UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934**

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2005

OR

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

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER 000-19319

VERTEX PHARMACEUTICALS INCORPORATED
(Exact name of registrant as specified in its charter)

MASSACHUSETTS	**04-3039129**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
130 WAVERLY STREET CAMBRIDGE, MASSACHUSETTS	**02139-4242**
(Address of principal executive offices)	(zip code)

(617) 444-6100
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). YES x NO o

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock, par value $0.01 per share	95,675,759
Class	Outstanding at August 8, 2005

Vertex Pharmaceuticals Incorporated

Form 10-Q

For the Quarter Ended June 30, 2005

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Part I. Financial Information

Item 1. Condensed Consolidated Financial Statements

Vertex Pharmaceuticals Incorporated

Condensed Consolidated Balance Sheets

(Unaudited)

(In thousands, except share and per share data)

	June 30, 2005	December 31, 2004
Assets:		
Current assets:		
Cash and cash equivalents	$ 194,695	$ 55,006
Marketable securities, available for sale	251,911	337,314
Accounts receivable	13,941	11,891
Prepaid expenses	4,763	2,501
Total current assets	465,310	406,712
Restricted cash	49,007	49,847
Property and equipment, net	58,496	64,225
Investments	18,863	18,863
Other assets	5,227	5,806
Total assets	$ 596,903	$ 545,453
Liabilities and Stockholders' Equity:		
Current liabilities:		
Accounts payable	$ 9,429	$ 6,660
Accrued expenses and other current liabilities	31,018	32,951
Accrued interest	6,268	5,862
Deferred revenue	44,483	47,741
Accrued restructuring expense	43,813	55,843
Other obligations	2,975	4,688
Total current liabilities	137,986	153,745
Collaborator development loan	19,997	19,997
Other obligations, excluding current portions	—	2,925
Deferred revenue, excluding current portion	962	18,345
Convertible subordinated notes (due September 2007)	82,552	82,552
Convertible senior subordinated notes (due February 2011)	232,448	232,448
Total liabilities	473,945	510,012
Commitments and contingencies:		
Stockholders' equity:		
Preferred stock, $0.01 par value; 1,000,000 shares authorized; none issued and outstanding at June 30, 2005 and December 31, 2004, respectively	—	—
Common stock, $0.01 par value; 200,000,000 shares authorized; 95,324,476 and 80,764,904 shares issued and outstanding at June 30, 2005 and December 31, 2004, respectively	953	807
Additional paid-in capital	1,008,781	833,832
Deferred compensation, net	(13,055)	(11,657)
Accumulated other comprehensive loss	(1,846)	(1,374)
Accumulated deficit	(871,875)	(786,167)
Total stockholders' equity	122,958	35,411
Total liabilities and stockholders' equity	$ 596,903	$ 545,453

The accompanying notes are an integral part of these condensed consolidated financial statements.

Vertex Pharmaceuticals Incorporated

Condensed Consolidated Statements of Operations

(Unaudited)

(In thousands, except per share data)

	Three Months Ended June 30,	Six Months Ended June 30,

	2005	2004	2005	2004
Revenues:				
Royalties	$ 7,467	$ 4,011	$ 13,620	$ 6,593
Collaborative and other research and development revenues	24,854	14,530	47,307	29,461
Total revenues	32,321	18,541	60,927	36,054
Costs and expenses:				
Royalty payments	2,489	1,328	4,519	2,174
Research and development	59,357	47,450	116,792	89,125
Sales, general and administrative	10,814	10,160	20,441	19,882
Restructuring expense/(credit)	(1,743)	1,837	171	3,655
Total costs and expenses	70,917	60,775	141,923	114,836
Loss from operations	(38,596)	(42,234)	(80,996)	(78,782)
Interest income	2,247	2,546	4,566	5,536
Interest expense	(4,639)	(4,581)	(9,278)	(9,008)
Charge for retirement of 2007 convertible subordinated notes.	—	—	—	(2,453)
Net loss	$ (40,988)	$ (44,269)	$ (85,708)	$ (84,707)
Basic and diluted net loss per common share	$ (0.50)	$ (0.56)	$ (1.06)	$ (1.08)
Basic and diluted weighted average number of common shares outstanding	82,274	78,807	80,859	78,356

The accompanying notes are an integral part of these condensed consolidated financial statements.

Vertex Pharmaceuticals Incorporated

Condensed Consolidated Statements of Cash Flows

(Unaudited)

(In thousands)

	Six Months Ended June 30,	
	2005	2004
Cash flows from operating activities:		
Net loss	$ (85,708)	$ (84,707)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	13,371	14,409
Non-cash based compensation expense	3,651	1,716
Realized loss/(gain) on marketable securities	53	(264)
Loss on disposal of property and equipment	272	
Charge for retirement of convertible subordinated notes	—	2,453
Changes in operating assets and liabilities:		
Accounts receivable	(2,050)	(2,615)
Prepaid expenses	(2,262)	(590)
Accounts payable	2,769	(4,491)
Accrued expenses and other liabilities	(6,571)	(7,745)
Accrued restructuring expense	(12,030)	(12,825)
Accrued interest	406	1,206
Deferred revenue	(20,641)	18,610
Net cash used in operating activities	(108,740)	(74,843)
Cash flows from investing activities:		
Purchase of marketable securities	(48,685)	(97,386)
Sales and maturities of marketable securities	133,897	181,953
Expenditures for property and equipment	(7,383)	(6,860)
Restricted cash	840	(26,355)
Investments and other assets	48	43
Net cash provided by investing activities	78,717	51,395
Cash flows from financing activities		
Issuances of common stock from employee benefit plans, net	4,715	4,474
Issuances of common stock from stock offering, net	165,331	—
Principal payments on notes payable, capital lease and other obligations	—	(100)
Issuance costs related to convertible senior subordinated notes (due February 2011)	—	(2,921)
Repayments of collaborator loan	—	(12,463)
Net cash provided by (used in) financing activities	170,046	(11,010)
Effect of changes in exchange rates on cash	(334)	(9)
Net increase(decrease) in cash and cash equivalents	139,689	(34,467)
Cash and cash equivalents—beginning of period	55,006	98,159
Cash and cash equivalents—end of period	$ 194,695	$ 63,692
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 8,341	$ 7,109

The accompanying notes are an integral part of these condensed consolidated financial statements.

Vertex Pharmaceuticals Incorporated

Notes to Condensed Consolidated Financial Statements

1. Basis of Presentation

The accompanying condensed consolidated financial statements are unaudited and have been prepared by Vertex Pharmaceuticals Incorporated ("Vertex" or the "Company") in accordance with accounting principles generally accepted in the United States of America.

The condensed consolidated financial statements reflect the operations of the Company and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated.

Certain information and footnote disclosures normally included in the Company's annual financial statements have been condensed or omitted. The interim financial statements, in the opinion of management, reflect all adjustments (including normal recurring accruals) necessary for a fair statement of the financial position and results of operations for the interim periods ended June 30, 2005 and 2004.

The results of operations for the interim periods are not necessarily indicative of the results of operations to be expected for the fiscal year, although the Company expects to incur a substantial loss for the year ending December 31, 2005. These interim financial statements should be read in conjunction with the audited financial statements for the year ended December 31, 2004, which are contained in the Company's 2004 Annual Report to its Stockholders on Form 10-K that was filed with the Securities and Exchange Commission on March 16, 2005.

2. Accounting Policies

Basic and Diluted Net Loss per Common Share

Basic net loss per share is based upon the weighted average number of common shares outstanding during the period. Diluted net loss per share is based upon the weighted average number of common shares outstanding during the period, plus additional weighted average common equivalent shares outstanding during the period when the effect is not anti-dilutive. Common equivalent shares result from the assumed exercise of outstanding stock options (the proceeds of which are then assumed to have been used to repurchase outstanding stock using the treasury stock method), the assumed conversion of convertible notes and the vesting of unvested restricted shares of common stock. Common equivalent shares have not been included in the net loss per share calculations because their effect would have been anti-dilutive. Total potential gross common equivalent shares consisted of the following (in thousands, except per share amounts):

	At June 30,	
	2005	2004
Stock Options	16,133	16,360
Weighted-average exercise price, per share	$ 22.02	$ 22.99
Convertible Notes	16,454	12,004
Weighted-average conversion price, per share	$ 19.15	$ 26.24
Unvested restricted shares	1,598	1,256

Stock-Based Compensation

In accordance with Statements of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation, Transition and Disclosure" ("SFAS 148"), the Company has adopted the disclosure-only provisions of Statements of Financial Accounting Standards No. 123, "Accounting for Stock-Based

Compensation" ("SFAS 123") and also applies Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and related interpretations in accounting for all stock awards granted to employees. Under APB 25, provided that other criteria are met, when the exercise price of stock options or the issue price of restricted shares granted to employees equals the market price of the common stock on the date of the grant, no compensation cost is recognized. When the exercise price of stock options or the issue price of restricted shares granted to employees is less than the market price of the common stock on the date of grant, compensation costs are expensed over the vesting period of the grants. Subsequent changes to option terms also can give rise to compensation costs. For stock options granted to non-employees, the Company recognizes compensation costs in accordance with the requirements of SFAS 123, which requires that companies recognize compensation expense for grants of stock, stock options and other equity instruments based on fair value.

At June 30, 2005, the Company had one Employee Stock Purchase Plan ("ESPP") and three stock-based employee compensation plans: the 1991 Stock Option Plan, the 1994 Stock and Option Plan and the 1996 Stock and Option Plan (collectively, the "Plans"). All options granted under the Plans had an exercise price equal to the market value of the underlying common stock on the date of grant.

