MATTEL INC /DE/
Form 424B2
March 05, 2008
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Filed Pursuant to Rule 424(b)(2)
Registration No. 333-134740

Prospectus Supplement

March 4, 2008

(To Prospectus dated June 5, 2006)

$350,000,000

5.625% Notes due 2013

Mattel will pay interest on the Notes on March 15 and September 15 of each year, beginning September 15, 2008. The Notes will mature on March 15, 2013. The Notes are redeemable, in whole or in part, at any time or from time to time under a make-whole redemption provision described in this prospectus supplement. If a change in control triggering event as described herein occurs, unless we have exercised our option to redeem the Notes, we will be required to offer to repurchase the Notes at the price described in this prospectus supplement. The Notes will be issued only in minimum denominations of $2,000 and integral multiples of $1,000.

The Notes will be Mattel s senior unsecured obligations and will rank equally with Mattel s existing and future senior unsecured indebtedness.

The Notes will not be listed on any securities exchange. Currently, there is no public market for the Notes.

Investing in the Notes involves risk. See Risk Factors beginning on page S-8 of this prospectus supplement.

	Per Note	Total
Public offering price(1)	99.795%	$ 349,282,500
Underwriting discount	0.600%	$ 2,100,000
Proceeds (before expenses) to Mattel(1)	99.195%	$ 347,182,500

(1) Plus accrued interest, if any, from March 7, 2008, if settlement occurs after that date.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the Notes or determined that this prospectus supplement or the accompanying prospectus is accurate or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the Notes to purchasers through the book-entry delivery system of The Depository Trust Company for the accounts of its participants, including Clearstream and the Euroclear System, on or about March 7, 2008, against payment in immediately available funds.

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be registered	Maximum offering price per unit	Maximum aggregate offering price	Amount of registration fee (1)
5.625% Notes due 2013	$350,000,000	99.795%	$349,282,500	$13,727

(1) Calculated pursuant to Rule 457(o) and (r) under the Securities Act of 1933.

Joint Book-Running Managers

Banc of America Securities LLC **RBS Greenwich Capital**

Co-Managers

BNP PARIBAS

Citi

SOCIETE GENERALE

Banca IMI

Barclays Capital

CALYON

Wachovia Securities

Wells Fargo Securities

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You should rely only on the information contained or incorporated by reference in this prospectus supplement or the accompanying prospectus. We have not, and the underwriters have not, authorized anyone to provide you with information that is different. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale of these securities is not permitted. This document may only be used where it is legal to sell these securities. You should assume that the information in this prospectus supplement and the accompanying prospectus is accurate only as of the date on the cover page of this prospectus supplement and that any information we have incorporated by reference is accurate only as of the date of the document incorporated by reference.

Unless the context requires otherwise or unless otherwise indicated, references to Mattel and to we, us, or our refer collectively to Mattel, Inc. and its subsidiaries.

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ABOUT THIS PROSPECTUS SUPPLEMENT

This document is in two parts. The first is this prospectus supplement, which describes the specific terms of this offering. The second part, the accompanying prospectus, gives more general information, some of which may not apply to this offering. This prospectus supplement also adds to, updates, and changes information contained in the accompanying prospectus. If the description of the offering varies between this prospectus supplement and the accompanying prospectus, you should rely on the information in this prospectus supplement. The accompanying prospectus is part of a registration statement that we filed with the Securities and Exchange Commission, or SEC, using a shelf registration statement. Under the shelf registration process, from time to time, we may offer and sell debt securities, warrants or other rights, stock purchase contracts, units, common stock, preferred stock or depositary shares, or any combination thereof, in one or more offerings.

It is important that you read and consider all of the information contained in this prospectus supplement and the accompanying prospectus in making your investment decision. You should also read and consider the information in the documents to which we have referred you in Incorporation by Reference on page iii of this prospectus supplement and Where You Can Find More Information on page 2 of the accompanying prospectus.

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INCORPORATION BY REFERENCE

The SEC allows us to incorporate by reference information into this prospectus supplement and the accompanying prospectus. This means that we can disclose important information to you by referring you to another document that Mattel has filed separately with the SEC that contains that information. The information incorporated by reference is considered to be part of this prospectus supplement and the accompanying prospectus. Information that Mattel files with the SEC after the date of this prospectus supplement will automatically modify and supersede the information included or incorporated by reference in this prospectus supplement and the accompanying prospectus to the extent that the subsequently filed information modifies or supersedes the existing information. We incorporate by reference:

- our Annual Report on Form 10-K for the fiscal year ended December 31, 2007; and
- any future filings we make with the SEC under Sections 13(a), l3(c), 14 or 15(d) of the Securities Exchange Act of 1934 (as amended, the Exchange Act) until we sell all of the securities offered by the prospectus supplement.

You may request a copy of any of these filings at no cost by writing to or telephoning us at the following address and telephone number:

Mattel, Inc.

Attention: Secretary

333 Continental Boulevard

El Segundo, CA 90245-5012

(310) 252-2000

In addition, these filings are available on our website at http://www.mattel.com. Our website does not form a part of this prospectus supplement or the accompanying prospectus.

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SUMMARY

The information below is a summary of the more detailed information included elsewhere in or incorporated by reference in this prospectus supplement. You should read carefully the following summary in conjunction with the more detailed information contained in this prospectus supplement, including the Risk Factors section beginning on page S-8, the accompanying prospectus and the information incorporated by reference. This summary is not complete and does not contain all of the information you should consider before purchasing the Notes. You should carefully read the Risk Factors section beginning on page S-8 of this prospectus supplement to determine whether an investment in the Notes is appropriate for you.

Mattel, Inc.

General

Mattel, Inc. designs, manufactures, and markets a broad variety of toy products worldwide through sales to its customers and directly to consumers. Mattel s vision is to provide the world s premier toy brands today and tomorrow. Management has set six key company strategies: (i) improve execution of the existing toy business; (ii) globalize the brands; (iii) extend the brands into new areas; (iv) catch new trends, create new brands, and enter new categories; (v) develop people; and (vi) improve productivity, simplify processes, and maintain customer service levels.

Mattel believes its products are among the most widely recognized toy products in the world. Mattel s portfolio of brands and products are grouped in the following categories:

Mattel Girls & Boys Brands including Barbie® fashion dolls and accessories (Barbie®), Polly Pocket®, Little Mommy®, Disney Classics, Pixel Chix®, and High School Musical (collectively Other Girls Brands), Hot Wheels®, Matchbox®, and Tyco® R/C vehicles and playsets (collectively Wheels), and CARS, Radica® products, and games and puzzles (collectively Entertainment).

Fisher-Price Brands including Fisher-Price®, Little People®, BabyGear, and View-Master® (collectively Core Fisher-Price®), Sesame Street®, Dora the Explorer, Winnie the Pooh, Go-Diego-Go!, and See N Say® (collectively Fisher-Price® Friends), and Power Wheels® .

American Girl Brands including Just Like You®, the historical collection and Bitty Baby® . American Girl Brands products are sold directly to consumers, and its children s publications are also sold to certain retailers.

Mattel s reportable segments are separately managed business units and are divided on a geographic basis between domestic and international.

Domestic Segment

The Domestic segment develops toys that it markets and sells through the Mattel Girls & Boys Brands US, Fisher-Price Brands US, and American Girl Brands segments.

In the Mattel Girls & Boys Brands US segment, Barbie® includes brands such as Barbie® fashion dolls and accessories and Barbie® Collector, and Polly Pocket®, Pixel Chix®, Little Mommy®, High School Musical, and Disney Classics are included within Other Girls Brands. Wheels is comprised of Hot Wheels®, Matchbox®, and Tyco® R/C vehicles and playsets. Entertainment includes CARS and Radica® products, as well as games and puzzles.

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In 2008, Mattel expects to introduce new products, including continuing to leverage content within its core brands. For Mattel Girls Brands, new product introductions include full-length animated launches of *Barbie®: Mariposa* in spring 2008, and *Barbie and the Diamond Castle* and *Barbie® in a Christmas Carol* in fall 2008. Polly Pocket® will be expanding its products in 2008 with Polly Pop N Swap products. New Wheels products will include innovative Trick Tracks sets for Hot Wheels®, and Power Scouts powered toys for Matchbox®. Mattel will introduce new products for Entertainment properties such as Warner Bros. Pictures upcoming Batman *The Dark Knight* and *Speed Racer* movies, and DreamWorks Animation s movie, *Kung Fu Panda* Mattel will also expand on the success of its Disney Pixar CARS products. New games and puzzles products will include Scene It? Seinfeld, Apples to Apples® game properties, and the expansion of Radica® s 2Q Girl Tech®, and U.B. FUNKEYS products.

The Fisher-Price Brands US segment includes Fisher-Price®, Little People®, BabyGear, View-Master®, Sesame Street®, Dora the Explorer, Go-Diego-Go!, Mickey Mouse Clubhouse, Winnie the Pooh, My Friends Tigger & Pooh, Handy Manny, See N Say®, and Power Wheels®. New product introductions for 2008 are expected to include Smart Bounce & Spin Pony, Little People® Learn About Town, GeoAir High Flyin Airport, Kid-Tough® DVD Player, Power Wheels® A.T. Rex, Elmo Live, Dora Designer Dollhouse, Dora Prance & Fly Pegasus , Handy Manny 2-in-1 Transforming Tool Truck, Go-Diego-Go! Dinosaur Rescue Mountain, and the Mickey Motors Raceway.

The American Girl Brands segment is a direct marketer, children s publisher, and retailer best known for its flagship line of historical dolls, books, and accessories, as well as the Just Like You® and Bitty Baby® brands. American Girl Brands also publishes best-selling Advice & Activity books and the award-winning *American Girl* ® magazine. In January 2008, American Girl® introduced Mia, the newest Girl of the Year® doll. In addition, American Girl®, along with HBO Films and Picturehouse, is releasing its first feature film, *Kit Kittredge* ®: *An American Girl* ® based on one of the most popular historical characters. New product introductions for 2008 are expected to include six new Bitty Twins® dolls. American Girl Brands products are sold only in the U.S. and Canada.

International Segment

Products marketed by the International segment are generally the same as those developed and marketed by the Domestic segment, with the exception of American Girl Brands, although some are developed or adapted for particular international markets. Mattel s products are sold directly to retailers and wholesalers in most European, Latin American, and Asian countries, and in Australia, Canada, and New Zealand, and through agents and distributors in those countries where Mattel has no direct presence.

Mattel s International segment revenue represented 49% of worldwide consolidated gross sales in 2007.

Manufacturing and Materials

Mattel manufactures toy products for all segments in both company-owned facilities and through third-party manufacturers. Products are also purchased from unrelated entities that design, develop, and manufacture those products. To provide greater flexibility in the manufacture and delivery of its products, and as part of a continuing effort to reduce manufacturing costs, Mattel has concentrated production of most of its core products in company-owned facilities and generally uses third-party manufacturers for the production of non-core products.

Product Design and Development

Through its product design and development group, Mattel regularly refreshes, redesigns, and extends existing toy product lines and develops innovative new toy product lines for all segments. Mattel believes its

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success is dependent on its ability to continue this activity effectively. Product design and development activities are principally conducted by a group of professional designers and engineers employed by Mattel. During 2007, 2006, and 2005, Mattel spent $189.4 million, $173.5 million, and $182.0 million, respectively, in connection with the design and development of products, exclusive of royalty payments.

Additionally, independent toy designers and developers bring concepts and products to Mattel and are generally paid a royalty on the net selling price of products licensed to Mattel. These independent toy designers may also create different products for other toy companies.

Advertising and Marketing

Mattel supports its product lines with extensive advertising and consumer promotions. Advertising takes place at varying levels throughout the year and peaks during the traditional holiday season. Advertising includes television and radio commercials, and magazine and newspaper advertisements. Promotions include in-store displays, sweepstakes, merchandising materials, and major events focusing on products and tie-ins with various consumer products companies.

