necessary for a fair presentation of the financial position and income and expenses of the Trust as prepared on a in accordance with accounting principles generally accepted in the United States of America, reflecting an entity in liquidation.

### Note 2 - Basis of Accounting

*Basis of presentation:* The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, reflecting an entity in liquidation ("GAAPLIQ"). Accordingly, certain revenue and the related assets are recognized when earned rather than when received; certain expenses are recognized when the obligation is incurred rather than when paid; and assets are reflected at their fair market value. For information concerning the financial statements prepared based on Federal Income Tax Reporting Principles ("FITR"), and a reconciliation of the Trust's GAAPLIQ to FITR, see Note 5.

*Valuation of Assets:* The Trust Equity balance on June 12, 2009 was equal to approximately \$4.2 million. The Trust Equity balance included cash, receivables and the estimated value of the remaining intellectual property and drug development assets of Genaera (collectively, the "IP and development assets"), which includes the IL-9 antibody license with MedImmune, Inc. a wholly owned subsidiary of AstraZeneca plc. (the "MEDI license"), squalamine lactate, trodusquemine and the pexiganan acetate license with MacroChem, Inc. a subsidiary of Access Pharmaceuticals, Inc.

The valuation of the IP and development assets was based upon an independent valuation of the MEDI license coupled with term sheet offers for purchase of the remaining development assets and reference to the market capitalization of Genaera Corporation at the closing trade on June 11, 2009. The Trust received \$200,000 from the sale of squalamine lactate and trodusquemine in August of 2009. In addition, the Trust regained control of the pexiganan acetate asset in late December 2009. The Trust is currently pursuing options for the monetization of the remaining IP and development assets. The value of the remaining IP and development assets that may be realized by the Unitholders may be greater or less than the amount reflected on the balance sheet of the Trust.

*Income taxes:* The Trust is treated as a grantor trust and not a corporation. Accordingly, any income or loss of the Trust will not be taxable to the Trust but will be taxable to the holders of beneficial interests in the Trust, as if such holders had themselves realized the income or loss from their pro rata interest in the Trust assets.

### Note 3 - Contingent Assets and Liabilities

While the Trust is not aware of any material contingent liabilities that may affect the amount of assets to be distributed to Unitholders, the Trust can not provide any assurances that additional claims may not be asserted against the Trust. Therefore, it is possible that future liabilities may be incurred affecting the amount of assets

**Genaera Liquidating Trust**  
**2009 Trust Financial Statements**

available for distribution to Unitholders.

**Note 4- Future Distribution of Trust Assets**

The Trustee can not provide any projection with respect to the timing or amount of distributions to Unitholders for the reasons cited in these footnotes. The Trustee is working diligently to resolve claims and realize the value of the non-cash assets held by the Trustee in order to facilitate a distribution.

**Note 5 - Differences between Accounting Principles Generally Accepted in the United States of America, Reflecting an Entity in Liquidation and Federal Income Tax Reporting Principles**

These financial statements have been prepared in accordance with GAAPLIQ which differ in certain respects with those principles and practices that the Trust would have followed had its financial statements been prepared in accordance with FITR.

The material differences between FITR and GAAPLIQ, which are relevant to the Trust's Statement of Operation, Balance Sheet, Statement of Cash Flows and Statement of Changes in Trust Equity, are summarized as follows:

*Accounting for Prepaid Expenses*

For GAAPLIQ, prepaid expenses are recognized as an asset when paid and expensed as services are incurred or assets are received, while for FITR, prepaid expenses are recorded when paid.

*Accounting for Accrued Liabilities*

For GAAPLIQ, accrued liabilities are recognized as a liability in the period the assets are purchased or the services are incurred while for FITR, accrued liabilities are recorded when paid.

The effect of different treatments described above on the Trust's financial statements would be as follows:

- a. In December 2009, the Trust paid for insurance coverage from the period beginning on January 1, 2010 and ending on December 31, 2010. Under GAAPLIQ, this expense was recorded as an asset. For the year ended December 31, 2008, approximately \$32,000 of additional insurance expense would have been incurred under FITR.
- b. During 2009 the Trust incurred expenses for patent annuity maintenance fees which are payable upon renewal. Under GAAPLIQ, this expense was recorded as an asset. For the year ended December 31, 2009, approximately \$23,000 of additional patent filing fee expense would have been incurred under FITR.
- c. The Trust incurs legal and administrative costs each month. Under GAAPLIQ, such expenses are recognized when the obligation is incurred. For the year ended December 31, 2009, approximately \$7,000 of legal expenses would not have been incurred until 2010 under FITR.
- d. The ending balance sheet includes an accrual for expenses related to a disputed contract. For the year ended December 31, 2009 approximately \$54,000 of subscription expense would not have been incurred under FITR.