At June 30, 2005 and 2004, the Company had approximately 1,597,649 and 1,256,434 restricted shares unvested and outstanding, respectively. During the three and six months ended June 30, 2005, the Company issued approximately 14,819 and 335,822 shares of restricted stock, net of cancellations, respectively, to employees, excluding 30,875 shares cancelled in accordance with an officer's severance agreement. During the three and six months ended June 30, 2004, the Company issued approximately 941,981 and 1,131,953 shares of restricted stock, net of cancellations, respectively, to employees, including a one-time grant to senior managers and executives on May 6, 2004.

The price per share of restricted stock granted to employees is equal to $0.01, the par value of the Company's common stock. In general, restricted share awards vest over four years in four equal annual installments, although different vesting schedules are applied in certain circumstances. The Company has recorded deferred compensation, net of cancellations, of approximately $18,000 and $3,464,000 for restricted shares issued during the three and six months ended June 30, 2005, respectively. During the three and six months ended June 30, 2004, the Company recorded deferred compensation, net of cancellations, of approximately $8,493,000 and $10,349,000, respectively, for restricted shares issued during these periods.

The Company recorded compensation expense related to restricted stock of approximately $1,036,000 and $2,067,000 for the three and six months ended June 30, 2005, respectively. During the three and six months ended June 30, 2004, the Company recorded compensation expense related to restricted stock of approximately $387,000 and $476,000, respectively. The compensation expense of $2,067,000 recorded for the six months ended June 30, 2005 included approximately $479,000 of expense related to the accelerated vesting of restricted stock awards in accordance with an officer's severance agreement and approximately $1,588,000 related to restricted shares outstanding during the period.

The following table illustrates the effect on net loss and net loss per common share if the fair value recognition provision of SFAS 123 had been applied to the Company's stock-based employee compensation. Employee stock-based compensation expense is amortized on a straight-line basis, since the Company's valuation of options subject to SFAS 123 assumes a single weighted-average expected life for each award. Included in employee stock-based compensation expense for the six months ended June 30, 2005 is expense related to the modification of certain stock awards in accordance with an officer's severance agreement.

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2005	2004	2005	2004
	(In thousands)			
Net loss attributable to common shareholders, as reported	$ (40,988)	$ (44,269)	$ (85,708)	$ (84,707)
Add: Employee stock-based compensation expense included in net loss, net of tax	1,129	387	2,160	476
Deduct: Total stock-based employee compensation expense determined under the fair value based method for all awards, net of tax	(10,554)	(9,758)	(21,284)	(20,129)
Pro forma net loss	$ (50,413)	$ (53,640)	$ (104,832)	$ (104,360)
Basic and diluted net loss per common share, as reported	$ (0.50)	$ (0.56)	$ (1.06)	$ (1.08)
Basic and diluted net loss per common share, pro forma	$ (0.61)	$ (0.68)	$ (1.30)	$ (1.33)

Research and Development

All research and development costs, including amounts funded by research collaborators, are expensed as incurred. Research and development expenses are comprised of costs incurred in performing research and development activities, including salaries and benefits, facilities costs, overhead costs, clinical trial costs, contract services and other outside costs. The Company's collaborators have agreed to fund portions of the Company's research and development programs related to specific research targets and drug candidates, including, in 2005, VX-950, VX-702, VX-680, kinases and certain cystic fibrosis research targets, and in 2004, VX-950, VX-680, kinases, caspase inhibitors, and certain cystic fibrosis research targets. The following table details the collaborator- and Company-sponsored research and development expenses for the three months ended June 30, 2005 and 2004 (in thousands):

	For the Three Months Ended June 30, 2005			For the Three Months Ended June 30, 2004		
	Research	Development	Total	Research	Development	Total
Collaborator-sponsored	$ 16,976	$ 14,814	$ 31,790	$ 14,710	$ 3,920	$ 18,630
Company-sponsored	12,836	14,731	27,567	13,290	15,530	28,820
Total	$ 29,812	$ 29,545	$ 59,357	$ 28,000	$ 19,450	$ 47,450

The following table details the collaborator- and Company-sponsored research and development expenses for the six months ended June 30, 2005 and 2004 (in thousands):

	For the Six Months Ended June 30, 2005			For the Six Months Ended June 30, 2004		
	Research	Development	Total	Research	Development	Total
Collaborator-sponsored	$ 33,428	$ 26,431	$ 59,858	$ 29,664	$ 6,839	$ 36,503
Company-sponsored	26,386	30,547	56,934	24,748	27,874	52,622
Total	$ 59,814	$ 56,978	$ 116,792	$ 54,412	$ 34,713	$ 89,125

Restructuring and Other Expense

The Company records costs and liabilities associated with exit and disposal activities, as defined in Statements of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS 146"), at fair value in the period the liability is incurred. In periods subsequent to initial measurement, changes to the liability are measured using the credit-adjusted risk-free discount rate applied in the initial period.

Debt Issuance Costs

Debt issuance costs related to expenses incurred in connection with Vertex's convertible subordinated note offerings are deferred and included in other assets on the condensed consolidated balance sheets. The costs are amortized based on the effective interest method over the term of the related debt issuance. The amortization expense is included in interest expense on the condensed consolidated statements of operations.

Stock Offering Costs

Stock offering costs of $10,331,000, related to expenses incurred in connection with Vertex's public stock offering, are recorded as an offset to additional paid-in capital on the condensed consolidated balance sheets. These expenses include underwriters' discounts and commissions and related offering expenses.

3. Comprehensive Loss

For the three and six months ended June 30, 2005 and 2004, comprehensive loss was as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
Net loss	$ (40,988)	$ (44,269)	$ (85,708)	$ (84,707)
Changes in other comprehensive loss:				
Unrealized holding gains (losses) on marketable securities, net of tax	999	(4,880)	(138)	(4,026)
Foreign currency translation adjustment	(252)	(152)	(334)	(9)
Total change in other comprehensive loss	747	(5,032)	(472)	(4,035)
Total comprehensive loss	$ (40,241)	$ (49,301)	$ (86,180)	$ (88,742)

4. Restructuring and Other Expense

On June 10, 2003, Vertex adopted a plan to restructure its operations to coincide with its increasing internal emphasis on advancing drug candidates through clinical development to commercialization. The restructuring was designed to re-balance the Company's relative investments in research and development, to better support the Company's long-term objective of becoming a profitable pharmaceutical company. The restructuring plan included a workforce reduction, write-offs of certain assets and a decision not to occupy approximately 290,000 square feet of specialized laboratory and office space in Cambridge, Massachusetts under lease to Vertex (the "Kendall Square Lease"). The Kendall Square Lease commenced in January 2003 and has a 15-year term. The Company has obtained subleases or sublease commitments, subject to final approvals, for a total of approximately 120,000 square feet of the facility subject to the Kendall Square Lease (the "Kendall Square Facility").

Based on developments in the Company's clinical pipeline in the second quarter of 2005, the Company revised its assessment of its real estate requirements, and now expects to occupy approximately

120,000 square feet of the Kendall Square Facility in the future. Based on the Company's decision to occupy a portion of the Kendall Square Facility and further review of real estate market conditions, the Company updated its estimate of the fair value of its liability pursuant to SFAS 146, resulting in a net credit to restructuring expense of approximately $1.7 million. This net credit results from the adjustment of the portion of the restructuring accrual related to the portion of the Kendall Square Facility that Vertex now expects to occupy, which is partially offset by (i) a charge in the amount of the estimated incremental net ongoing lease obligations associated with the portion of the Kendall Square Facility that the Company does not intend to occupy and (ii) imputed interest costs relating to the restructuring liability.

The activity related to restructuring expense for the three months ended June 30, 2005 is as follows (in thousands):

	Accrual as of March 31, 2005	Cash Payments, second quarter 2005	Cash received from sublease, second quarter 2005	Portion of facility Vertex expects to occupy, second quarter 2005	Charge, second quarter 2005	Accrual as of June 30, 2005
Lease restructuring expense	$ 52,305	$ (7,242)	$ 493	$ (10,018)	$ 8,275	$ 43,813

The activity related to restructuring expense for the six months ended June 30, 2005 is as follows (in thousands):

	Accrual as of December 31, 2004	Cash Payments, six months ended June 30, 2005	Cash received from sublease, six months ended June 30, 2005	Portion of facility Vertex expects to occupy, six months ended June 30, 2005	Charge, six months ended June 30, 2005	Accrual as of June 30, 2005
Lease restructuring expense	$ 55,843	$ (13,017)	$ 816	$ (10,018)	$ 10,189	$ 43,813

During the three and six months ended June 30, 2004, the Company recorded $1.8 million, and $3.6 million, respectively, of restructuring expense related to the imputed interest cost of the restructuring expense accrual.

The accrual balance at June 30, 2004 of $56.7 million represented the Company's estimate of its net ongoing lease obligations for the entire Kendall Square Facility.

The activity related to restructuring expense for the three months ended June 30, 2004 is as follows (in thousands):

	Accrual as of March 31, 2004	Cash Payments, second quarter 2004	Charge, second quarter 2004	Accrual as of June 30, 2004
Lease restructuring expense and other operating lease expense	$ 59,936	$ (5,072)	$ 1,837	$ 56,701

The activity related to restructuring expense for the six months ended June 30, 2004 is as follows (in thousands):

	Accrual as of December 31, 2003	Cash Payments, six months ended June 30, 2004	Charge, six months ended June 30, 2004	Accrual as of June 30, 2004
Lease restructuring expense and other operating lease expense	$ 69,526	$ (16,480)	$ 3,655	$ 56,701

In accordance with SFAS 146, the Company's initial estimate of its liability for its net ongoing costs associated with the Kendall Square Lease obligation was recorded in the second quarter of 2003 at fair value. The restructuring expense incurred in the periods prior to the three month period ended June 30, 2005 relates to the estimated incremental net ongoing lease obligations associated with the entire Kendall Square Facility as well as imputed interest costs relating to the restructuring liability. The expense associated with the portion of the building that the Company still does not intend to occupy will continue to be estimated in accordance with SFAS 146. The Company reviews its assumptions and estimates quarterly and updates its estimates of this liability as changes in circumstances require. As prescribed by SFAS 146, the expense and liability recorded is calculated using probability-weighted discounted cash-flows of the Company's estimated ongoing lease obligations, including contractual rental and build-out commitments, net of estimated sublease rentals, offset by related sublease costs.