Sales

Mattel s products are sold throughout the world. Products within the Domestic segment are sold directly to retailers, including discount and free-standing toy stores, chain stores, department stores, other retail outlets and, to a limited extent, wholesalers by Mattel Girls & Boys Brands US and Fisher-Price Brands US. Mattel also operates several small retail outlets, generally near or at its corporate headquarters and distribution centers as a service to its employees and as an outlet for its products. American Girl Brands products are sold directly to consumers and its children s publications are also sold to certain retailers. Mattel has five retail stores, American Girl Place® in Chicago, Illinois, New York, New York, and Los Angeles, California, and American Girl Boutique and Bistro in Atlanta, Georgia, and Dallas, Texas, each of which features children s products from the American Girl Brands segment. The American Girl Boutique and Bistro opened in Atlanta, Georgia in August 2007 and Dallas, Texas in November 2007. American Girl Brands also has a retail outlet in Oshkosh, Wisconsin that serves as an outlet for excess product. Products within the International segment are sold directly to retailers and wholesalers in most European, Latin American, and Asian countries, and in Australia, Canada, and New Zealand, and through agents and distributors in those countries where Mattel has no direct presence. Mattel also has retail outlets in Latin America and Europe as an outlet for its products. Additionally, Mattel sells certain of its products online through its website.

During 2007, Mattel s three largest customers (Wal-Mart at $1.1 billion, Toys R Us at $0.7 billion, and Target at $0.6 billion) accounted for approximately 41% of worldwide consolidated net sales in the aggregate.

Licenses and Distribution Agreements

Mattel has license agreements with third parties that permit Mattel to utilize the trademark, characters, or inventions of the licensor in products that Mattel sells. A number of these licenses relate to product lines that are significant to Mattel s business and operations.

Mattel has entered into agreements to license entertainment properties from, among others, Disney Enterprises, Inc. (including Disney characters such as Disney Princesses, CARS from Pixar, High School Musical, Winnie the Pooh, and all Disney films and television properties for use in Mattel s DVD board games, such as Scene It?sold in North America), Viacom International, Inc. relating to its Nickelodeon properties (including Dora the Explorer, Go-Diego-Go!, and SpongeBob SquarePants), Warner Bros. Consumer Products (including Batman, Superman, Justice League, and Speed Racer), and Sesame Workshop (relating to its Sesame Street® properties including Elmo).

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Mattel also licenses a number of its trademarks, characters, and other property rights to others for use in connection with the sale of non-toy products that do not compete with Mattel s products. Mattel distributes some third-party finished products that are independently designed and manufactured.

Trademarks, Copyrights and Patents

Most of Mattel s products are sold under trademarks, trade names, and copyrights, and a number of those products incorporate patented devices or designs. Trade names and trademarks are significant assets of Mattel in that they provide product recognition and acceptance worldwide.

Mattel customarily seeks patent, trademark, or copyright protection covering its products, and it owns or has applications pending for U.S. and foreign patents covering many of its products. A number of these trademarks and copyrights relate to product lines that are significant to Mattel s business and operations. Mattel believes its rights to these properties are adequately protected, but there can be no assurance that its rights can be successfully asserted in the future or will not be invalidated, circumvented, or challenged.

Employees

The total number of persons employed by Mattel and its subsidiaries at any one time varies because of the seasonal nature of its manufacturing operations. At December 31, 2007, Mattel s total number of employees was approximately 31,000.

Mattel was incorporated in California in 1948 and reincorporated in Delaware in 1968. Our executive offices are located at 333 Continental Boulevard, El Segundo, CA 90245-5012. Our telephone number at those offices is (310) 252-2000.

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The Offering

The summary below describes the principal terms of the Notes. Some of the terms and conditions described below are subject to important limitations and exceptions. See Supplemental Description of the Notes for a more detailed description of the terms and conditions of the Notes.

Issuer	Mattel, Inc.
Securities Offered	$350,000,000 aggregate principal amount of 5.625% Notes due March 15, 2013.
Interest on the Notes	Interest on the Notes is payable semi-annually on March 15 and September 15 of each year, commencing September 15, 2008, at the rate of 5.625% per year.
Further Issuances	We will have the right to issue additional Notes in the future. Any additional Notes will have the same terms (other than the original issuance date and, under certain circumstances, the initial interest payment date) as the Notes offered by this prospectus supplement, but may be offered at a different offering price than the Notes offered by this prospectus supplement. If issued, any additional Notes will become part of the same series as the Notes offered by this prospectus supplement.
Optional Redemption	Mattel may redeem all or part of the Notes at any time or from time to time at its option at a redemption price equal to the greater of (1) 100% of the principal amount of the Notes being redeemed plus accrued and unpaid interest to the redemption date and (2) a make-whole amount based on the yield of a comparable U.S. Treasury security plus 0.50%. See Supplemental Description of the Notes Optional Redemption.
Repurchase at the Option of Holders Upon a Change of Control Triggering Event	If a Change of Control Triggering Event (as defined below) occurs with respect to Mattel, unless we have exercised our right to redeem the Notes, Mattel will be required to offer to repurchase all of the Notes at a price equal to 101% of the principal amount thereof together with accrued and unpaid interest, as described more fully under Supplemental Description of the Notes Offer to Repurchase, in this prospectus supplement.
Covenants	The indenture governing the Notes contains certain covenants. See Description of Debt Securities We May Offer Other Covenants in the accompanying prospectus.
Ranking	The Notes will be senior unsecured obligations of Mattel, ranking equally in right of payment with other senior unsecured indebtedness of Mattel from time to time outstanding.

The indenture pursuant to which the Notes are issued does not limit the amount of debt that Mattel or any of its subsidiaries may incur.

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Use of Proceeds	The net proceeds, after the underwriting discount and our estimated expenses, to Mattel from the sale of the Notes offered hereby will be approximately $346.5 million, which we will use for general corporate purposes. See Use of Proceeds.
Form and Denomination	We will issue the Notes in the form of one or more fully registered global notes registered in the name of the nominee of The Depository Trust Company, or DTC. Beneficial interests in the Notes will be represented through book-entry accounts of financial institutions acting on behalf of beneficial owners as direct and indirect participants in DTC. Clearstream Banking, societe anonyme and Euroclear Bank, S.A./ N.Y., as operator of the Euroclear System, will hold interests on behalf of their participants through their respective U.S. depositaries, which in turn will hold such interests in accounts as participants of DTC. Except in the limited circumstances described in this prospectus supplement and in the accompanying prospectus, owners of beneficial interests in the Notes will not be entitled to have Notes registered in their names, will not receive or be entitled to receive Notes in definitive form and will not be considered holders of Notes under the indenture. The Notes will be issued only in minimum denominations of $2,000 and integral multiples of $1,000 in excess thereof.
Trustee, Registrar and Paying Agent	The Bank of New York Trust Company, N.A. (successor in interest to J.P. Morgan Trust Company, N.A.)
Governing Law	New York

You should carefully consider the information set forth under Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2007 and in this prospectus supplement beginning at page S-8 before deciding to invest in the Notes.

For additional information regarding the Notes, see Supplemental Description of the Notes.

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Summary Consolidated Financial Data

The summary consolidated financial data presented below as of and for the fiscal years ended December 31, 2007, 2006, 2005, 2004 and 2003 is derived from our audited financial statements. You should read this information in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the related notes incorporated herein by reference from our Annual Report on Form 10-K for the fiscal year ended December 31, 2007 incorporated herein by reference.

	For the Year Ended December 31,				
	2007	2006	2005	2004	2003
	(In thousands, except percentage information)				
Operating Results:					
Net sales (a)	$ 5,970,090	$ 5,650,156	$ 5,179,016	$ 5,102,786	$ 4,960,100
Gross profit	2,777,300	2,611,793	2,372,868	2,410,725	2,429,483
% of net sales	46.5%	46.2%	45.8%	47.2%	49.0%
Operating income	730,078	728,818	664,529	730,817	785,710
% of net sales	12.2%	12.9%	12.8%	14.3%	15.8%
Income before income taxes	703,398	683,756	652,049	696,254	740,854
Provision for income taxes (b)	103,405	90,829	235,030	123,531	203,222
Net income	$ 599,993	$ 592,927	$ 417,019	$ 572,723	$ 537,632

	At December 31,				
	2007	2006	2005	2004	2003
	(In thousands)				
Financial Position:					
Total assets	$ 4,805,455	$ 4,955,884	$ 4,372,313	$ 4,756,492	$ 4,510,950
Noncurrent liabilities	928,284	940,390	807,395	643,509	826,983
Stockholders equity	2,306,742	2,432,974	2,101,733	2,385,812	2,216,221

(a) *Effective October 1, 2003, close out sales previously classified as a reduction of cost of sales are now classified as net sales in Mattel s consolidated statements of operations. Close out sales during 2003 totaled $57.3 million. Close out sales for the fourth quarter of 2003, totaling $19.2 million, were included in reported net sales. This change in classification had no impact on gross profit, operating income, net income, net income per common share, balance sheets, or cash flows.*

(b) *The provision for income taxes in 2007 was positively impacted by net tax benefits related to prior years of $42.0 million related to reassessments of tax exposures based on the status of current audits in various jurisdictions around the world, including settlements, partially offset by enacted tax law changes. The provision for income taxes in 2006 was positively impacted by the Tax Increase Prevention and Reconciliation Act passed in May 2006, and income tax benefits of $63.0 million related to tax settlements and refunds of ongoing audits with foreign and state tax authorities. The provision for income taxes in 2005 was negatively impacted by incremental tax expense of $107.0 million, resulting from Mattel s decision to repatriate $2.4 billion in previously unremitted foreign earnings under the American Jobs Creation Act, partially offset by $38.6 million of tax benefits primarily relating to tax settlements reached with various tax authorities and reassessments of tax exposures based on the status of current audits in various jurisdictions around the world. The provision for income taxes in 2004 was positively impacted by $65.1 million of tax benefits related to an audit settlement with the U.S. Internal Revenue Service.*

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RISK FACTORS

Before purchasing these Notes, you should consider carefully the information under the heading Risk Factors in our Annual Report on Form 10-K for the fiscal year ended December 31, 2007, which is incorporated by reference in this prospectus supplement, and the following factors, each of which could materially adversely affect our operating results and financial condition as well as the other information included in this prospectus supplement, and the accompanying prospectus and incorporated by reference herein and in the accompanying prospectus. Each of the risks described in our Form 10-K and below could result in a decrease in the value of the Notes and your investment therein. Although we have tried to discuss key factors, please be aware that other risks may prove to be important in the future. New risks may emerge at any time, and we cannot predict those risks or estimate the extent to which they may affect our financial performance. The information contained, and incorporated by reference, in this prospectus supplement and in the accompanying prospectus includes forward-looking statements that involve risks and uncertainties, and we refer you to Disclosure Regarding Forward-Looking Statements in the accompanying prospectus.

An active trading market for the Notes may not develop or, if developed, be maintained.

We do not intend to list the Notes on any securities exchange. We cannot assure you that an active trading market will develop or be maintained for the Notes. If an active trading market does develop for the Notes, the Notes may trade at a discount from their initial offering price depending on prevailing interest rates, the market for similar securities, our financial performance and other factors. In addition, there may be a limited number of buyers when you decide to sell your Notes. This may affect the price, if any, offered for your Notes or your ability to sell your Notes when desired or at all.

The indenture governing the Notes does not restrict the amount of additional debt Mattel may incur or prohibit Mattel from entering into a highly leveraged transaction.

The indenture governing the Notes does not restrict the amount of unsecured indebtedness that Mattel or its subsidiaries may incur or their ability to enter into a highly leveraged transaction or another transaction that is not in the best interests of their respective creditors, including holders of the Notes. The incurrence of additional debt by Mattel or its subsidiaries may have important consequences for you as a holder of the Notes, including making it more difficult for Mattel to satisfy its obligations with respect to the Notes, a loss in the trading value of your Notes and a risk that the credit rating of the Notes is lowered or withdrawn.