In estimating the expense and liability under its Kendall Square Lease obligation, the Company estimated the costs that would be incurred to satisfy its build-out commitments under the lease, the time necessary to sublease the space, the projected sublease rental rates and the anticipated durations of any subleases. The Company validates its estimates and assumptions through consultations with independent third parties having relevant expertise. The Company used a credit-adjusted risk-free rate of approximately 10% to discount the estimated cash flows. The Company will review its estimates and assumptions on at least a quarterly basis, until the outcome is finalized, and make whatever modifications management believes necessary, based on the Company's best judgment, to reflect any changed circumstances. The Company's estimates have changed in the past, and may change in the future, resulting in additional adjustments to the estimate of liability, and the effect of any such adjustments could be material. Because the Company's estimate of the liability includes the application of a discount rate to reflect the time-value of money, the estimate of the liability will increase each quarter simply as a result of the passage of time. Changes to the Company's estimate of the liability are recorded as additional restructuring expense/(credit).

The restructuring accrual of $43.8 million at June 30, 2005 relates solely to the portion of the Kendall Square Facility that the Company still does not intend to occupy, and includes build-out commitments and other lease obligations, recorded at net present value. The actual amount and timing of the payment of the remaining accrued liability is dependent upon the provisions of any sublease(s) that the Company may ultimately execute.

The lease obligations associated with the portion of the Kendall Square Facility that the Company expects to occupy will be recorded as rental expense in the period incurred.

5. Convertible Subordinated Notes

On February 13, 2004, the Company issued approximately $153.1 million in aggregate principal amount of 5.75% Convertible Senior Subordinated Notes due in February 2011 (the "February 2011 Notes") in exchange for an equal principal amount of its outstanding 5% Convertible Subordinated Notes

due in 2007 (the "2007 Notes"). On September 17, 2004, the Company issued approximately $79.3 million in aggregate principal amount of 5.75% Convertible Senior Subordinated Notes due in February 2011 (the "September 2011 Notes") in exchange for an equal principal amount of its 2007 Notes. The terms of the September 2011 Notes are identical to those of the February 2011 Notes (the February 2011 Notes and the September 2011 Notes are referred to together as the "2011 Notes"). The 2011 Notes were issued through private offerings to qualified institutional buyers.

The 2011 Notes are convertible, at the option of the holder, into common stock at a price equal to $14.94, subject to adjustment under certain circumstances. The 2011 Notes bear interest rate at the of 5.75% per annum, and the Company is required to make semi-annual interest payments on the outstanding principal balance of the 2011 Notes on February 15 and August 15 of each year. On or after February 15, 2007, the Company may redeem the 2011 Notes at a redemption price equal to the principal amount plus accrued and unpaid interest, if any.

The 2007 Notes are convertible, at the option of the holder, into common stock at a price equal to $92.26 per share, subject to adjustment under certain circumstances. The 2007 Notes bear interest at the rate of 5% per annum, and the Company is required to make semi-annual interest payments on the outstanding principal balance of the 2007 Notes on March 19 and September 19 of each year. The 2007 Notes are redeemable by the Company at any time at specific redemption prices if the closing price of the Company's common stock exceeds 120% of the conversion price for at least 20 trading days within a period of 30 consecutive trading days. The deferred issuance costs associated with the original sale of the 2007 Notes were $9,297,000.

At June 30, 2005, there was approximately $82.6 million in principal amount of the 2007 Notes and approximately $232.4 million in principal amount of the 2011 Notes outstanding. As a result of the exchanges, the Company recorded a charge on the retirement of $153.1 million of the 2007 Notes in February 2004 in the amount of $2,453,000, and a charge on the retirement of $79.3 million of the 2007 Notes in September 2004 in the amount of $993,000. These charges represent that portion of the unamortized deferred issuance costs applicable to the amount of 2007 Notes retired. The deferred issuance costs associated with the issuance of the 2011 Notes, which are classified as long-term other assets, were $2,970,000 for the February 2011 Notes and $1,895,000 for the September 2011 Notes. For the three and six months ended June 30, 2005, $266,000 and$531,000 were amortized to interest expense for the issuance costs of the remaining 2007 Notes and the 2011 Notes, respectively.

6. Equity Issuance

In June 2005, the Company completed a public offering of 13,512,500 shares of common stock, including the underwriters' over-allotment of 1,762,500 shares, at a price of $13.00 per share. This transaction resulted in net proceeds of approximately $165,331,000 to the Company.

7. Guarantees

As permitted under Massachusetts law, Vertex's Articles of Organization and By-laws provide that the Company will indemnify certain of its officers and directors for certain claims asserted against them in connection with their service as officers or directors. The maximum potential amount of future payments that the Company could be required to make under these indemnification provisions is unlimited. However, the Company has purchased directors' and

officers' liability insurance policies that reduce its monetary exposure and enable it to recover a portion of any future amounts paid. The Company believes the estimated fair value of these indemnification arrangements is immaterial.

Vertex customarily agrees in the ordinary course of its business to indemnification provisions in agreements with clinical trials investigators and sites in its drug development programs, in sponsored research agreements with academic and not-for-profit institutions, in various comparable agreements

involving parties performing services for the Company in the ordinary course of business, and in its real estate leases. The Company also customarily agrees to certain indemnification provisions in its drug discovery and development collaboration agreements. With respect to the Company's clinical trials and sponsored research agreements, these indemnification provisions typically apply to any claim asserted against the investigator or the investigator's institution relating to personal injury or property damage, violations of law or certain breaches of the Company's contractual obligations arising out of the research or clinical testing of the Company's compounds or drug candidates. With respect to lease agreements, the indemnification provisions typically apply to claims asserted against the landlord relating to personal injury or property damage caused by the Company, to violations of law by the Company or to certain breaches of the Company's contractual obligations. The indemnification provisions appearing in the Company's collaboration agreements are similar, but in addition provide some limited indemnification for the collaborator in the event of third-party claims alleging infringement of intellectual property rights. In each of the cases above, the indemnification obligation generally survives the termination of the agreement for some extended period, although the obligation typically has the most relevance during the contract term and for a short period of time thereafter. The maximum potential amount of future payments that the Company could be required to make under these provisions generally is unlimited. The Company has purchased insurance policies covering personal injury, property damage and general liability that reduce its exposure for indemnification and would enable it in many cases to recover a portion of any future amounts paid. The Company has never paid any material amount to defend lawsuits or settle claims related to these indemnification provisions. Accordingly, the Company believes the estimated fair value of these indemnification arrangements is immaterial.

On March 28, 2003, the Company sold certain assets of PanVera LLC to Invitrogen Corporation for approximately $97 million. The agreement with Invitrogen requires the Company to indemnify Invitrogen against any loss it may suffer by reason of Vertex's breach of certain representations and warranties, or failure to perform certain covenants, contained in the agreement. The representations, warranties and covenants are of a type customary in agreements of this sort. The Company's aggregate obligations under the indemnity are, with a few exceptions that the Company believes are not material, capped at one-half of the purchase price, and apply to claims under representations and warranties made within fifteen months after closing (which period has ended), although there is no corresponding time limit for claims made based on breaches of covenants. Invitrogen has made no claims to date under this indemnity, and the Company believes that the estimated fair value of the remaining indemnification obligation is immaterial.

On December 3, 2003, the Company sold certain instrumentation assets to Aurora Discovery, Inc. for approximately $4.3 million. The agreement with Aurora requires the Company to indemnify Aurora against any loss it may suffer by reason of the Company's breach of certain representations and warranties, or failure to perform certain covenants, contained in the agreement. The representations, warranties and covenants are of a type customary in agreements of this sort. The Company's aggregate obligations under the indemnity are capped at one-half of the purchase price, and apply to claims under representations and warranties made within fifteen months after closing (which period has ended), although there is no corresponding time limit for claims made based on breaches of covenants. Aurora has made no claims to date under this indemnity, and the Company believes that the estimated fair value of the remaining indemnification obligation is immaterial.

On February 10, 2004, Vertex entered into a Dealer Manager Agreement with UBS Securities LLC in connection with the exchange by the Company of approximately $153.1 million in principal amount of its 2011 Notes for an equal principal amount of its 2007 Notes. On September 13, 2004, the Company entered into a second Dealer Manager Agreement with UBS Securities in connection with the exchange of approximately $79.3 million in principal amount of 2011 Notes for approximately $79.3 million in principal amount of outstanding 2007 Notes. Each of the Dealer Manager Agreements requires the Company to indemnify UBS Securities against any loss UBS Securities may suffer by reason of the Company's breach of

representations and warranties relating to the exchanges of the convertible notes, the Company's failure to perform certain covenants in those agreements, the inclusion of any untrue statement of material fact in the materials provided to purchasers of the 2011 Notes, the omission of any material fact needed to make those materials not misleading, and any actions taken by the Company or its representatives in connection with the exchanges. The representations, warranties and covenants in the Dealer Manager Agreements are of a type customary in agreements of this sort. The Company believes the estimated fair value of these indemnification obligations is immaterial.

On June 7, 2005, the Company entered into a Purchase Agreement with Merrill Lynch, Pierce, Fenner & Smith Incorporated, as the representative of the several underwriters named therein, relating to the public offering and sale of shares of the Company's common stock. The purchase agreement requires the Company to indemnify the underwriters against any loss they may suffer by reason of the Company's breach of representations and warranties relating to that public offering, the Company's failure to perform certain covenants in those agreements, the inclusion of any untrue statement of material fact in the prospectus used in connection with that offering, the omission of any material fact needed to make those materials not misleading, and any actions taken by the Company or its representatives in connection with the offering. The representations, warranties and covenants in the purchase agreement are of a type customary in agreements of this sort. The Company believes the estimated fair value of these indemnification obligations is immaterial.

8. Legal Proceedings

The Company is not a party to any material legal proceedings.

9. New Accounting Pronouncements

In December 2004, the FASB issued FASB Statement No. 123(R), "Share-Based Payments" ("FASB 123(R)"). FASB 123(R) revises FASB Statement No. 123, "Accounting for Stock-Based Compensation," supercedes APB Opinion No. 25, "Accounting for Stock Issued to Employees," and amends FASB Statement No. 95, "Statement of Cash Flows." FASB 123(R) requires companies to expense the fair value of employee stock options and other forms of stock-based compensation over the employees' service periods. Compensation cost is measured at the fair value of the award at the grant date and is adjusted to reflect actual forfeitures and the outcome of certain conditions. The fair value of an award is not re-measured after its initial estimation on the grant date. The FASB has determined that the effective date of FASB 123(R) should be the first interim or annual reporting period that begins after June 15, 2005.

Therefore, Vertex is required to comply with FASB 123(R) beginning January 1, 2006. The impact of adopting FASB No. 123(R) cannot be accurately estimated at this time, as it will depend on the market value and the amount of share-based awards granted in future periods. However, had the Company adopted FASB No. 123(R) in prior periods, the impact of the standard would have approximated the impact of SFAS No. 123 as described in "Stock Based Compensation" under Note 2. The Company is currently evaluating the two prescribed transition methods for accounting for and reporting stock options, and will select one prior to the adoption of FASB 123(R).

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

Overview

We are a biotechnology company in the business of discovering, developing, and commercializing small molecule drugs for serious diseases, including HIV infection, chronic hepatitis C virus (HCV) infection, inflammatory and autoimmune disorders, cancer, pain and bacterial infection. We earn a royalty on the sales of two Vertex-discovered products for the treatment of HIV infection, Lexiva®/Telzir® and Agenerase®, and co-promote these products in collaboration with GlaxoSmithKline plc. Our drug candidate pipeline is principally focused at present on the development and commercialization of new treatments for viral diseases, inflammatory and autoimmune diseases and cancer. We have built a drug discovery capability that integrates biology, chemistry, biophysics, automation and information technologies, with a goal of making the drug discovery process more efficient and productive.

Drug Discovery and Development

Discovery and development of a single new pharmaceutical product is a lengthy and resource-intensive process which may take 10 to 15 years or more. Throughout this entire process, potential drug candidates are subjected to rigorous evaluation, driven in part by stringent regulatory considerations. This evaluation process is designed to generate information concerning efficacy, proper dosage levels and a variety of other physical and chemical characteristics that are important in determining whether a proposed drug candidate should be approved for marketing. The toxicity characteristics and profile of drug candidates at varying dose levels administered for varying periods of time are also continually monitored and evaluated during the nonclinical and clinical development process. Most chemical compounds that are investigated as potential drug candidates never progress into formal development, and most drug candidates that do advance into formal development never become commercial products. A drug candidate's failure to progress or advance may be the result of any one or more of a wide range of adverse experimental outcomes including, for example, the lack of acceptable absorption characteristics or other physical properties, lack of sufficient efficacy against the disease target, difficulties in developing a cost-effective manufacturing or formulation method, or the discovery of toxicities that are unacceptable for the disease indication being treated.

We have a variety of drug candidates in clinical development and a broad-based drug discovery effort. Given the uncertainties of the research and development process, it is not possible to predict with confidence which, if any, of these efforts will result in a marketable pharmaceutical product. We constantly monitor the results of our discovery research and our nonclinical and clinical trials and regularly evaluate our portfolio investments with the objective of balancing risk and potential return in view of new data and scientific, business and commercial insights. This process can result in relatively abrupt changes in focus and priority as new information comes to light and we gain additional insights into ongoing programs and potential new programs.

Business Strategy

We have elected to diversify our research and development activities across a relatively broad array of investment opportunities, due in part to the high risks associated with the biotechnology and pharmaceutical business. We focus our efforts both on programs that we expect to control throughout the development and commercialization process in North America, as well as on programs that we anticipate will be controlled principally by a collaborator. This strategy requires more significant financial resources than would be required if we took a more limited approach. Because we have incurred losses from our inception and expect to incur losses for the foreseeable future, we are dependent in large part on our continued ability to raise significant funding to finance our discovery and development operations, including overhead, and to meet our long-term contractual commitments and obligations. In the past, we

have secured funds principally through capital market transactions, strategic collaborative agreements, proceeds from the disposition of assets, investment income and the issuance of stock under our employee benefit programs.

In June 2005, we completed a public equity offering and issued 13,512,500 shares of our common stock, resulting in net proceeds to us of $165.3 million. At June 30, 2005, we had approximately $446.6 million of cash, cash equivalents and available for sale securities, approximately $82.6 million in principal amount of 5% Convertible Subordinated Notes due 2007 (the "2007 Notes") and approximately $232.4 million in principal amount of 5.75% Convertible Senior Subordinated Notes due 2011 (the "2011 Notes"). As part of our strategy for managing our capital structure, we have, from time to time, adjusted the amount and maturity of our debt obligations through new issues, privately negotiated transactions and market purchases, depending on market conditions and our perceived needs at the time. We expect to continue pursuit of a general financial strategy that may lead us to undertake one or more additional capital transactions, which may or may not be similar to transactions in which we have engaged in the past.

Clinical Development Programs

In the second quarter of 2005, we reported positive results from our Phase Ib clinical trial of VX-950, an oral inhibitor of hepatitis C virus ("HCV") protease, for the treatment of HCV infection. In the study, patients treated with 750 mg of VX-950 every eight hours achieved a median reduction of HCV-RNA of 4.4 log10, equivalent to a 25,000-fold reduction in viral levels, at the end of 14 days of treatment. At the end of 14 days of treatment, 4 of 8 patients in the 750 mg dose group had HCV-RNA levels below the limit of quantitation in the quantitative Roche COBAS TaqMan® assay (<30 IU/mL). Also, we have completed the formal analysis of the safety data from the HCV-patient segment of the Phase Ib study, which showed that VX-950 was well tolerated. No safety concerns have been identified. We have made progress in the formulation of VX-950, and currently have a tablet formulation ready for use in our next Phase Ib study of VX-950, to be administered in combination with pegylated interferon, and for use in Phase II development.

Based on the results from the initial Phase Ib study of VX-950, we have revised our clinical development plans to increase our current investment in VX-950 product development. We believe that comprehensive investment in a broad Phase II clinical program for this drug candidate, together with accelerated development, manufacturing and formulation development, will reduce operational risk in the later stages of product development activity. This approach

anticipates possible success in advancing VX-950 to product registration. However, VX-950 is in an early stage of clinical testing, and could fail to progress or advance due to a wide range of adverse experimental outcomes, placing our full investment in the compound at risk.

We currently also have a number of clinical trials underway with other compounds, including two studies with merimepodib for the treatment of hepatitis C virus infection: the METRO study, in which a total of 356 patients are receiving a triple combination of merimepodib, pegylated interferon and ribavirin; and a 28-day clinical virology study of merimepodib and ribavirin. In the second quarter of 2005, we initiated a Phase II clinical study of VX-702, a p38 MAP kinase inhibitor, in rheumatoid arthritis ("RA"). We also completed enrollment in a Phase IIa study of VX-765, an oral ICE inhibitor, in psoriasis. In addition, our collaborator Merck currently is conducting three Phase I clinical studies of VX-680, a small molecule inhibitor of Aurora kinases, in cancer, and we expect that our collaborator GlaxoSmithKline plc will report preliminary results of a Phase IIa study with VX-385, an HIV protease inhibitor that has received fast track designation from the FDA, later this year. Accordingly, we are expecting clinical data from as many as six clinical programs by year-end: VX-950 in HCV infection, merimepodib in HCV infection, VX-385 in HIV infection, VX-702 in RA, VX-765 in psoriasis and VX-680 in cancer. The value of each of these assets will be significantly driven by the information obtained from ongoing clinical trials. Accordingly, the results of these trials have the potential to significantly affect the Company's future value.

Collaborative Revenue

Collaborations have been and will continue to be an important component of our business strategy. Based on the value that we believe we have built through research and development investments in certain of our drug discovery and development programs, and our perception of the level of interest in certain of our programs among some potential collaborators, we believe that we could enter into an additional collaborative agreement or agreements in the second half of 2005 that would be material to our business. Our business development priorities for the second half of 2005 include new collaborations to support development and commercialization of our drug candidates VX-409 (for the treatment of pain), VX-765 (currently in Phase II development for the treatment of psoriasis) and VX-692 (for the treatment of bacterial infection). We may also seek collaborators for our ion channels and other research programs. In future periods, we expect to identify collaborative development and commercialization opportunities for certain of our other drug candidates in order to continue their clinical advancement, as we maintain focus on controlling clinical development of particular drug candidates, including our HCV infection clinical candidates, in the United States.

Kendall Square Lease

We currently lease approximately 290,000 square feet of office and laboratory space in Kendall Square, Cambridge, Massachusetts (the "Kendall Square Lease"). In 2003, we decided not to occupy any of the facility subject to the Kendall Square Lease (the "Kendall Square Facility"). We have obtained subleases or sublease commitments subject to final approval for approximately 120,000 square feet of the Kendall Square Facility. Due to recent developments in our clinical pipeline, we updated our assessment of our real estate requirements and decided to occupy approximately 120,000 square feet of the Kendall Square Facility, which we expect to begin using early in 2006.