A significant amount of our assets are held at, and our operations are conducted through, our subsidiaries, which results in structural subordination and may affect our ability to fund our operations and make payments on our debt.

A significant amount of our assets are held at, and our operations are conducted through, our subsidiaries. As a result, our cash flow and our ability to service our debt, including the Notes, is dependent upon the earnings of our subsidiaries and the distribution of earnings, loans or other payments by our subsidiaries to us. Our subsidiaries are separate and distinct legal entities and have no obligation to pay any amounts due on our debt or to provide us with funds for our payment obligations, whether by dividends, distributions, loans or other payments. In addition, any payment of dividends, distributions, loans or advances to us by our subsidiaries could be subject to statutory or contractual restrictions. Payments to us by our subsidiaries will also be contingent upon our subsidiaries earnings and business considerations. Our right to receive any assets of any of our subsidiaries upon their liquidation or reorganization, and therefore the right of the holders of our debt (including the Notes) to participate in those assets, would be effectively subordinated to the claims of those subsidiaries creditors, including trade creditors. In addition, even if we were a creditor of any of our subsidiaries, our rights as a creditor would be effectively subordinate to any security interest in our subsidiaries and any indebtedness of our subsidiaries senior to that held by us.

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We may not have sufficient cash to purchase the Notes, if required, upon a change of control triggering event.

We will be required to make an offer to purchase all of the Notes upon the occurrence of a change of control triggering event, as described in this prospectus supplement. We may not have sufficient cash funds to purchase the Notes under such circumstances. Future debt agreements may prohibit us from repaying the purchase price. If we are prohibited from purchasing the Notes, we could seek consent from our lenders to purchase the Notes. If we are unable to obtain their consent, we could attempt to refinance the Notes. If we were unable to purchase the Notes upon the occurrence of a change of control triggering event, it would result in an event of default under the indenture governing the Notes.

The indenture for the Notes does not restrict Mattel s ability to be acquired by highly leveraged buyers and has limited restrictions on other important events.

The indenture governing the Notes does not restrict an acquisition by a highly leveraged buyer or prohibit the buyer from incurring additional debt including significant amounts of secured debt. Any such secured debt of a buyer would be senior to the rights of holders of the Notes to the extent of the value of the assets pledged as security by such buyer. This might reduce the cash available to us, or to anyone who may acquire us, and impair our ability, or the ability of anyone who may acquire us, to make payments on the Notes.

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USE OF PROCEEDS

The net proceeds, after the underwriting discount and our estimated expenses, to Mattel from the sale of the Notes offered hereby are expected to be approximately $346.5 million. We will use the net proceeds for general corporate purposes.

CAPITAL IZATION

The following table shows our consolidated capitalization at December 31, 2007 (1) on an actual basis and (2) as adjusted to reflect the issuance and sale of the Notes. This table should be read in conjunction with our consolidated financial statements and related notes contained in our Annual Report on Form 10-K for the year ended December 31, 2007 incorporated by reference in this prospectus supplement and the accompanying prospectus. See Incorporation by Reference on page iii of this prospectus supplement.

	December 31, 2007	
	Actual	As Adjusted
	(In Millions)	
Notes offered hereby	$	$ 350.0
Floating rate notes due 2009	100.0	100.0
6.125% notes due 2011	200.0	200.0
Medium-term notes due March 2008 to November 2013	300.0	300.0
	600.0	950.0
Less: current portion	(50.0)	(50.0)
Total long-term debt	550.0	900.0
Other noncurrent liabilities	378.3	378.3
Stockholders equity	2,306.7	2,306.7
Total capitalization	$ 3,235.0	$ 3,585.0

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SUPPLEMENTAL DESCRIPTION OF THE NOTES

Please read the following information concerning the Notes in conjunction with the statements under Description of the Debt Securities We May Offer in the accompanying prospectus, which the following information supplements and, if there are any inconsistencies, supersedes. The following description is not complete. The Notes will be issued under the Indenture, dated as of February 15, 1996, related to our senior unsecured debt, that we have entered into with The Bank of New York Trust Company, N.A. as successor in interest to J.P. Morgan Trust Company, N.A. and Chemical Trust Company of California, as trustee. The Indenture is described in the accompanying prospectus and is filed as an exhibit to the registration statement under which the Notes are being offered and sold. As used in this section, references to we , us , or our do not include any current or future subsidiary of Mattel.

1,966

Total operating expenses

11,898

6,373

Loss from operations

(11,777

)

(6,373

)

Other expense:

Change in fair value of warrants	(725)
Interest expense, net	(307)
	(231)
Other expense	(307)
	(956)
Net loss	$ (12,084)
	$ (7,329)
Reconciliation of net loss to net loss applicable to common stockholders	

Net loss

$

(12,084

)

$

(7,329

)

Accretion of redeemable convertible preferred stock to redemption value

(180

)

Net loss attributable to common stockholders

$

(12,084

)

$

(7,509

)

Net loss per share attributable to common stockholders-basic and diluted

$

(0.64

)

$

(0.76

)

Weighted-average number of common shares used in net loss per share attributable to common stockholders - basic and diluted

18,834

9,859

See accompanying notes to unaudited financial statements.

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Genocea Biosciences, Inc.

Condensed Statements of Comprehensive Loss

(unaudited)

(in thousands)

	Three Months Ended March 31,	
	2015	**2014**
Net loss	$ (12,084)	$ (7,329)
Other comprehensive income:		
Unrealized gain on available-for-sale securities	11	
Comprehensive loss	$ (12,073)	$ (7,329)

See accompanying notes to unaudited financial statements.

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Genocea Biosciences, Inc.

Condensed Statements of Cash Flows

(unaudited)

(in thousands)

	Three Months Ended March 31,	
	2015	2014
Operating activities		
Net loss	$ (12,084)	$ (7,329)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation	180	78
Stock-based compensation	915	881
Net amortization of premium on investments	10	
Change in fair value of warrants liability		725
Non-cash interest expense	101	16
Changes in operating assets and liabilities:		
Restricted cash		(158)
Prepaid expenses and other current assets	(139)	(435)
Other long-term assets	(174)	723
Accounts payable	(143)	(1,095)
Deferred revenue	(121)	
Accrued expenses and other liabilities	729	60
Deferred rent	(22)	(15)
Accrued interest payable		15
Net cash used in operating activities	(10,748)	(6,534)
Investing activities		
Purchases of property and equipment	(232)	(27)
Net cash used in investing activities	(232)	(27)
Financing activities		
Proceeds from IPO, net of issuance costs		60,133
Proceeds from underwritten public offering, net of issuance costs	48,367	
Proceeds from exercise of stock options	26	26
Proceeds from the exercise of warrants		33
Net cash provided by financing activities	48,393	60,192
Net increase in cash and cash equivalents	$ 37,413	$ 53,631
Cash and cash equivalents at beginning of period	20,058	12,208
Cash and cash equivalents at end of period	$ 57,471	$ 65,839
Supplemental cash flow information		
Cash paid for interest	$ 218	$ 174
Supplemental disclosure of non-cash investing and financing activities		
Conversion of preferred stock to common stock upon closing of IPO	$	$ 81,774
Reclassification of prepaid IPO closing costs from non-current assets to additional paid-in capital	$	$ 997
Reclassification of warrants to additional paid-in capital	$	$ 1,381
Accretion of redeemable convertible preferred stock to redemption value	$	$ 180
Vesting of restricted stock	$ 3	$ 3

See accompanying notes to unaudited financial statements.

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Genocea Biosciences, Inc.

Notes to Condensed Financial Statements

(unaudited)

1. Organization and operations

The company

Genocea Biosciences, Inc. (the Company) is a clinical stage biopharmaceutical company that was incorporated in Delaware on August 16, 2006 and has a principal place of business in Cambridge, Massachusetts. The Company has two products in clinical development:

- GEN-003, an immunotherapy to treat patients with genital herpes. The Company has completed enrollment in a Phase 2 dose optimization clinical trial and expects to report top-line viral shedding and genital lesion rate changes from baseline for each dose group for the 28-day monitoring period after vaccination late in the second quarter of 2015.

- GEN-004, a universal vaccine which is being developed to prevent infections caused by all serotypes of pneumococcus. The Company has completed enrollment in a Phase 2 human challenge clinical trial and expects to report top-line data in the fourth quarter of 2015.

The Company also has other product candidates that are currently in preclinical development. The Company developed GEN-003, GEN-004 and its preclinical product candidates using its proprietary platform technology called the AnTigen Lead Acquisition System (ATLAS). The ATLAS platform mimics the human T cell immune response in the laboratory, which could potentially improve the effectiveness of vaccine discovery and reduce the time needed to create promising vaccines.

Underwritten public offering

On March 17, 2015, the Company completed an underwritten public offering of its common stock, $0.001 par value per share (Common Stock), pursuant to a shelf registration statement on Form S-3 (the Registration Statement), filed with the SEC on March 2, 2015 and a related final prospectus supplement filed on March 12, 2015. An aggregate of 6,272,726 shares of Common Stock, including the exercise in full by the underwriters of their option to purchase an additional 818,181 shares of Common Stock, registered under the Registration Statement were sold at the public offering price of $8.25 per share. Net proceeds of the underwritten public offering, after deducting the underwriting discounts and commissions, were $48.6 million, excluding offering expenses of $276 thousand incurred by the Company.

At-the-market equity offering program

In March 2015, the Company established an at-the-market (ATM) equity offering program pursuant to which it is able to offer and sell up to $40 million of its common stock at prevailing market prices from time to time. As of March 31, 2015, the Company had not commenced sales under this program.

2. Summary of significant accounting policies

Basis of presentation and use of estimates

The accompanying condensed financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). Any reference in these notes to applicable guidance is meant to refer to GAAP as found in the Accounting Standards Codification (ASC) and Accounting Standards Update (ASU) of the Financial Accounting Standards Board (FASB). Certain information and footnote disclosures normally included in the Company s annual financial statements have been condensed or omitted. These interim condensed financial statements, in the opinion of management, reflect all normal recurring adjustments necessary for a fair presentation of the Company s financial position and results of operations for the interim periods ended March 31, 2015 and 2014.

The results of operations for the interim periods are not necessarily indicative of the results of operations to be expected for the full fiscal year. These interim financial statements should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2014 and the notes thereto which are included in the Company s Annual Report on Form 10-K, as filed with the SEC on February 27, 2015.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. On an ongoing basis, the Company s management evaluates its estimates, which include, but are not limited to, estimates related to prepaid and accrued research and development expenses, stock-based compensation expense, the valuation of common stock warrants and warrants to purchase redeemable securities, and reported amounts of revenues and expenses during the reported period. The Company bases its estimates on historical experience and other market-specific or other relevant assumptions that it believes to be reasonable under the circumstances. Actual results may differ from those estimates or assumptions.

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Cash, cash equivalents and marketable securities

The Company considers all highly liquid investments with maturities of 90 days or less from the purchase date to be cash equivalents. Cash and cash equivalents are held in depository and money market accounts and are reported at fair value.

Marketable securities consist of U.S. treasury securities with maturities of more than 90 days. The Company has determined the appropriate balance sheet classification of the securities as current since they are available for use in current operating activities, regardless of actual maturity dates. Marketable securities are classified as available-for-sale pursuant to FASB ASC Topic 320, *Investments Debt and Equity Securities,*(ASC 320) and are recorded on the balance sheet at fair value with unrealized gains and losses (excluding other-than-temporary impairments) reported as a separate component of accumulated other comprehensive income (loss). Realized gains and losses, as well as other-than-temporary impairments, are recognized in the condensed statement of operations based on the specific identification method.

The Company reviews its marketable securities for other-than-temporary impairment whenever the fair value of a marketable security is less than the amortized cost and evidence indicates that a marketable security s carrying amount is not recoverable within a reasonable period of time. Other-than-temporary impairment of marketable securities are recognized in the condensed statements of operations if the Company has experienced a credit loss, has the intent to sell the marketable securities, or if it is more likely than not that the Company will be required to sell the marketable securities before recovery of the amortized cost basis.

Concentrations of credit risk and off-balance sheet risk

Financial instruments that potentially subject the Company to concentrations of credit risk are primarily cash, cash equivalents and marketable securities. The Company s cash, cash equivalents and marketable securities are held in accounts with a financial institution that management believes is creditworthy. The Company s investment policy includes guidelines on the quality of the institutions and financial instruments and defines allowable investments that the Company believes minimizes the exposure to concentration of credit risk. These amounts at times may exceed federally insured limits. The Company has not experienced any credit losses in such accounts and does not believe it is exposed to any significant credit risk on these funds. The Company has no financial instruments with off-balance sheet risk of loss.

Deferred public offering costs

At March 31, 2015, the Company had $131 thousand of deferred offering costs, which primarily consist of direct, incremental legal and accounting fees related to the Registration Statement and the initiation of an ATM equity offering program.

Fair value of financial instruments

The Company is required to disclose information on all assets and liabilities reported at fair value that enables an assessment of the inputs used in determining the reported fair values. FASB ASC Topic 820, *Fair Value Measurement and Disclosures*, established a hierarchy of inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the financial instrument based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company s assumptions about the inputs that market participants would use in pricing the financial instrument and are developed based on the best information available under the circumstances. The fair value hierarchy applies only to the valuation inputs used in determining the reported or disclosed fair value of the financial instruments and is not a measure of the investment credit quality. Fair value measurements are classified and disclosed in one of the following three categories:

- Level 1 Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

- Level 2 Valuations based on quoted prices for similar assets or liabilities in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

- Level 3 Valuations that require inputs that reflect the Company s own assumptions that are both significant to the fair value measurement and unobservable.

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To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Company in determining fair value is greatest for instruments categorized in Level 3. A financial instrument s level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Financial instruments measured at fair value on a recurring basis include cash equivalents and marketable securities (Note 3) and warrants (Note 5).

An entity may elect to measure many financial instruments and certain other items at fair value at specified election dates. Subsequent unrealized gains and losses on items for which the fair value option has been elected will be reported in net loss. The Company did not elect to measure any additional financial instruments or other items at fair value. The Company is also required to disclose the fair value of financial instruments not carried at fair value. The fair value of the Company s long-term debt (Note 4) is determined using current applicable rates for similar instruments as of the balance sheet dates and assessment of the credit rating of the Company. The carrying value of the Company s long-term debt approximates fair value because the Company s interest rate yield is near current market rates. The Company s long-term debt is considered a Level 3 liability within the fair value hierarchy.

There have been no changes to the valuation methods utilized by the Company during the three months ended March 31, 2015 and 2014. The Company evaluates transfers between levels at the end of each reporting period. There were no transfers of financial instruments between levels during the three months ended March 31, 2015 and 2014.

Reverse stock split

On January 20, 2014, the Board of Directors and stockholders approved a 1-for-11.9 reverse stock split of the Company s Common Stock, which was effected on January 21, 2014. Stockholders entitled to fractional shares as a result of the reverse stock split received a cash payment in lieu of receiving fractional shares upon the completion of our initial public offering (IPO) on February 17, 2014. The Company s historical share and per share information were retroactively adjusted to give effect to this reverse stock split. Shares of Common Stock underlying outstanding stock option were proportionately reduced and the respective exercise prices proportionately increased. Shares of Common Stock reserved for future issuance were presented on an as converted basis and the financial statements disclose the adjusted conversion ratios.

Recently adopted accounting pronouncements

Standard	Description	Date of adoption	Effect on the financial statements or other significant matters
Standards that are not yet adopted			
ASU 2014-09, *Revenue from Contracts with Customers*	The standard will replace existing revenue recognition standards and significantly expand the disclosure requirements for revenue	January 1, 2017	At this time, the Company has not decided on which method it will use to adopt the new standard, nor has it determined the effects of the new guidelines on its results of operations and financial position. For the foreseeable

(Topic 606)	arrangements. It may be adopted either retrospectively or on a modified retrospective basis to new contracts and existing contracts with remaining performance obligations as of the effective date. This ASU is effective for public entities for annual and interim periods beginning after December 15, 2016. Early adoption is not permitted under GAAP.		future, the Company s revenues will be limited to grants received from government agencies or nonprofit organizations. In April 2015, the FASB issued a proposed one year deferral to the effective date of the new standard. If the proposed one year deferral is approved, the standard will become effective for us on January 1, 2018 (the first quarter of our 2018 fiscal year). We are currently evaluating the method of adoption and the impact of this standard on our financial statements.
ASU No. 2014-15, *Disclosure of Uncertainties about an Entity s Ability to Continue as a Going Concern* (ASU 2014-15).	The standard requires a company to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity s ability to continue as a going concern. Substantial doubt about an entity s ability to continue as a going concern exists when relevant conditions and events, considered in the aggregate, indicate that it is probable that the entity will be unable to meet its obligations as they become due within one year	January 1, 2017	The Company is evaluating the effects of the new standard, but does not expect it will have a material impact on its financial conditions, results of operations, or cash flows.

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[redacted]

ASU No. 2015-03 *Interest Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs* (ASU 2015-03).	The standard requires a company to present debt issuance costs related to a recognized debt liability in the balance sheet as a direct deduction of the carrying value of the debt liability, consistent with the accounting treatment of debt discounts. This new standard is required to be adopted on a retrospective basis, wherein the balance sheet of each individual period presented should be adjusted to reflect the period-specific effects of applying the new guidance. This ASU is effective for public entities for annual and interim periods beginning after December 15, 2015. Early adoption is permitted.	January 1, 2016	As of March 31, 2015 the Company has $92 thousand of unamortized capitalized debt issuance costs that would require reclassification from an asset to a direct deduction of the carrying value of the debt liability under the new standard. The Company is evaluating other possible implications of the new standard in regards to its balance sheet presentation. The standard is not expected to have material impact on the Company s financial conditions, results of operations, or cash flows.

3. Cash, cash equivalents and marketable securities

As of March 31, 2015 and December 31, 2014, cash, cash equivalents and marketable securities comprised funds in depository, money market accounts and U.S treasury securities.

The following table presents the cash, cash equivalents and marketable securities carried at fair value in accordance with the hierarchy defined in Note 2 (in thousands):

	Total	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
March 31, 2015				
Cash	$ 311	$ 311	$	$
Money Market funds, included in cash equivalents	57,160	57,160		
Marketable securities - U.S. treasuries	27,022	27,022		
Total	$ 84,493	$ 84,493	$	$
December 31, 2014				
Cash	$ 1,066	$ 1,066	$	$
Money Market funds, included in cash equivalents	18,992	18,992		
Marketable securities - U.S. treasuries	27,021	27,021		
Total	$ 47,079	$ 47,079	$	$

Cash equivalents and marketable securities have been initially valued at the transaction price and subsequently valued, at the end of each reporting period, utilizing third party pricing services or other market observable data. The pricing services utilize industry standard valuation models, including both income-based and market-based approaches and observable market inputs to determine value. The Company validates the prices provided by its third party pricing services by reviewing their pricing methods and obtaining market values from other pricing sources. After completing its validation procedures, the Company did not adjust or override any fair value measurements provided by the pricing services as of March 31, 2015 and December 31, 2014.

Marketable securities at March 31, 2015 consist of the following (in thousands):

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	Contracted Maturity	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Current					
U.S. Treasuries	76-275 days	$ 27,018	$ 4	$	$ 27,022
Total		$ 27,018	$ 4	$	$ 27,022

4. Long-Term Debt

On November 20, 2014, the Company entered into a loan and security agreement (the Loan Agreement) with Hercules Technology Growth Capital, Inc. (Hercules), which provided up to $27.0 million in debt financing in three separate tranches (2014 Term Loan). The first tranche of $17.0 million is available through June 30, 2015, of which $12.0 million was drawn down at loan inception. The second tranche of up to $5.0 million may be drawn, at the Company s option, on or prior to December 15, 2015, subject to the Company receiving favorable data from its ongoing GEN-003 Phase 2 dose optimization trial and either (i) the commencement of the Company s next clinical trial for GEN-003 or (ii) the receipt of at least $40.0 million in net proceeds from an equity financing and/or a strategic corporate partnership. In March 2015, the Company satisfied the equity financing condition to the second tranche of the 2014 Term Loan by receiving net proceeds of $48.6 million in its underwritten public offering completed on March 17, 2015. As of March 31, 2015, the Company has not drawn down the second tranche. The third tranche of up to $5.0 million may be drawn, at the Company s option, on or prior to December 15, 2015, subject to the Company receiving favorable data from its ongoing Phase 2a human challenge study for GEN-004.

The 2014 Term Loan matures on July 1, 2018. If the eligibility requirements for the second tranche are met, the maturity date may be extended to December 31, 2018 at the Company s sole election.

Each advance accrues interest at a floating rate per annum equal to the greater of (i) 7.25% or (ii) the sum of 7.25% plus the prime rate minus 5.0%. The 2014 Term Loan provides for interest-only payments until December 31, 2015, which may be extended at the Company s sole election for a six month period if the eligibility requirements for the second tranche are met. Thereafter, payments will be made monthly in 30 equal installments of principal and interest (subject to recalculation upon a change in prime rates). The 2014 Term Loan may be prepaid in whole or in part upon seven business days prior written notice to Hercules. Prepayments will be subject to a charge of 3.0% if an advance is prepaid within twelve months following the closing date, 2.0%, if an advance is prepaid between twelve months and twenty four months following the closing date, and 1.0% thereafter. Amounts outstanding during an event of default shall be payable on demand and shall accrue interest at an additional rate of 5.0% per annum on any outstanding amounts past due. The Company must also pay an end of term charge of 4.95% of the balance drawn when the advances are repaid.

The 2014 Term Loan is secured by a lien on substantially all of the assets of the Company, other than intellectual property, provided that such lien on substantially all assets includes any rights to payments and proceeds from the sale, licensing or disposition of intellectual property. The Loan Agreement contains non-financial covenants and representations, including a financial reporting covenant, and limitations on dividends, indebtedness, collateral, investments, distributions, transfers, mergers or acquisitions, taxes, corporate changes, deposit accounts, and subsidiaries. There are no financial covenants.

The Loan Agreement contains a provision that requires all occurrences that would reasonably be expected to have a material adverse effect (Material Adverse Effect) to be reported under the financial reporting covenant. Loan advances are subject to a representation that no event that has had or could reasonably be expected to have a Material Adverse Effect has occurred and is continuing. Under the Loan Agreement, a Material Adverse Effect means a material adverse effect upon: (i) the business, operations, properties, assets or condition (financial or otherwise) of the Company; (ii) the ability of the Company to perform the secured obligations in accordance with the terms of the loan documents, or the

ability of the agent or lender to enforce any of its rights or remedies with respect to the secured obligations; or (iii) the collateral or the agent s liens on the collateral or the priority of such liens. Any event that would reasonably be expected to have a Material Adverse Effect is an event of default under the Loan Agreement and, as such, payment of all or any part of the secured obligations may be accelerated upon and during the continuation of such event.

Events of default under the Loan Agreement include failure to make any payments of principal or interest as due under the Loan Agreement or any other loan document, breach of any covenant (subject to certain additional conditions relating to cure periods and the Company s actual knowledge of default), any representations or warranties being false or misleading in any material respect, insolvency or bankruptcy, any attachment, seizure, levy or judgment on the Company s assets of at least $100,000, or the occurrence of any default under any agreement or obligation of the Company involving indebtedness in excess of $100,000. If an event of default occurs, repayment of all amounts due under the Loan Agreement may be accelerated by the lender, including the applicable prepayment charge.