Our decision to occupy a portion of the Kendall Square Facility and further review of market conditions (to estimate the fair value of our liability under SFAS 146) resulted in a $1.7 million net credit to restructuring expense for the three months ended June 30, 2005. The net credit results from the adjustment of the portion of the restructuring accrual relating to the portion of the Kendall Square Facility that we expect to occupy, offset by (i) the estimated incremental net ongoing lease obligations for the rest of the Kendall Square Facility and (ii) imputed interest costs on the restructuring accrual. The restructuring accrual of $43.8 million at June 30, 2005 is related solely to the portion of the Kendall Square Facility that we still do not intend to occupy. This estimate represents our best judgment of the assumptions and estimates most appropriate in measuring the ongoing obligation. Our estimates of the restructuring accrual have changed in the past, and may change in the future, resulting in additional adjustments to the estimate of our liability. Also, because our estimate of the liability includes the application of a discount rate to reflect the time-value of money, the estimate will increase simply as a result of the passage of time, even if all other factors remain unchanged.

Financial Guidance

The key financial measures for which we have provided guidance in 2005 include:

- **Loss:** In July 2005, we revised our expected net loss upward from our previous guidance of a range of $125 million to $135 million, before certain charges and gains, to incorporate additional anticipated research and development expense due to our decision to increase our investment in the VX-950 development program. We now expect that the Company's full-year 2005 loss, before certain charges and gains, will be in the range of $140 million to $150 million.
- **Revenue:** We expect that our total revenue in 2005 will be in the range of $150 million to $160 million.
- **Sales, General and Administrative (SG&A) Expense:** We expect SG&A expense to be in the range of $42 million to $46 million for 2005.

- **Research and Development (R&D) Expense**: We project that R&D expense will be in the range of $235 million to $245 million. In July 2005, we increased our estimate for R&D expense from a range of $225 million to $240 million, to include additional expense that we expect to incur as a result of accelerating development of VX-950.
- **Cash, Cash Equivalents and Available-for-Sale Securities:** We expect cash, cash equivalents and available-for-sale securities to be in excess of $380 million at the end of 2005.

The financial measures set forth above are forward looking and are subject to risks and uncertainties that could cause our actual results to vary materially, as referenced in the section entitled "Forward-Looking Statements," which begins on page 24 of this Quarterly Report on Form 10-Q.

In this Quarterly Report on Form 10-Q, our guidance for the full-year 2005 net loss, which excludes any charges or gains, is a financial measure that is not in accordance with generally accepted accounting principles in the United States ("GAAP"). This non-GAAP financial measure is provided to enhance the reader's overall understanding of our financial performance. By excluding certain non-cash charges and gains, our projected non-GAAP results provide information to both management and investors that is useful in assessing our core operating performance and in evaluating and comparing our results of operations on a consistent basis from period to period. This non-GAAP financial measure is also used by management to evaluate financial results and to plan

and forecast future periods. The presentation of this additional information is not meant to be considered a substitute for the corresponding financial measure prepared in accordance with generally accepted accounting principles.

Liquidity and Capital Resources

We have incurred operating losses since our inception. Historically we have financed our operations principally through public stock offerings, private placements of our equity and debt securities, strategic collaborative agreements that include research and development funding, development milestones and royalties on the sales of products, proceeds from the disposition of assets of our Discovery Tools and Service business, which we sold in 2003, investment income and proceeds from the issuance of stock under our employee benefit programs.

At June 30, 2005, we had cash, cash equivalents and available-for-sale securities of $446.6 million, which is an increase of $54.3 million from $392.3 million at December 31, 2004. The increase reflects net proceeds of approximately $165.3 million from our public offering of common stock, which closed in June 2005, offset by cash used in operations of $108.7 million, including net cash payments of $12.2 million made in connection with the restructuring accrual and a $20.6 million reduction in deferred revenue. Expenditures for property and equipment during the six months ended June 30, 2005 were $7.4 million.

At June 30, 2005, the Company had approximately $232.4 million in principal amount of 2011 Notes and approximately $82.6 million in principal amount of 2007 Notes. The 2011 Notes are convertible, at the option of the holder, into common stock at a price equal to $14.94 per share, subject to adjustment under certain circumstances. The 2007 Notes are convertible, at the option of the holder, into common stock at a price equal to $92.26 per share, subject to adjustment under certain circumstances.

The actual amount and timing of the payment of the remaining restructuring liability of approximately $43.8 million related to our decision not to occupy a portion of the Kendall Square Facility is dependent upon the ultimate terms of any sublease(s) that we may ultimately enter into. We review our estimates underlying the restructuring accrual on at least a quarterly basis, and the accrual, and consequently any expected future payment, could change with any change in our estimates.

We expect to continue to make significant investments in our pipeline, particularly in clinical trials for certain of our product candidates, in our ion channel and kinase discovery efforts and in our effort to prepare for potential registration, regulatory approval and commercial launch of our existing and future

product candidates. Consequently, we expect to incur losses on a quarterly and annual basis for the foreseeable future.

In the first quarter of 2005, we entered into a commitment to purchase $4.8 million of drug substance to be used for future clinical studies and formulation development. This obligation will be discharged in 2005. At June 30, 2005, approximately $4.2 million of this obligation was included in accounts payable, accrued expenses and other current liabilities on our condensed consolidated balance sheets. There have been no other significant changes to our commitments and obligations as reported in our 2004 Annual Report on Form 10-K that was filed with the Securities and Exchange Commission on March 16, 2005.

In 2005 and in future periods, the adequacy of our available funds to meet our future operating and capital requirements, including repayment of the 2007 Notes and the 2011 Notes, will depend on many factors, including the number, breadth and prospects of our discovery and development programs and the costs and timing of obtaining regulatory approvals for any of our product candidates. Collaborations have been and will continue to be an important component of our business strategy. We will continue to rely on cash receipts from our existing research and development collaborations, including research funding, development reimbursements and potential milestone payments, and from new collaborations, in order to help fund our research and development efforts.

As part of our strategy for managing our capital structure, we have from time to time adjusted the amount and maturity of our debt obligations through new debt issues, privately negotiated exchange transactions and market purchases, depending on market conditions and our perceived needs at the time. During the remainder of 2005, we expect to continue pursuing a general financial strategy that may lead us to undertake one or more additional capital transactions, which may or may not be similar to transactions in which we have engaged in the past.

To the extent that our current cash and marketable securities, in addition to the above-mentioned sources, are not sufficient to fund our activities, it will be necessary to raise additional funds through public offerings or private placements of our securities or other methods of financing. We will also continue to manage our capital structure and consider all financing opportunities, whenever they may occur, that could strengthen our long-term liquidity profile. There can be no assurance that any such financing opportunities will be available on acceptable terms, if at all.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements prepared in accordance with generally accepted accounting principles in the United States of America. The preparation of these financial statements requires us to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expense during the reported periods. These items are monitored and analyzed by management for changes in facts and circumstances, and material changes in these estimates could occur in the future. Changes in estimates are recorded in the period in which they become known. We base our estimates on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from our estimates if past experience or other assumptions do not turn out to be substantially accurate.

We believe that the application of our accounting policies for restructuring and other expense, revenue recognition, research and development expense and investments, all of which are important to our financial position and results of operations, require significant judgments and estimates on the part of management. Our accounting polices, including the ones discussed below, are more fully described in Note B, “Accounting Policies”, to our consolidated financial statements included in our Annual Report on Form 10-K that was filed with the Securities and Exchange Commission on March 16, 2005.

Restructuring and Other Expense

We record liabilities associated with restructuring activities based on estimates of fair value in the period the liabilities are incurred, in accordance with SFAS 146. These estimates are reviewed and may be adjusted in subsequent periods. Adjustments are based, among other things, on management’s

assessment of changes in factors underlying the estimates, the impact of which is measured using the credit-adjusted risk-free discount rate of approximately 10% applied in the period when we first incurred the liability.

In June 2003, we restructured our operations in preparation for increased investment in the clinical development and commercialization of our drug candidates. We designed the restructuring to rebalance our relative investment in research and development, to better support our long-term objective of becoming an integrated pharmaceutical company. The restructuring included a workforce reduction, write-offs of certain assets and a decision not to occupy the facility subject to the Kendall Square Lease. Due to developments in our clinical pipeline in the second quarter of 2005, we have revised our assessment of our future facilities requirements, and have decided to occupy approximately 120,000 square feet of the Kendall Square Facility in the future.

Our decision to occupy a portion of the Kendall Square Facility and further review of market conditions (to estimate the fair value of our liability under SFAS 146) resulted in a $1.7 million net credit to restructuring expense for the three months ended June 30, 2005. The net credit results from the adjustment of the portion of the restructuring accrual related to the portion of the Kendall Square Facility that we expect to occupy, offset by (i) a charge in the amount of the estimated incremental net ongoing lease obligations for the remainder of the Kendall Square Facility and (ii) imputed interest costs related to the restructuring accrual. The restructuring accrual of $43.8 million at June 30, 2005 is related solely to the portion of the Kendall Square Facility that we still do not intend to occupy. This estimate represents our best judgment of the assumptions and estimates most appropriate in measuring the ongoing obligation. Our estimates of this liability have changed in the past, and may change in the future, resulting in additional adjustments. Also, because our estimate of the liability includes the application of a discount rate to reflect the time-value of money, the estimate will increase simply as a result of the passage of time, even if all other factors remain unchanged.

We are required to make significant judgments and assumptions when estimating the liability for our net ongoing obligations under the Kendall Square Lease for the portion of the Kendall Square Facility that we still do not intend to occupy. In accordance with SFAS 146, we use a probability-weighted discounted cash-flow analysis to calculate the amount of the liability. We applied a discount rate of approximately 10%. The probability-weighted discounted cash-flow analysis is based on management's assumptions and estimates of our ongoing lease obligations, including contractual rental and build-out commitments, and income from sublease rentals, including estimates of sublease timing and sublease rental terms. We validate our estimates and assumptions through consultations with independent third parties having relevant expertise.