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The 2014 Term Loan is automatically accelerated upon a change in control, such that the Company must prepay the outstanding amount of all principal and accrued interest through the prepayment date and any unpaid agent s and lender s fees and expenses accrued to the date of the repayment (including the end of term charge) and the applicable prepayment charge. If a change in control occurs, repayment of amounts due under the Loan Agreement may be accelerated by the lender.

Upon closing the 2014 Term Loan, the Company drew down $12.0 million under the first tranche of the Loan Agreement using approximately $9.8 million of the proceeds to repay all outstanding indebtedness under the Company s 2013 loan agreement (2013 Term Loan).

In connection with the Loan Agreement, the Company issued a common stock warrant to Hercules on November 20, 2014. The warrant is exercisable for 73,725 shares of the Company s Common Stock (equal to $607,500 divided by the exercise price of $8.24 per share). The exercise price and the number of shares are subject to adjustment upon a merger event, reclassification of the shares of Common Stock, subdivision or combination of the shares of Common Stock or certain dividends payments. The warrant is exercisable until November 20, 2019 and will be exercised automatically on a net issuance basis if not exercised prior to the expiration date and if the then-current fair market value of one share of Common Stock is greater than the exercise price then in effect. The warrant has been classified as equity for all periods it has been outstanding.

Contemporaneously with the Loan Agreement, the Company also entered into an equity rights letter agreement on November 20, 2014 (the Equity Rights Letter Agreement). Pursuant to the Equity Rights Letter Agreement, the Company issued to Hercules 223,463 shares of the Company s Common Stock for an aggregate purchase price of approximately $2.0 million at a price per share equal to the closing price of the Company s Common Stock as reported on The NASDAQ Global Market on November 19, 2014 (the Initial Equity Investment). The shares will be subject to resale limitations and may be resold only pursuant to an effective registration statement or an exemption from registration.

Additionally, under the Equity Rights Letter Agreement, Hercules has the right to participate in any one or more subsequent private placement equity financings of up to $2.0 million on the same terms and conditions as purchases by the other investors in each subsequent equity financing. The Equity Rights Letter Agreement, and all rights and obligations thereunder, will terminate upon the earlier of (1) such time when Hercules has purchased $2.0 million of subsequent equity financing securities in the aggregate and (2) the later of (a) the repayment of all indebtedness under the Loan Agreement and (b) the expiration or termination of the exercise period for the warrant issued in connection with the Loan Agreement. The Company allocated $36 thousand of financing costs to additional paid-in capital for issuance fees that were reimbursed to Hercules.

In connection with the issuance of the 2014 Term Loan, the Company incurred $103 thousand of debt issuance costs which were recorded in other assets. The Company also reimbursed the lenders $210 thousand for debt financing costs which has been recorded as a debt discount. The 2014 Term Loan included various embedded features which were evaluated for separate accounting as derivatives under ASC Topic No. 815, Derivatives and Hedging . In accordance with Topic No. 815, it was determined that none of these embedded features required separate accounting from the debt host. The debt discount is being amortized to interest expense over the life of the 2014 Term Loan using the effective interest method.

At March 31, 2015 and December 31, 2014, the principal amount outstanding under the 2014 Term Loan was $12.0 million. Interest expense related to the 2014 Term Loan, including non-cash interest expense, was $319 thousand and none for the three months ended March 31, 2015 and 2014, respectively.

At March 31, 2015 and December 31, 2014, there was no principal outstanding borrowings under the 2013 Term Loan. Interest expense related to the 2013 Term Loan, including non-cash interest expense, was none and $234 thousand for the three months ended March 31, 2015 and 2014, respectively.

Future principal payments on the 2014 Term Loan are as follows (in thousands):

		March 31, 2015
2015	$	
2016		4,529
2017		4,876
2018		2,595
Total	$	12,000

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5. Warrants

At March 31, 2015 and December 31, 2014, the Company had warrants outstanding that represent the right to acquire 77,603 shares of Common Stock, of which 73,725 represented warrants issued to Hercules and 3,878 represent warrants to purchase redeemable securities that were automatically converted to warrants exercisable into Common Stock upon the completion of our IPO on February 10, 2014.

Hercules warrants

In accordance with ASC Topic No. 815, Derivatives and Hedging , the Company determined the common stock warrant issued to Hercules to be equity classified. The Company estimated the fair value of this warrant as of the issuance date using a Black-Scholes option pricing model (with a 10% discount for lack of marketability) with the following assumptions:

	November 20, 2014
Fair value of underlying instrument	$ 9.05
Expected volatility	70.0%
Expected term (in years)	5.00
Risk-free interest rate	1.64%
Expected dividend yield	0.0%

The Company utilized this fair value in its allocation of debt proceeds between debt and the warrants which was performed on a relative fair value basis. Ultimately, the Company allocated $334 thousand to the Hercules warrants and recognized this amount in additional paid-in capital during the year ended December 31, 2014.

At March 31, 2015, all of the common stock warrants issued to Hercules remained outstanding.

Warrants to purchase redeemable securities

As of December 31, 2013, the Company had outstanding warrants to purchase 2,291,512 shares of redeemable convertible preferred stock. On January 29, 2014, 21,695 warrants to purchase Series A preferred stock were exercised for cash. On February 4, 2014, an additional 28,926 warrants to purchase Series A preferred stock were exercised for cash. Prior to the completion of our IPO on February 10, 2014, warrants to purchase 987,840 shares of Series A preferred stock were exercised in a cashless exercise for 316,932 shares of Series A preferred stock, which automatically converted into 26,633 shares of Common Stock upon the completion of our IPO. Also upon the completion of our IPO, warrants exercisable for 1,253,051 shares of redeemable convertible preferred stock were automatically converted into warrants exercisable for 105,297 shares of Common Stock. On February 12, 2014, 43,465 warrants were exercised in a cashless exercise for 16,593 shares of Common Stock. On April 23, 2014, 57,954 warrants were exercised in a cashless exercise for 37,250 shares of Common Stock. As of March 31, 2015 and December 31, 2014 3,878 of these common stock warrants remained outstanding.

6. Commitments and contingencies

Significant contracts and agreements

In August 2006, the Company entered into an agreement to license certain intellectual property from The Regents of the University of California. The agreement calls for payments to be made by the Company upon the occurrence of certain development milestones and certain commercialization milestones for each distinct product covered by the licensed patents, in addition to certain royalties to be paid on marketed products or sublicense income. The Company did not incur any expenses under this agreement for the three months ended March 31, 2015, and 2014.

In November 2007, the Company entered into an agreement to license certain intellectual property from Harvard University. The agreement calls for payments to be made by the Company upon the occurrence of certain development and regulatory milestones, in addition to certain royalties on marketed products or sublicense income. In addition, the Company must make annual maintenance fee payments, which vary depending on the type of products under development. The Company did not incur any expenses under this agreement for the three months ended March 31, 2015 and 2014, respectively. The Company notified the President and Fellows of Harvard College of its partial termination of the license agreement with regard to the intellectual property covering chlamydia antigens

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on December 8, 2014. Effective March 8, 2015, the license agreement with the President and Fellows of Harvard College with regard to the intellectual property covering chlamydia antigens has been terminated. The Company determined that the chlamydia antigens were not relevant to the continued development of GEN-001. The Company will continue to maintain exclusive rights to aspects of the ATLAS platform covered by Harvard University intellectual property.

In August 2009, the Company entered into an agreement to license certain intellectual property from Isconova AB, now Novavax. The agreement calls for payments to be made by the Company upon the occurrence of certain development and commercial milestones, in addition to certain royalties to be paid on marketed products or sublicense income. The Company incurred expenses of $12 thousand and none related to services provided by Novavax for the three months ended March 31, 2015 and 2014, respectively.

In March 2014, the Company announced a joint research collaboration with Dana-Farber Cancer Institute and Harvard Medical School to characterize anti-tumor T cell responses in melanoma patients. This collaboration extends the use of our proprietary ATLAS platform for the rapid discovery of T cell antigens to cancer immunotherapy approaches. The Company recognized revenue of $21 thousand and none under the agreement for the three months ended March 31, 2015 and 2014, respectively.

In September 2014, the Company received $1.2 million in the form of a grant entered into with the Bill & Melinda Gates Foundation for the identification of protective T cell antigens for malaria vaccines. The grant will allow for the continued expansion of the Company s malaria antigen library and aid in the identification of novel protein antigens to facilitate the development of highly efficacious anti-infection malarial vaccines. The Company recognized revenue of $100 thousand and none under the agreement for the three months ended March 31, 2015 and 2014, respectively.

Supply agreements

In August 2009, the Company entered into a supply agreement with a third party for the manufacture and supply of antigens used in the Company s product candidates. The agreement calls for payments to be made by the Company upon the occurrence of certain manufacturing milestones, in addition to reimbursement of certain consumables. In June 2013, the Company entered into another supply agreement with the same vendor for the manufacture and supply of antigens to be used in the Company s next clinical trials. The Company incurred expenses of $57 thousand and $613 thousand related to these agreements for the three months ended March 31, 2015 and 2014, respectively.

In February 2014, the Company entered into a supply agreement with FUJIFILM Diosynth Biotechnologies U.S.A., Inc. (Fujifilm) for the manufacture and supply of antigens for future GEN-003 clinical trials. Under the agreement, the Company is obligated to pay Fujifilm manufacturing milestones, in addition to reimbursement of certain material production related costs. Additionally, the Company is responsible for the payment of a reservation fee, which will equal a percentage of the expected production fees, to reserve manufacturing slots in the production timeframe. The Company incurred expenses of $2.5 million and $25 thousand, under this agreement for the three months ended March 31, 2015 and 2014, respectively.

In October 2014, the Company entered a product development and clinical supply agreement with Baxter Pharmaceutical Solutions LLC (Baxter). The product development and clinical supply agreement provides the terms and conditions under which Baxter will formulate, fill, inspect, package, label and test our lead product, GEN-003 for clinical supply. The Company is obligated to pay Baxter for each batch of

GEN-003 manufactured. Additionally, certain set-up fees and equipment purchased for the purposes of batch production will be invoiced separately by Baxter. The Company is also responsible for the payment of a monthly service fee for project management services for the duration of the arrangement. The Company incurred expenses of $32 thousand, under this agreement for the three months ended March 31, 2015.

Restricted cash related to facilities lease

In February 2014, the Company signed an operating lease for office and laboratory space that commenced in March 2014 and expires in February 2017 (2012 Master Facilities Lease). At March 31, 2015 and December 31, 2014, the Company had $316 thousand of restricted cash related to the 2012 Master Facilities Lease.

At March 31, 2015, the Company has an outstanding letter of credit with a financial institution related to a security deposit for the 2012 Master Facilities Lease, which is secured by cash on deposit and expires on February 28, 2017.

Litigation

The Company is not a party to any litigation and does not have contingency reserves established for any litigation liabilities.

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7. Common stock

At March 31, 2015, the Company had authorized 175,000,000 shares of Common Stock, $0.001 par value per share, of which 24,152,291 shares were issued and 24,137,395 were outstanding.

Restricted stock

During 2013, a director of the Company early exercised stock options and received 31,092 shares of Common Stock that were subject to a Stock Restriction and Repurchase Agreement with the Company. Under the terms of the agreement, shares of Common Stock issued are subject to a vesting schedule. Vesting occurs periodically at specified time intervals and specified percentages. All shares of Common Stock become fully vested within four years of the date of grant. As of December 31, 2014, the Company had 16,840 shares of nonvested restricted stock that were subject to repurchase by the Company. As of March 31, 2015, the Company has issued 35,964 shares of restricted common stock of which 21,068 shares have vested and 14,896 shares are subject to repurchase by the Company.

Reserve for future issuance

The Company has reserved for future issuances the following number of shares of Common Stock (in thousands):

	March 31, 2015	December 31, 2014
Options to purchase Common Stock	3,077	2,373
Options to purchase Common Stock under Employee Stock Purchase Plan (ESPP)	185	185
Warrants to purchase Common Stock	78	78
	3,340	2,636

8. Stock-based compensation

The Company s Board of Directors adopted the 2014 Equity Incentive Plan (the 2014 Equity Plan), which was approved by its stockholders and became effective prior to the commencement of our IPO on February 10, 2014. The 2014 Equity Plan replaced the 2007 Equity Incentive Plan (the 2007 Equity Plan).

The 2014 Equity Plan provided for the grant of incentive stock options, non-qualified stock options and restricted stock awards to key employees and directors of, and consultants and advisors to, the Company. The maximum number of shares of Common Stock that may be delivered in satisfaction of awards under the 2014 Equity Plan is 903,494 shares, plus 219,765 shares that were available for grant under the 2007 Equity Plan on the date the 2014 Equity Plan was adopted. The 2014 Equity Plan provides that the number of shares available for issuance will automatically increase annually on each January 1, from January 1, 2015 through January 1, 2024, in amount equal to the lesser of 4.0% of the

outstanding shares of the Company s outstanding Common Stock as of the close of business on the immediately preceding December 31 or the number of shares determined the Company s Board of Directors. On January 1, 2015, the shares available under the 2014 Equity Plan increased by 714,769 shares of Common Stock.

Outstanding options awards granted from the 2007 Equity Plan, at the time of the adoption of the 2014 Equity Plan, remain outstanding and effective. The shares of Common Stock underlying awards that are cancelled, forfeited, repurchased, expire or are otherwise terminated under the 2014 Equity Plan are added to the shares of Common Stock available for issuance under the 2014 Equity Plan. As of March 31, 2015, the number of common shares that may be issued under both equity plans is 3,076,820 and 313,692 remain available for future grants.

Stock Based Compensation Expense

Total stock-based compensation expense is recognized for stock options granted to employees and non-employees and has been reported in the Company s statements of operations as follows (in thousands):

	Three months ended March 31,	
	2015	**2014**
Research and development	$ 415	$ 477
General and administrative	500	404
Total	$ 915	$ 881

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Stock Options

The following table summarizes stock option activity for employees and nonemployees (shares in thousands):

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding at December 31, 2014	2,290	$ 7.26	8.08	$ 5,332
Granted	533	$ 9.08		
Exercised	(10)	$ 2.50		
Canceled	(50)	$ 15.49		
Outstanding at March 31, 2015	2,763	$ 7.48	8.05	$ 13,755
Exercisable at March 31, 2015	1,130	$ 3.77	6.38	$ 9,220
Vested or expected to vest at March 31, 2015	2,596	$ 7.36	7.99	$ 13,224

Performance-Based Stock Options

The Company granted stock options to certain employees, executive officers and consultants, which contain performance-based vesting criteria. Milestone events are specific to the Company s corporate goals, which include, but are not limited to, certain clinical development milestones, business development agreements and capital fundraising events. Stock-based compensation expense associated with these performance-based stock options is recognized if the performance conditions are considered probable of being achieved, using management s best estimates. During the three months ended March 31, 2015 and 2014, the Company determined that none and 96,988 performance-based milestones, respectively, were probable of achievement and, accordingly, recorded none and $435 thousand in related stock-based compensation expense during the three months ended March 31, 2015 and 2014, respectively. As of March 31, 2015, there are 56,336 performance-based common stock options outstanding for which the probability of achievement was not deemed probable.

Employee Stock Purchase Plan

In connection with the completion of our IPO on February 10, 2014, the Company s Board of Directors adopted the 2014 Employee Stock Purchase Plan (the 2014 ESPP). The 2014 ESPP authorizes the initial issuance of up to a total of 200,776 shares of Common Stock to participating eligible employees. The 2014 ESPP provides for six-month option periods commencing on January 1 and ending June 30 and commencing July 1 and ending December 31 of each calendar year. The first offering under the 2014 ESPP began on July 1, 2014. During the year ended December 31, 2014, 15,622 shares were issued under the 2014 ESPP with 185,154 shares remaining for future issuance under the plan as of March 31, 2015. The second offering under the 2014 ESPP began on January 1, 2015. The Company incurred $26 thousand in stock-based compensation expense related to the 2014 ESPP for the three months ended March 31, 2015.

9. Income taxes

Deferred taxes are recognized for temporary differences between the basis of assets and liabilities for financial statement and income tax purposes. The Company has evaluated the positive and negative evidence bearing upon the realizability of its deferred tax assets. Based on the Company s history of operating losses, the Company has concluded that it is more likely than not that the benefit of its deferred tax assets will not be realized. There were no significant income tax provisions or benefits for the three months ended March 31, 2015 and 2014. Due to the uncertainty surrounding the realization of the favorable tax attributes in future tax returns, the Company has provided a full valuation allowance against its deferred tax assets.

10. Net loss per share attributable to common stockholders

The Company computes basic and diluted earnings (loss) per share using a methodology that gives effect to the impact of outstanding participating securities (the two-class method). As the three month periods ended March 31, 2015 and 2014 resulted in net losses, there is no income allocation required under the two-class method or dilution attributed to weighted average shares outstanding in the calculation of diluted loss per share.

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The following common stock equivalents, presented on an as converted basis, were excluded from the calculation of net loss per share for the periods presented, due to their anti-dilutive effect (in thousands):

	Three months ended March 31,	
	2015	2014
Warrants	78	62
Outstanding options	2,763	2,003
Outstanding ESPP	11	
Total	2,852	2,065

11. Subsequent events

The Company has evaluated all activity that occurred subsequent to quarter end but prior to issuance of the condensed financial statements for events or transactions that could require disclosure or that could impact the carrying value of assets or liabilities as of the balance sheet date. In the judgment of management, there were no material events that impacted the unaudited condensed financial statements or disclosures.

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

The following information should be read in conjunction with the unaudited financial information and the notes thereto included in this Quarterly Report on Form 10-Q. The following disclosure contains forward-looking statements that involve risk and uncertainties. Our actual results and timing of certain events could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those discussed in our Annual Report on Form 10-K.

Overview

We are a biopharmaceutical company that discovers and develops novel vaccines and immunotherapies to address diseases with significant unmet needs. We use our proprietary discovery platform, ATLAS, to rapidly design vaccines and immunotherapies that act, in part, through T cell (or cellular) immune responses, in contrast to approved vaccines and immunotherapies, which are designed to act primarily through B cell (or antibody) immune responses. We believe that by harnessing T cells we can develop first-in-class vaccines and immunotherapies to address diseases where T cells are central to the control of the disease.

We have two product candidates in Phase 2 clinical development: GEN-003, an immunotherapy for the treatment of genital herpes and GEN-004, a universal vaccine for the prevention of pneumococcal infections. We also have product candidates in pre-clinical development for diseases including genital herpes, chlamydia and malaria.

GEN-003 Phase 2 immunotherapy for genital herpes

Our lead program is GEN-003, a Phase 2 candidate therapeutic vaccine, or immunotherapy, that we are developing to treat genital herpes infections. Data from our double-blind, placebo-controlled, dose-escalating Phase 1/2a trial for GEN-003 represented the first reported instance of a therapeutic vaccine working against an infectious disease.

Final analysis of the data from the Phase 1/2a trial showed that, for the best performing 30µg dose group, there was a sustained reduction in the viral shedding rate. After completion of dosing for this group, the viral shedding rate fell by 52% versus baseline and, at six months after the final dose, the shedding rate remained at 40% below baseline. At 12 months, the viral shedding rate returned to baseline for this dose group. The reduction in the genital lesion rate after completion of the third dose was greatest for the 30µg dose group at 48%. After six months, the reduction from baseline in genital lesion rate for this dose group was 65% and, after 12 months, the genital lesion rate was 42% lower than baseline. GEN-003 was safe and well tolerated over the 12 months of this trial. We believe the six-month duration of reduced viral shedding and genital lesion rates may be clinically meaningful.

Having identified a dose that, according to company-sponsored market research, delivers clinically meaningful efficacy in magnitude and durability, we are now conducting a 310-subject Phase 2 dose optimization trial. The objective of this trial is to test six combinations of antigens and adjuvant, including the best-performing 30µg per protein/50µg of adjuvant dose from the Phase 1/2a trial, to determine the optimal dose for future trials. This trial is fully enrolled and we expect to announce top-line data from this trial late in the second quarter of 2015. If GEN-003

successfully completes clinical development and is approved, we believe it would represent an important new treatment option for patients with genital herpes.

GEN-004 Phase 2 universal vaccine for the prevention of pneumococcal infections

We are also developing a second T cell-stimulating vaccine candidate, GEN-004, a potential universal *Streptococcus pneumoniae*, or pneumococcus, vaccine to protect against the leading cause of infectious disease mortality worldwide. GEN-004 is designed to stimulate T helper 17 (TH17) cells, a rare cell type that provides immunity at epithelial and mucosal surfaces, in the nasopharynx to prevent colonization by pneumococcus.

In June 2014, we announced top-line data from a Phase 1 clinical trial for GEN-004. This trial met its safety, tolerability and immunogenicity goals including measurable increases in the blood of TH17 cells. We initiated a 98-subject Phase 2a trial in September 2014 to demonstrate that GEN-004 can reduce the frequency, magnitude and duration of colonization of pneumococcus in the nasopharynx in healthy adults. This trial is fully enrolled and we expect to announce top-line data from this trial in the fourth quarter of 2015.

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Products in research and non-clinical development

We have ongoing non-clinical development programs in chlamydia and HSV-2 prophylaxis and a research program funded by the Bill & Melinda Gates Foundation in malaria. Additionally, we have an ongoing immuno-oncology collaboration with Dana Farber Cancer Institute and Harvard Medical School.

We commenced business operations in August 2006. To date, our operations have been limited to organizing and staffing our company, acquiring and developing our proprietary ATLAS technology, identifying potential product candidates and undertaking preclinical studies and clinical trials for our product candidates. All of our revenue to date has been grant revenue. We have not generated any product revenue and do not expect to do so for the foreseeable future. We have primarily financed our operations through the issuance of our equity securities, debt financings and amounts received through grants. As of March 31, 2015, we had received an aggregate of $223.7 million in gross proceeds from the issuance of equity securities and gross proceeds from debt facilities and an aggregate of $7.9 million from grants. At March 31, 2015, our cash and cash equivalents and marketable securities were $84.5 million.

Since inception, we have incurred significant operating losses. Our net losses were $12.1 million and $7.3 million for the three months ended March 31, 2015 and 2014 respectively, and our accumulated deficit was $127.5 million as of March 31, 2015. We expect to incur significant expenses and increasing operating losses for the foreseeable future. Our net losses may fluctuate significantly from quarter to quarter and year to year. We will need to generate significant revenue to achieve profitability, and we may never do so.

In March 2015, we completed an underwritten public offering of 6.3 million shares of our Common Stock at a public offering price of $8.25 per share for an aggregate offering price of $51.7 million. We received net proceeds from the offering of approximately $48.6 million, after deducting approximately $3.1 million in underwriting discounts and commissions, excluding offering costs payable by us.

We believe that our cash, cash equivalents and marketable securities at March 31, 2015 will enable us to fund our operating expenses and capital expenditure requirements through the third quarter of 2016, by which time we expect to have top-line data from our ongoing Phase 2 dose optimization clinical trial, top-line data from our planned Phase 2 dose regimen clinical trial and have conducted our FDA end of Phase 2 meeting for GEN-003 for genital herpes. Furthermore we expect to have top-line data from our current Phase 2a clinical trial for GEN-004 for pneumococcus and to have commenced our planned toddler study for GEN-004 by this time. However, costs related to clinical trials can be unpredictable and therefore there can be no guarantee that our current balances of cash, and cash equivalents and marketable securities and any proceeds received from other sources will be sufficient to fund these studies or our operations through this period. These funds will not be sufficient to enable us to conduct pivotal clinical trials for, seek marketing approval for or commercially launch GEN-003, GEN-004 or any other product candidate. Accordingly, to obtain marketing approval for and to commercialize these or any other product candidates, we will be required to obtain further funding through public or private equity offerings, debt financings, collaboration and licensing arrangements or other sources. Adequate additional financing may not be available to us on acceptable terms, or at all. Our failure to raise capital when needed would have a negative effect on our financial condition and our ability to pursue our business strategy.