It is possible that our estimates and assumptions will change in the future, resulting in additional adjustments to the amount of the estimated liability, and the effect of any adjustments could be material. For example, we may be exposed to market variability at the end of the sublease terms resulting in a future adjustment to the accrual. This adjustment may increase or decrease our ongoing obligation and accrual related to the portion of the Kendall Square Facility that we do not intend to occupy. Our current estimates and assumptions include initial sublease terms of six to seven years. We will review our assumptions and judgments related to the potential lease restructuring on at least a quarterly basis, until the outcome is finalized, and make whatever modifications we believe are necessary, based on our best judgment, to reflect any changed circumstances.

Revenue Recognition

Our revenue recognition policies are in accordance with the SEC's Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB 101") as amended by SEC Staff Accounting Bulletin No. 104, "Revenue Recognition" ("SAB 104") and for revenue arrangements entered into after June 30, 2003, Emerging Issues Task Force Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables" ("EITF 00-21").

Our collaborative research and development revenue is generated primarily through collaborative research and development agreements with strategic collaborators. The terms of these agreements typically include payment to us of non-refundable up-front license fees, funding for research and development efforts, payments to us based upon achievement of certain milestones, and royalties payable on product sales.

We recognize revenue from non-refundable, up-front license fees and milestones, not specifically tied to a separate earnings process, ratably over the contracted or estimated period of performance. Changes in estimates could materially affect revenue in the remainder of the performance period. For example, if our estimate of the period of performance shortens or lengthens, the amount of revenue we recognize from non-refundable, up-front license fees and milestones could increase or decrease beginning in the period the change in estimate becomes known. Future related revenues would be adjusted accordingly. To date, changes to our estimates have not had a material impact on our financial position or results of operations. Research funding is recognized ratably over the period of effort, as earned. Milestones that are based on designated achievement points and that are considered at-risk and substantive at the inception of the collaboration agreement are recognized as earned when management considers the corresponding payment to be reasonably assured. We evaluate whether milestones are at-risk and substantive based on the contingent nature of the milestone, specifically reviewing factors such as the technological and commercial risk that must be overcome and the level of investment required.

Under EITF 00-21, in multiple-element arrangements, license payments are recognized together with any up-front payment and the research and development funding as a single unit of accounting, unless the delivered technology has stand-alone value to the customer and we have objective and reliable evidence of fair value of the undelivered elements in the arrangement. License payments received during the course of a collaboration that do not meet the separation criteria above are recognized, when earned, in proportion to the period of time completed on the contract relative to the total contracted or estimated period of performance on the underlying research and development collaboration, with the remaining amount deferred and recognized ratably over the remaining period of performance. Payments received after performance obligations are complete are recognized when earned.

Royalty revenue is recognized based upon actual and estimated net sales of licensed products in licensed territories, as provided by our collaborator GlaxoSmithKline, and is recognized in the period the sales occur. Differences between actual royalty revenues and estimated royalty revenues, which have not historically been significant, are reconciled and adjusted for in the quarter in which they become known.

Research and Development Costs

All research and development costs, including amounts funded by research and development collaborations, are expensed as incurred. Research and development expenses are comprised of costs incurred in performing research and development activities including salaries and benefits, facilities costs, overhead costs, clinical trial costs, contract services and other outside costs. Accounting for clinical trial, contract services and other outside costs requires that we make estimates of the costs incurred in a given accounting period and record accruals at period-end, because the third party service periods and billing terms do not always coincide with our period-end. We base our estimates on our knowledge of the

research and development programs, services performed for the period, past history for related activities and the expected duration of the third party service contract, where applicable.

Altus Investment

We assess our investment in Altus Pharmaceuticals, Inc., for which we account using the cost method, on a quarterly basis to determine if there has been any estimated decrease in the fair value of the asset below its $18.9 million carrying value that might require us to write down the cost basis of the asset. If any adjustment to the fair value of an investment reflects a decline in the value of that investment below its cost, we consider the evidence available to us, including the duration and extent to which the decline is other-than-temporary. If the decline is considered other-than-temporary, the cost basis of the investment is written down to fair value as a new cost basis and the amount of the write down is included in the consolidated statement of operations. We have not identified facts or circumstances which would cause us to determine that the investment basis of our investment in Altus should be changed.

Results of Operations

Three Months Ended June 30, 2005 Compared with Three Months Ended June 30, 2004

Our net loss for the three months ended June 30, 2005 was $40,988,000, or $0.50 per basic and diluted common share, compared to net loss of $44,269,000, or $0.56 per basic and diluted common share, for the three months ended June 30, 2004. Included in the net loss for the quarter ended June 30, 2005 is a credit to restructuring expense of $1,743,000. Our net loss for the quarter ended June 30, 2004 includes restructuring expense of $1,837,000. Revenue increased during the three months ended June 30, 2005, but was offset by increased development expense related to our proprietary drug candidates.

Revenues

Total revenues increased $13,780,000 to $32,321,000, for the three months ended June 30, 2005, compared to $18,541,000 for the three months ended June 30, 2004. In the second quarter of 2005, revenue was comprised of $7,467,000 in royalties and $24,854,000 in collaborative research and development revenue, as compared with $4,011,000 in royalties and $14,530,000 in collaborative research and development revenue in the second quarter of 2004.

Royalties consist of Lexiva/Telzir (fosamprenavir calcium) and Agenerase (amprenavir) royalty revenue. Fosamprenavir calcium is marketed under the trade name Lexiva in the United States and Telzir in the European Union. Royalty revenue is based on actual and estimated worldwide net sales of Lexiva/Telzir and Agenerase. We began earning royalties on sales of Lexiva/Telzir in the United States in November 2003 and in the European Union in November 2004. Lexiva largely has replaced Agenerase in the United States market. We pay a royalty to a third party on sales of Agenerase and Lexiva/Telzir.

Collaborative research and development revenue increased $10,324,000, or 71%, for the three months ended June 30 2005, as compared with the same period in 2004. The increase in collaborative research and development revenue is primarily due to the execution of new collaboration agreements in mid-2004 and early 2005. The revenue recognized under these new collaborations was $9,175,000 in the second quarter of 2005.

We expect that collaborative research and development revenues will continue to be a significant source of our total revenue and we are seeking to enter into an additional collaboration agreement or agreements in the second half of 2005 that could be material to our business.

Costs and Expenses

Research and development expenses increased $11,907,000, or 25%, to $59,357,000 for the three months ended June 30, 2005 from $47,450,000 for the same period in 2004. The increase in research and development expenses was driven primarily by investment in our clinical development programs for VX-950 and VX-702. Development expenses accounted for 85%, or $10,095,000, of the aggregate increase in research and development expenses. During the second quarter of 2005, we concluded a Phase Ib study of VX-950 for the treatment of HCV infection, and continued a Phase IIb clinical study (called the "METRO" study) of merimepodib in combination with Pegasys® (peginterferon alfa-2a) and Copegus® (ribavirin) for the treatment of HCV infection. Our development activities in the second quarter of 2005 also included studies in the area of inflammatory and auto-immune diseases, including a Phase II clinical study of VX-765 for the treatment of psoriasis and the commencement of a Phase II study of VX-702 for the treatment of rheumatoid arthritis.

Research and development expenses consist primarily of salary and benefits, laboratory supplies, contractual services and infrastructure costs, including facilities costs and depreciation. Set forth below is a summary that reconciles our total research and development expenses for the three months ended June 30, 2005 and 2004 (in thousands):

	Three Months Ended June 30,			
	2005	2004	$ Change	% Change
Research Expenses:				
Salary and benefits	$ 10,066	$ 9,361	$ 705	8%
Laboratory supplies and other direct expenses	5,419	4,120	1,299	32%
Contractual services	1,750	2,118	(368)	(17)%
Infrastructure costs	12,577	12,401	176	1%
Total research expenses	$ 29,812	$ 28,000		
Development Expenses:				
Salary and benefits	$ 6,330	$ 5,013	$ 1,317	26%
Laboratory supplies and other direct expenses	2,763	1,755	1,008	57%
Contractual services	13,844	7,129	6,715	94%
Infrastructure costs	6,608	5,553	1,055	19%
Total development expenses	$ 29,545	$ 19,450		
Total Research and Development Expenses:				
Salary and benefits	$ 16,396	$ 14,374	$ 2,022	14%
Laboratory supplies and other direct expenses	8,182	5,875	2,307	39%
Contractual services	15,594	9,247	6,347	69%
Infrastructure costs	19,185	17,954	1,231	7%
Total research and development expenses	$ 59,357	$ 47,450		

Our collaborators have agreed to fund portions of our research and development programs related to specific drug candidates. The following table details our collaborator- and Company-sponsored research and development expenses for the three months ended June 30, 2005 and 2004 (in thousands):

	For the Three Months Ended June 30, 2005			For the Three Months Ended June 30, 2004		
	Research	Development	Total	Research	Development	Total
Collaborator-sponsored	$ 16,976	$ 14,814	$ 31,790	$ 14,710	$ 3,920	$ 18,630
Company-sponsored	12,836	14,731	27,567	13,290	15,530	28,820
Total	$ 29,812	$ 29,545	$ 59,357	$ 28,000	$ 19,450	$ 47,450

The increase in the collaborator-sponsored expenses to $31,790,000 for the three months ended June 30, 2005 from $18,630,000 for the same period in 2004 is primarily due to the performance of collaboration agreements with Merck & Co. Inc., Mitsubishi Pharma Corporation and The Cystic Fibrosis Foundation Therapeutics Incorporated.

Sales, general and administrative expenses increased slightly to $10,814,000 for the three months ended June 30, 2005, compared to $10,160,000 for the same period in 2004.