Financial Overview

Revenue

Grant revenue consists of revenue earned to conduct vaccine development research. We have received grants from private not-for-profit organizations and federal agencies. These grants have related to the discovery and development of several of our product candidates, including product candidates for the prevention of pneumococcus, chlamydia, and malaria. Revenue under these grants is recognized as research services are performed. Funds received in advance of research services being performed are recorded as deferred revenue. We plan to continue to pursue grant funding, but there can be no assurance we will be successful in obtaining such grants in the future.

We have no products approved for sale. We will not receive any revenue from any product candidates that we develop until we obtain regulatory approval and commercialize such products or until we potentially enter into agreements with third parties for the development and commercialization of product candidates. If our development efforts for any of our product candidates result in regulatory approval or we enter into collaboration agreements with third parties, we may generate revenue from product sales or from such third parties.

We expect that our revenue will be less than our expenses for the foreseeable future and that we will experience increasing losses as we continue our development of, and seek regulatory approvals for, our product candidates and begin to commercialize any approved products. Our ability to generate revenue for each product candidate for which we receive regulatory approval will depend on numerous factors, including competition, commercial manufacturing capability and market acceptance of our products.

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Research and Development Expenses

Research and development expenses consist primarily of costs incurred to advance our preclinical and clinical candidates, which include:

- personnel-related expenses, including salaries, benefits, stock-based compensation expense and travel;
- expenses incurred under agreements with contract research organizations, or CROs, contract manufacturing organizations, or CMOs, consultants and other vendors that conduct our clinical trials and preclinical activities;
- costs of acquiring, developing and manufacturing clinical trial materials and lab supplies; and
- facility costs, depreciation and other expenses, which include direct and allocated expenses for rent and maintenance of facilities, insurance and other supplies.

We expense internal research and development costs to operations as incurred. We expense third party costs for research and development activities, such as conducting clinical trials, based on an evaluation of the progress to completion of specific performance or tasks such as patient enrollment, clinical site activations or information, which is provided to us by our vendors.

The following table identifies research and development expenses on a program-specific basis for our product candidates for the three months ended March 31, 2015 and 2014:

	Three months ended March 31,			
		2015		2014
HSV-2 (GEN-003)(1)	$	5,585	$	1,923
Pneumococcus (GEN-004)(1)		1,077		1,411
Other research and development (2)		1,847		1,073
Total research and development	$	8,509	$	4,407

(1) Includes direct and indirect internal costs and external costs such as CMO and CRO costs.

(2) Includes costs related to other product candidates and technology platform development costs related to ATLAS .

We expect our research and development expenses will increase as we continue the manufacture of pre-clinical and clinical materials and manage the clinical trials of, and seek regulatory approval for, our product candidates.

General and Administrative Expenses

General and administrative expenses consist principally of salaries and related costs for personnel, including stock-based compensation and travel expenses, in executive and other administrative functions. Other general and administrative expenses include facility-related costs, communication expenses and professional fees associated with corporate and intellectual property legal expenses, consulting and accounting services.

We anticipate that our general and administrative expenses will increase in the future to support the continued research and development of our product candidates and to operate as a public company. These increases will likely include increased costs for insurance, costs related to the hiring of additional personnel and payments to outside consultants, lawyers and accountants, among other expenses. Additionally, if and when we believe a regulatory approval of our first product candidate appears likely, we anticipate that we will increase our salary and personnel costs and other expenses as a result of our preparation for commercial operations.

Interest Expense, Net

Interest expense, net consists primarily of interest expense on our long-term debt facilities and non-cash interest related to the amortization of debt discount and issuance costs, partially offset by interest earned on our cash and cash equivalents.

Other (Expense) Income

Other (expense) income consists of fair value adjustments on warrants to purchase preferred stock. Upon completion of our IPO on February 10, 2014, warrants to purchase preferred stock were converted to warrants to purchase common stock and as a result, the Company no longer recorded fair value adjustments for its warrants.

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Accretion of Preferred Stock

Certain classes of our preferred stock were redeemable beginning in 2017 at the original issuance price plus any declared or accrued but unpaid dividends upon written election of the preferred stockholders in accordance with the terms of our articles of incorporation. Accretion of preferred stock reflects the accretion of issuance costs and, for Series B preferred stock, cumulative dividends based on their respective redemption values. On February 10, 2014, we completed our IPO and all shares of preferred stock were converted into 11,466,479 shares of our Common Stock. No accretion of preferred stock is recorded after this date as no shares of preferred stock are outstanding.

Critical Accounting Policies and Significant Judgments and Estimates

We believe that several accounting policies are important to understanding our historical and future performance. We refer to these policies as critical because these specific areas generally require us to make judgments and estimates about matters that are uncertain at the time we make the estimate, and different estimates which also would have been reasonable could have been used. The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. On an ongoing basis, we evaluate estimates, which include, but are not limited to, estimates related to clinical trial accruals, prepaid and accrued research and development expenses, stock-based compensation expense, common stock warrants, warrants to purchase redeemable securities, and reported amounts of revenues and expenses during the reported period. We base our estimates on historical experience and other market-specific or other relevant assumptions that we believe to be reasonable under the circumstances. Actual results may differ materially from those estimates or assumptions.

The critical accounting policies we identified in our most recent Annual Report on Form 10-K for the fiscal year ended December 31, 2014 related to prepaid and accrued research and development expenses and stock-based compensation. There have been no material changes to our accounting policies from those described in our Annual Report on Form 10-K. It is important that the discussion of our operating results that follows be read in conjunction with the critical accounting policies disclosed in our Annual Report on Form 10-K, as filed with the SEC on February 27, 2015.

Results of Operations

Comparison of the Three Months Ended March 31, 2015 and March 31, 2014

	Three months ended March 31,		
(in thousands)	**2015**	**2014**	**Increase (Decrease)**
Grant revenue	$ 121	$	$ 121
Operating expenses:			
Research and development	8,509	4,407	4,102
General and administrative	3,389	1,966	1,423

Total operating expenses	11,898	6,373	5,525
Loss from operations	(11,777)	(6,373)	(5,404)
Other expense:			
Other expense, net		(725)	725
Interest expense, net	(307)	(231)	(76)
Other expense	(307)	(956)	649
Net loss	$ (12,084)	$ (7,329)	$ (4,755)

Grant Revenue

Grant revenue increased $0.1 million to $0.1 million for the three months ended March 31, 2015 from none for the three months ended March 31, 2014. The increase was largely due to the recognition of revenue from a $1.2 million grant entered into with the Bill & Melinda Gates Foundation in September 2014.

Research and Development Expenses

Research and development expense increased $4.1 million to $8.5 million for the three months ended March 31, 2015 from $4.4 million for the three months ended March 31, 2014. The increase was attributable to: an increase of $3.6 million in GEN-003

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costs, reflecting increased manufacturing and clinical trial costs; and an increase of $0.8 million in pre-clinical research costs partially offset by a decrease of $0.3 million in GEN-004 costs, largely driven by lower manufacturing costs.

General and Administrative Expenses

General and administrative expense increased $1.4 million to $3.4 million for the three months ended March 31, 2015 from $2.0 million for the three months ended March 31, 2014. The increase was due largely to additional personnel costs of $0.6 million, including $0.1 million in increased stock-based compensation, due to an increase in headcount; $0.3 million in increased audit, legal and consulting expenses and $0.5 million in public company overhead costs.

Other Expense

Other expense decreased $0.7 million to none for the three months ended March 31, 2015 from $0.7 million for the three months ended March 31, 2014. The decrease was due to a non-recurring adjustment recorded in the first quarter ended March 31, 2014 to the fair value of warrants to purchase preferred stock as a result of an increase in the fair value of the underlying stock both before and on the date of the completion of our IPO on February 10, 2014.

Interest Expense, Net

Interest expense, net increased $0.1 million to $0.3 million for the three months ended March 31, 2015 from $0.2 million for the three months ended March 31, 2014. The increase was due primarily to higher average principal balances on the Company s outstanding debt for the first quarter of 2015 as compared to the same period in 2014.

Liquidity and Capital Resources

Overview

Since our inception through March 31, 2015, we have received an aggregate of $223.7 million in gross proceeds from the issuance of equity securities and gross proceeds from debt facilities and an aggregate of $7.9 million from grants. At March 31, 2015, our cash and cash equivalents and marketable securities were $84.5 million, comprising cash and cash equivalents of $57.5 million and marketable securities of $27.0 million. In February 2014, we completed an IPO of 5.5 million shares of our Common Stock at a price of $12.00 per share for an aggregate offering price of $66.0 million. We received net proceeds from the offering of approximately $61.4 million, after deducting approximately $4.6 million in underwriting discounts and commission, excluding offering costs payable by us.

On March 17, 2015, we completed an underwritten public offering of 6.3 million shares of our Common Stock at a public offering price of $8.25 per share for an aggregate offering price of $51.7 million. We received net proceeds from the offering of approximately $48.6 million, after deducting approximately $3.1 million in underwriting discounts and commissions, excluding offering costs payable by us.

Debt Financings

On November 20 2014, the Company entered into a new loan and security agreement, which provided up to $27.0 million in debt financing in three separate tranches (2014 Term Loan). The first tranche of $17.0 million, of which $12.0 million was drawn down at loan inception, is available through June 30, 2015. The second tranche of up to $5.0 million may be drawn, at the Company s option, on or prior to December 15, 2015, subject to the Company receiving favorable data from its ongoing GEN-003 Phase 2 dose optimization trial and either (i) the commencement of the Company s next clinical trial for GEN-003 or (ii) the receipt of at least $40.0 million in net proceeds from an equity financing and/or a strategic corporate partnership. In March 2015, the Company satisfied the equity financing condition to the second tranche of the 2014 Term Loan by receiving net proceeds of $48.6 million in its underwritten public offering completed on March 17, 2015. As of March 31, 2015, the Company has not drawn down on the second tranche. The third tranche of up to $5.0 million may be drawn, at the Company s option, on or prior to December 15, 2015, subject to the Company receiving favorable data from its ongoing Phase 2a human challenge study for GEN-004.

The 2014 Term Loan matures on July 1, 2018. If the eligibility requirements for the second tranche are met, the maturity date may be extended to December 31, 2018 at the Company s sole election.

Each advance accrues interest at a floating rate per annum equal to the greater of (i) 7.25% or (ii) the sum of 7.25% plus the prime rate minus 5.0%. The 2014 Term Loan provides for interest-only payments until December 31, 2015, which may be extended for a six month period if the eligibility requirements for the second tranche are met. Thereafter, payments will be made monthly in 30 equal installments of principal and interest (subject to recalculation upon a change in prime rates).

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Upon closing the 2014 Term Loan, the Company used approximately $9.8 million of the initial draw down under the first tranche of the loan and security agreement to repay all outstanding indebtedness under the Company s 2013 loan agreement.

Operating Capital Requirements

Our primary uses of capital are, and we expect will continue to be for the near future, compensation and related expenses, manufacturing costs for pre-clinical and clinical materials, third party clinical trial research and development services, laboratory and related supplies, clinical costs, legal and other regulatory expenses and general overhead costs.

We believe that our cash, cash equivalents and marketable securities at March 31, 2015 will enable us to fund our operating expenses and capital expenditure requirements through the third quarter of 2016, by which time we expect to have top-line data from our ongoing Phase 2 dose optimization clinical trial, top-line data from our planned Phase 2 dose regimen clinical trial and have conducted our FDA end of Phase 2 meeting for GEN-003 for genital herpes. Furthermore we expect to have top-line data from our current Phase 2a clinical trial for GEN-004 for pneumococcus and to have commenced our planned toddler study for GEN-004. We expect that these funds will not be sufficient to enable us to seek marketing approval or commercialize any of our product candidates.

We have based our projections of operating capital requirements on assumptions that may prove to be incorrect and we may use all of our available capital resources sooner than we expect. Because of the numerous risks and uncertainties associated with research, development and commercialization of pharmaceutical products, we are unable to estimate the exact amount of our operating capital requirements. Our future funding requirements will depend on many factors, including, but not limited to:

- the timing and costs of our ongoing and planned clinical trials for GEN-003 and GEN-004;
- the progress, timing and costs of manufacturing GEN-003 and GEN-004 for current and planned clinical trials;
- the initiation, progress, timing, costs and results of preclinical studies and clinical trials for our other product candidates and potential product candidates;
- the outcome, timing and costs of seeking regulatory approvals;
- the costs of commercialization activities for GEN-003, GEN-004 and other product candidates if we receive marketing approval, including the costs and timing of establishing product sales, marketing, distribution and manufacturing capabilities;

- the receipt of marketing approval, revenue received from commercial sales of our product candidates;

- the terms and timing of any future collaborations, grants, licensing, consulting or other arrangements that we may establish;

- the amount and timing of any payments we may be required to make, or that we may receive, in connection with the licensing, filing, prosecution, defense and enforcement of any patents or other intellectual property rights, including milestone and royalty payments and patent prosecution fees that we are obligated to pay pursuant to our license agreements;

- the costs of preparing, filing and prosecuting patent applications, maintaining and protecting our intellectual property rights and defending against intellectual property related claims; and

- the extent to which we in-license or acquire other products and technologies.

We expect that we will need to obtain substantial additional funding in order to commercialize GEN-003, GEN-004 and our other product candidates in order to receive regulatory approval. To the extent that we raise additional capital through the sale of common stock, convertible securities or other equity securities, the ownership interests of our existing stockholders may be materially diluted and the terms of these securities could include liquidation or other preferences that could adversely affect the rights of our existing stockholders. In addition, debt financing, if available, would result in increased fixed payment obligations and may involve agreements that include restrictive covenants that limit our ability to take specific actions, such as incurring additional debt, making capital expenditures or declaring dividends, that could adversely affect our ability to conduct our business. If we are unable to raise capital when needed or on attractive terms, we could be forced to significantly delay, scale back or discontinue the development or commercialization of GEN-003, GEN-004 or our other product candidates, seek collaborators at an earlier stage than otherwise would be desirable or on terms that are less favorable than might otherwise be available, and relinquish or license, potentially on unfavorable terms, our rights to GEN-003, GEN-004 or our other product candidates that we otherwise would seek to develop or commercialize ourselves.

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Cash Flows

The following table summarizes our sources and uses of cash for each of the periods below (in thousands):

	Three months ended March 31,	
	2015	2014
Net cash used in operating activities	$ (10,748)	$ (6,534)
Net cash used in investing activities	(232)	(27)
Net cash provided by financing activities	48,393	60,192
Net increase in cash and cash equivalents	$ 37,413	$ 53,631

Operating Activities

Net cash used in operations increased $4.2 million to $10.7 million for the three months ended March 31, 2015 from $6.5 million for the three months ended March 31, 2014. The increase was due primarily to an increase in the net loss of approximately $4.8 million, a decrease in change in fair value of warrant liability of $0.7 million, which was partially offset by an increase in stock based compensation of $0.1 million, an increase in non-cash interest expense of $0.1 million and an increase of $1.1 million in our working capital accounts.

Investing Activities

Net cash used in investing activities increased $0.2 million to $0.2 million for the three months ended March 31, 2015 from $27 thousand for the three months ended March 31, 2014. The increase was due to an increase in cash used to purchase property and equipment of $0.2 million.

Financing Activities

Net cash provided by financing activities decreased $11.8 million to $48.4 million for the three months ended March 31, 2015 from $60.2 million for the three months ended March 31, 2014. The decrease was due largely to the net proceeds of $60.0 million from our IPO in February 2014, which was partially offset by net proceeds of $48.4 million from our underwritten public offering in March 2015.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Contractual Obligations

There have been no material changes to our contractual obligations from those described in our Annual Report on Form 10-K, as filed with the SEC on February 27, 2015.

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Item 3. Quantitative and Qualitative Disclosures about Market Risks

We are exposed to market risk related to changes in interest rates. As of March 31, 2015 and December 31, 2014, we had cash, cash equivalents and marketable securities of $84.5 million and $47.1 million, respectively, consisting primarily of money market funds and U.S Treasury securities. The investments in these financial instruments are made in accordance with an investment policy approved by our Board of Directors, which specifies the categories, allocations and ratings of securities we may consider for investment. The primary objective of our investment activities is to preserve principal while at the same time maximizing the income we receive without significantly increasing risk. Some of the financial instruments in which we invest could be subject to market risk. This means that a change in prevailing interest rates may cause the value of the instruments to fluctuate. For example, if we purchase a security that was issued with a fixed interest rate and the prevailing interest rate later rises, the value of that security will probably decline. To minimize this risk, we intend to maintain a portfolio that may include cash, cash equivalents and investment securities available-for-sale in a variety of securities, which may include money market funds, government and non-government debt securities and commercial paper, all with various maturity dates. Based on our current investment portfolio, we do not believe that our results of operations or our financial position would be materially affected by an immediate change of 10% in interest rates.

We do not hold or issue derivatives, derivative commodity instruments or other financial instruments for speculative trading purposes. Further, we do not believe our cash equivalents and investment securities have significant risk of default or illiquidity. We made this determination based on discussions with our investment advisors and a review of our holdings. Although we believe our cash equivalents and investment securities do not contain excessive risk, we cannot provide absolute assurance that in the future our investments will not be subject to adverse changes in market value. All of our investments are recorded at fair value.

We are also exposed to market risk related to change in foreign currency exchange rates. We contract with certain vendors that are located in Europe which have contracts denominated in foreign currencies. We are subject to fluctuations in foreign currency rates in connection with these agreements. We do not currently hedge our foreign exchange rate risk. As of March 31, 2015 and December 31, 2014, we had minimal liabilities denominated in foreign currencies.

Item 4. Controls and Procedures

Management s Evaluation of our Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit under the Securities and Exchange Act of 1934 is (1) recorded, processed, summarized, and reported within the time periods specified in the SEC s rules and forms and (2) accumulated and communicated to our management, including our principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure.

Our management, with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2015 (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934). Our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Our principal executive officer and principal financial officer have concluded based upon the evaluation described

above that, as of March 31, 2015, our disclosure controls and procedures were effective at the reasonable assurance level.

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Changes in Internal Control Over Financial Reporting

During the three months ended March 31, 2015, there have been no changes in our internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15(d)-15(f) promulgated under the Securities Exchange Act of 1934, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

In the ordinary course of business, we are from time to time involved in lawsuits, claims, investigations, proceedings, and threats of litigation relating to intellectual property, commercial arrangements and other matters. While the outcome of these proceedings and claims cannot be predicted with certainty, as of March 31, 2015, we were not party to any legal or arbitration proceedings that may have, or have had in the recent past, significant effects on our financial position or profitability. No governmental proceedings are pending or, to our knowledge, contemplated against us. We are not a party to any material proceedings in which any director, member of senior management or affiliate of ours is either a party adverse to us or our subsidiaries or has a material interest adverse to us or our subsidiaries.

Item 1A. Risk Factors

There have been no material changes from the risk factors set forth in the Company s Annual Report on Form 10-K, as filed with the SEC on February 27, 2015.

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

Use of Proceeds from Unregistered Securities

None.

Purchase of Equity Securities

We did not purchase any of our registered equity securities during the period covered by this Quarterly Report on Form 10-Q.

Use of Proceeds from Registered Equity Securities

Initial Public Offering

In February 2014, we completed our IPO of 5.5 million shares of our Common Stock at a price of $12.00 per share for an aggregate offering price of $66.0 million. The offer and sale of all of the shares in the offering were registered under the Securities Act of 1933, as amended, (the Securities Act) pursuant to a registration statement on Form S-1 (File No. 333-193043), which was declared effective by the SEC on February 4, 2014. Citigroup Global Markets, Inc. and Cowen and Company, LLC acted as joint book-running managers of the offering and as representatives of the underwriters. Stifel, Nicolaus & Company, Incorporated and Needham & Company, LLC acted as co-managers for the offering. The offering commenced on February 4, 2014 and did not terminate until the sale of all of the shares offered.

We received net proceeds from the offering of approximately $61.4 million, after deducting approximately $4.6 million in underwriting discounts and commissions, excluding approximately $2.4 million of offering costs payable by us. None of the underwriting discounts and commissions or other offering expenses were incurred or paid to directors or officers of ours or their associates or to persons owning 10% or more of our common stock or to any affiliates of ours.

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March 2015 Public Offering

In March 2015, we completed an underwritten public offering of 6.3 million shares of our Common Stock at a public offering price of $8.25 per share for an aggregate offering price of $51.7 million. The offer and sale of all of the shares in the offering were registered under the Securities Act pursuant to a registration statement on Form S-3 (File No. 333-202406), which was declared effective by the SEC on March 10, 2015. Cowen and Company, LLC and Piper Jaffray acted as joint book-running managers of the offering and as representatives of the underwriters. Stifel acted as a lead manager and Needham & Company, LLC acted as a co-manager for the offering. The offering commenced on March 11, 2014 and did not terminate until the sale of all of the shares offered.

We received net proceeds from the offering of approximately $48.6 million, after deducting approximately $3.1 million in underwriting discounts and commissions, excluding approximately $276 thousand of offering costs payable by us. None of the underwriting discounts and commissions or other offering expenses were incurred or paid to directors or officers of ours or their associates or to persons owning 10% or more of our common stock or to any affiliates of ours.

Use of Proceeds

As of March 31, 2015, we have used the net proceeds mentioned above primarily to fund the preclinical and clinical development of our product candidates and other general corporate purposes. We have not used any of the net proceeds from the offerings to make payments, directly or indirectly, to any director or officer of ours, or any of their associates, to any person owning 10% or more of our Common Stock or to any affiliate of ours. We have invested the balance of the net proceeds from the offerings in a variety of capital preservation investments, including short-term, investment grade, interest bearing instruments and U.S. government securities. There has been no material change in our planned use of the balance of the net proceeds from the offerings as described in our final prospectuses filed with the SEC pursuant to Rule 424(b) under the Securities Act.

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Item 6. Exhibits

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

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Exhibit Number	Exhibit
31.1	Certification pursuant to Section 302 of Sarbanes Oxley Act of 2002 by Chief Executive Officer
31.2	Certification pursuant to Section 302 of Sarbanes Oxley Act of 2002 by Chief Financial Officer
32.1	Certification of periodic financial report pursuant to Section 906 of Sarbanes Oxley Act of 2002 by Chief Executive Officer
32.2	Certification of periodic financial report pursuant to Section 906 of Sarbanes Oxley Act of 2002 by Chief Financial Officer
101	The following materials from the Company s Quarterly Report on Form 10-Q for the quarter ended March 31, 2015, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Balance Sheets as of March 31, 2015 and December 31, 2014, (ii) Condensed Statements of Operations for the three months ended March 31, 2015 and 2014, (iii) Condensed Statement of Comprehensive Loss for the three months ended March 31, 2015 and 2014, (iv) Condensed Statements of Cash Flows for the three months ended March 31, 2015 and 2014 and (v) Notes to Unaudited Condensed Financial Statements

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Genocea Biosciences, Inc.

Date: May 8, 2015	By:	/s/ WILLIAM D. CLARK William D. Clark *President and Chief Executive Officer and Director (Principal Executive Officer)*
Date: May 8, 2015	By:	/s/ JONATHAN POOLE Jonathan Poole *Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)*