Restructuring credit for the three months ended June 30, 2005 was $1,743,000, compared to a restructuring expense for the three months ended June 30, 2004 of $1,837,000. The credit of $1,743,000 results from an adjustment of the portion of the restructuring relating to the portion of the Kendall Square Facility that we expect to occupy, offset by (i) a charge in the amount of the estimated incremental net ongoing lease obligation associated with the portion of the Kendall Square Facility that the Company still does not intend to occupy and (ii) imputed interest costs relating to the restructuring liability.

The activity related to the restructuring and other expense for the three months ended June 30, 2005 is as follows (in thousands):

	Accrual as of March 31, 2005	Cash Payment, second quarter 2005	Cash received from sublease, second quarter 2005	Portion of Facility Vertex expects to occupy, second quarter 2005	Charge, second quarter 2005	Accrual as of June 30, 2005
Lease restructuring expense	$ 52,305	$ (7,242)	$ 493	$ (10,018)	$ 8,275	$ 43,813

There was restructuring expense of $1,837,000 for the three months ended June 30, 2004, which relates to the estimated incremental net ongoing lease obligations associated with the real estate lease as well as the imputed interest costs relating to the restructuring accrual.

The activity related to the restructuring expense for the three months ended June 30, 2004 is as follows (in thousands):

	Accrual as of March 31, 2004	Cash payments, second quarter 2004	Charge, second quarter 2004	Accrual as of June 30, 2004
Lease restructuring expense	$ 59,936	$ (5,072)	$ 1,837	$ 56,701

Interest income decreased $299,000, or 12%, to $2,247,000 for the three months ended June 30, 2005 from $2,546,000 for the three months ended June 30, 2004. The decrease is a result of a lower average balance of funds invested and lower portfolio yields.

Six Months Ended June 30, 2005 Compared with Six Months Ended June 30, 2004

Net Loss

Our net loss for the six months ended June 30, 2005 was $85,708,000, or $1.06 per basic and diluted common share, compared to net loss of $84,707,000, or $1.08 per basic and diluted common share, for the six months ended June 30, 2004. Included in the net loss for the six months ended June 30, 2005 is restructuring expense of $171,000. Our net loss for the six months ended June 30, 2004 includes restructuring expense of $3,655,000, and a charge for retirement of certain 2007 Notes of $2,453,000.

Revenues

Total revenues increased by $24,873,000 to $60,927,000 for the six months ended June 30, 2005, compared to $36,054,000 for the six months ended June 30, 2004. In the first six months of 2005, revenue was comprised of $13,620,000 in royalties and $47,307,000 in collaborative research and development revenue, as compared with $6,593,000 in royalties and $29,461,000 in collaborative research and development revenue in the first six months of 2004.

Collaborative research and development revenue increased $17,846,000, or 61%, for the six months ended June 30, 2005 as compared with the same period in 2004. The increase in collaborative research and development revenue is primarily due to the execution of new collaboration agreements in mid-2004 and early 2005. The revenue recognized under these new collaborations was $18,036,000 for the six months ended June 30, 2005.

Costs and Expenses

Research and development expenses increased $27,667,000, or 31%, to $116,792,000 for the six months ended June 30, 2005 from $89,125,000 for the same period in 2004. Development expenses accounted for 80%, or $22,265,000, of the total increase in research and development expenses.

Research and development expenses consist primarily of salary and benefits, laboratory supplies, contractual services and infrastructure costs, including facilities costs and depreciation. Set forth below is a summary that reconciles our total research and development expenses for the six months ended June 30, 2005 and 2004 (in thousands):

	Six Months ended June 30,			
	2005	2004	$ Change	% Change
Research Expenses:				
Salary and benefits	$ 20,143	$ 18,576	$ 1,567	8%
Laboratory supplies and other direct expenses	11,012	7,965	3,047	38%
Contractual services	3,511	3,609	(98)	(3)%
Infrastructure costs	25,148	24,262	886	4%
Total research expenses	$ 59,814	$ 54,412		
Development Expenses:				
Salary and benefits	$ 12,589	$ 9,402	3,187	34.5%
Laboratory supplies and other direct expenses	4,829	3,152	1,677	53%
Contractual services	26,743	11,349	15,394	136%
Infrastructure costs	12,817	10,810	2,007	19%
Total development expenses	$ 56,978	$ 34,713		
Total Research and Development Expenses:				
Salary and benefits	$ 32,732	$ 27,978	4,754	17%
Laboratory supplies and other direct expenses	15,841	11,117	4,724	42%
Contractual services	30,254	14,958	15,296	102%
Infrastructure costs	37,965	35,072	2,893	8%
Total research and development expenses	$ 116,792	$ 89,125		

Our collaborators have agreed to fund portions of our research and development programs related to specific drug candidates. The following table details our collaborator- and Company-sponsored research and development expenses for 2005 and 2004 (in thousands):

	For the Six Months Ended June 30, 2005			For the Six Months Ended June 30, 2004		
	Research	Development	Total	Research	Development	Total
Collaborator-sponsored	$ 33,428	$ 26,431	$ 59,858	$ 29,664	$ 6,839	$ 36,503
Company-sponsored	26,386	30,547	56,934	24,748	27,874	52,622
Total	$ 59,814	$ 56,978	$ 116,792	$ 54,412	$ 34,713	$ 89,125

The increase in the collaborator-sponsored expenses to $59,858,000 for the six months ended June 30, 2005 from $36,503,000 for the same period in 2004 is primarily due to the performance of collaboration agreements with Merck & Co. Inc., Mitsubishi Pharma Corporation and The Cystic Fibrosis Foundation Therapeutics Incorporated.

Sales, general and administrative expenses increased slightly to $20,441,000 for the six months ended June 30, 2005, compared to $19,882,000 for the same period in 2004.

Restructuring expense for the six months ended June 30, 2005 was $171,000, compared to $3,655,000 for the six months ended June 30, 2004.

The activity related to the restructuring and other expense for the six months ended June 30, 2005 is as follows (in thousands):

	Accrual as of December 31, 2004	Cash Payments, six months ended June 30, 2005	Cash received from sublease, six months ended June 30, 2005	Portion of facility Vertex expects to occupy, six months ended June 30, 2005	Charge. six months ended June 30, 2005	Accrual as of June 30, 2005
Lease restructuring expense	$ 55,843	$ (13,017)	$ 816	$ (10,018)	$ 10,189	$ 43,813

The activity related to the restructuring and other expense for the six months ended June 30, 2004 is as follows (in thousands):

	Accrual as of December 31, 2003	Cash payments, six months ended June 30, 2004	Charge, six months ended June 30, 2004	Accrual as of June 30, 2004
Lease restructuring expense and other operating lease expense	$ 69,526	$ (16,480)	$ 3,655	$ 56,701

Interest income decreased $970,000, or 18%, to $4,566,000 for the six months ended June 30, 2005 from $5,536,000 for the six months ended June 30, 2004. The decrease is a result of a lower average balance of funds invested and lower portfolio yields.

Forward-Looking Statements

This report contains forward-looking statements about our business, including our expectation that (i) we are positioned to commercialize multiple products in the coming years; (ii) future development candidates may include therapeutics for the treatment of a wide variety of diseases and conditions; (iii) we will focus our efforts both on programs that we expect to control throughout the development and commercialization process in North America, as well as on programs that we anticipate will be controlled principally by a collaborator; (iv) we will continue pursuit of a general financing strategy that may lead us to undertake one or more additional capital transactions; (v) we will continue to make significant investments in our pipeline; (vi) we will increase our

investment in VX-950; (vii) we and our collaborators will advance clinical trials on a number of our development stage drug candidates, including merimepodib, VX-950, VX-702, VX-765, VX-385 and VX-680, and we will receive clinical trial data from as many as six clinical trials during the second half of 2005; (viii) our collaborator, GlaxoSmithKline plc, will report preliminary results of a Phase IIa study with VX-385 later this year; (ix) we will incur losses on a quarterly and annual basis for the foreseeable future; (x) our financial results for 2005 will be as set forth in this Quarterly Report on 10-Q; (xi) we will occupy approximately 120,000 square feet of the Kendall Square Facility in the future; (xii) our net liability under the Kendall Square Lease will be as we have estimated; and (xiii) we will enter into a new collaboration agreement or agreements that would be material to our business.

While management makes its best efforts to be accurate in making forward-looking statements, such statements are subject to risks and uncertainties that could cause our actual results to vary materially. These risks and uncertainties include, among other things, our inability to further identify, develop and achieve commercial success for new products and technologies; the possibility of delays in the research and development necessary to select drug development candidates; the possibility of delays in the commencement or completion of clinical trials; the risk that clinical activities planned for 2005 may not

commence as scheduled; the risk that clinical trials may not result in marketable products; the risk that we may be unable to successfully finance and secure regulatory approval of and market our drug candidates; our dependence upon existing and new pharmaceutical and biotechnology collaborations; the levels and timing of payments under our collaborative agreements; uncertainties about our ability to obtain new corporate collaborations on satisfactory terms, if at all; the development of competing systems; our ability to protect our proprietary technologies; patent-infringement claims; risks of new, changing and competitive technologies; and the risk that there may be changing and new regulations in the U.S. and internationally Please see the “Risk Factors” appearing in Item 1 of our Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 16, 2005, for more details regarding these and other risks. We disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

As part of our investment portfolio, we own financial instruments that are sensitive to market risks. The investment portfolio is used to preserve our capital until it is required to fund operations, including our research and development activities. None of these market risk sensitive instruments are held for trading purposes. We do not have derivative financial instruments in our investment portfolio.

Interest Rate Risk

We invest our cash in a variety of financial instruments, principally securities issued by the U.S. government and its agencies, investment grade corporate bonds and notes and money market instruments. These investments are denominated in U.S. dollars. All of our interest-bearing securities are subject to interest rate risk, and could decline in value if interest rates fluctuate. Substantially all of our investment portfolio consists of marketable securities with active secondary or resale markets to help ensure portfolio liquidity, and we have implemented guidelines limiting the term to maturity of its investment instruments. Due to the conservative nature of these instruments, we do not believe that we have a material exposure to interest rate risk.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures.

The Company’s chief executive officer and chief financial officer, after evaluating the effectiveness of the Company’s disclosure controls and procedures (as defined in Exchange Act Rules 13(a)-15(e) and 15d-15(e)) as of the end of the period covered by this Quarterly Report on Form 10-Q, have concluded that, based on such evaluation, the Company’s disclosure controls and procedures were effective. In designing and evaluating the disclosure controls and procedures, the Company’s management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Changes in Internal Controls Over Financial Reporting.

No change in the Company’s internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) occurred during the second quarter of 2005 that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

Part II. Other Information

Item 4. Submission of Matters to a Vote of Security Holders

The Company’s annual meeting of shareholders was held on May 11, 2005.

The shareholders elected Roger W. Brimblecombe, Ph.D, Stuart J. M. Collinson, Ph.D and Matthew W. Emmens to the class of directors whose term expires in 2008. The tabulation of votes with respect to the election of such directors is as follows:

	Total Votes For:	Total Votes Withheld:
Roger W. Brimblecombe, Ph.D.	64,481,888	5,337,720
Stuart J. M. Collinson, Ph.D.	66,707,168	3,112,440
Matthew W. Emmens	68,781,308	1,038,300

In addition, the shareholders approved an amendment to the Company’s By-laws that increased the size of the Board of Directors from a maximum of nine directors to a maximum of eleven directors. The tabulation of votes with respect to this proposal is as follows:

	Total Votes For:	Total Votes Against:	Total Votes Abstaining:
Amendment to By-laws.	64,951,787	4,690,046	64,317

As of the date of this Quarterly Report on Form 10-Q, our Board of Directors consists of Joshua S. Boger, Eric K. Brandt, Roger W. Brimblecombe, Stuart J.M. Collinson, Eugene H. Cordes, Matthew W. Emmens, Bruce I. Sachs, Charles A. Sanders, Eve E. Slater and Elaine S. Ullian.

Item 6. Exhibits

Exhibit No.	Description
3.1	Amended and Restated By-laws of Vertex Pharmaceuticals Incorporated
31.1	Certification of the Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Signatures

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

August 9, 2005 VERTEX PHARMACEUTICALS INCORPORATED

By: /s/ IAN F. SMITH
Ian F. Smith
Senior Vice President and Chief Financial Officer
(principal financial officer and duly authorized officer)

Exhibit Index

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BY-LAWS
of
VERTEX PHARMACEUTICALS INCORPORATED

Amended and Restated as of May 11, 2005

ARTICLE I

STOCKHOLDERS

Section 1. *Annual Meeting*. The annual meeting of the stockholders shall be held on the second Monday of May in each year, or on such other date within six months after the end of the fiscal year, or on such other date within six months after the end of the fiscal year of the Corporation as the Board of Directors shall fix, at such time as shall be fixed by the Board of Directors in the call of the meeting. Purposes for which an annual meeting is to be held, in addition to those prescribed by law, by the Articles of Organization, or by these By-Laws, may be specified by the Board of Directors in the notice of the meeting.

Section 2. *Special Meeting in Lieu of Annual Meeting*. If no annual meeting has been held in accordance with the foregoing provisions, a special meeting of the stockholders may be held in lieu thereof. Any action taken at such special meeting shall have the same force and effect as if taken at the annual meeting, and in such case all references in these By-Laws to the annual meeting of the stockholders shall be deemed to refer to such special meeting. Any such special meeting shall be called as provided in Section 3 of this Article 1.

Section 3. *Special Meetings*. A special meeting of the stockholders may be called at any time by the Chairman of the Board, the President, or by the Board of Directors. A special meeting of the stockholders shall also be called by the Clerk (or, in the case of the death, absence, incapacity, or refusal of the Clerk, by any other officer) upon written application of one or more stockholders who hold at least forty percent in interest of the capital stock entitled to vote at the meeting. Each call of a meeting shall state the place, date, hour, and purposes of the meeting.

Section 4. *Place of the Meetings*. All meetings of the stockholders shall be held at such place, either within or without the Commonwealth of Massachusetts, within the United States as shall be fixed by the Board of Directors in the notice of the meeting. Any adjourned session of any meeting of the stockholders shall be held within the United States at the place designated in the vote of adjournment.

Section 5. *Notice of Meeting*. A written notice of each meeting of stockholders, stating the place, date, hour and purposes of the meeting, shall be given at least seven days before the meeting to each stockholder entitled to vote thereat and to each stockholder who, by law, by the Articles of Organization, or by these By-Laws, is entitled to notice, by leaving such notice with him or at his residence or usual place of business, or by mailing it, postage prepaid, addressed to such stockholder at his address as it appears in the records of the Corporation. Such notice shall be given by the Clerk or an Assistant Clerk or by an officer designated by the Board of Directors. Whenever notice of a meeting is required to be given to a stockholder under any provision of the Business Corporation Law of the Commonwealth of Massachusetts or of the Articles of Organization of these By-Laws, a written waiver thereof, executed before or after the meeting by such stockholder or his attorney thereunto authorized and filed with the records of the meeting, shall be deemed equivalent to such notice.

Section 6. *Quorum of Stockholders*. At any meeting of the stockholders, a quorum shall consist of a majority in interest of all stock issued and outstanding and entitled to vote at the meeting, except when a larger quorum is required by law, by the Articles of Organization, or by these By-Laws. Stock owned directly or indirectly by the Corporation, if any, shall not be deemed outstanding for this purpose.

Section 7. *Adjournment of Meetings*. Any meeting of the stockholders may be adjourned (a) prior to the time the meeting has been convened, by the Board of Directors, or (b) after the meeting has been convened, by a majority of the votes properly cast upon the question, whether or not a quorum is present at the meeting, and the meeting may be held at adjourned without further notice.

Section 8. *Action by Vote*. When a quorum is present at any meeting, a plurality of the votes properly cast for election to any office shall elect to such office, and a majority of the votes properly cast upon any question other than an election to an office shall decide the question, except when a larger vote is required by law, by the Articles of Organization, or by these By-Laws.

Section 9. *Voting*. Stockholders entitled to vote shall have one vote for each share of stock held by them of record according to the records of the Corporation, unless otherwise provided by the Articles of Organization. No ballot shall be required for any vote for election to any office unless requested by a stockholder present or represented at the meeting and entitled to vote in such election. The Corporation shall not, directly or indirectly, vote any share of its own stock.

Section 10. *Proxies*. To the extent permitted by law, stockholders entitled to vote may vote either in person or by written proxy. No proxy dated more than six months before the meeting named therein shall be valid. All proxies shall be filed with the clerk of the meeting before being voted. Unless otherwise specified or limited by their terms, such proxies shall entitle the holders thereof to vote at any adjournment of such meeting but shall not be valid after the final adjournment of such meeting.

Section 11. *Action by Consent*. Any action required or permitted to be taken at any meeting of the stockholders may be taken without a meeting, but only if all stockholders entitled to vote on the matter consent to the action in writing and the written consents are filed with the records of meetings of stockholders. Such consents shall be treated for all purposes as a vote taken at a meeting.

ARTICLE II

BOARD OF DIRECTORS

Section 1. *Number, Elections and Terms*. Subject to the rights of the holders of Preferred Stock to elect one or more additional directors under specified circumstances as provided in Article 4 of the Articles of Organization, the Board of Directors shall consist of not less than three nor more than eleven persons, the exact number to be fixed from time to time by the Board of Directors pursuant to a resolution adopted by a majority vote of the directors then in office. The Board of Directions shall be classified with respect to the time for which they shall severally hold office by dividing them into three classes, as nearly equal in number as possible, with the term of office of one class expiring at the annual meeting of stockholders each year. At each annual meeting of the stockholders of the Corporation, the successors to the class of directors whose terms expire at that meeting shall be elected to hold office for terms expiring at the annual meeting of stockholders held in the third year following the year of their election. If the number of directors is changed, any increase or decrease shall be apportioned by the Board of Directors among the classes so as to maintain the number of directors in each class as nearly equal

as possible. Each director shall hold office until the annual meeting for the year in which such director's term expires and until such director's successor shall be elected and shall qualify. No director need be a stockholder.

Section 2. *Nomination*. Nominations for the election of directors may be made by the Board of Directors or a committee appointed by the Board of Directors or by any stockholder entitled to vote in the election of directors generally. However, any stockholder entitled to vote in the election of directors generally may nominate one of more persons for election as directors at a meeting only if written notice of such stockholder's intent to make such nomination or nominations has been given, either by personal delivery or by mailing it, postage prepaid, to the Clerk of the Corporation not later than (a) with respect to an election to be held at an annual meeting of stockholders, ninety (90) days prior to the anniversary date of the immediately preceding annual meeting, and (b) with respect to an election to be held at a special

meeting of stockholders for the election of directors, the close of business on the tenth day following the date on which notice of such meeting is first given to stockholders. Each such notice shall set forth (i) the name and address of the stockholder who intends to make the nomination and of the person or persons to be nominated; (ii) a representation that the stockholder is a holder of record of stock of the Corporation entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (iii) a description of all arrangements or understandings between the stockholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the stockholder; (iv) such other information regarding each nominee proposed by such stockholder as would be required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission; and (v) the consent of each nominee to serve as a director of the Corporation if so elected. The presiding officer of the meeting may refuse to acknowledge the nomination of any person not made in compliance with the foregoing procedure.

Section 3. *Newly Created Directorships and Vacancies*. Newly created directorships resulting from any increase in the number of directors and any vacancies on the Board of Directors resulting from death, resignation, disqualification, removal, or other cause shall be filled only by the affirmative vote of a majority of the remaining directors then in office, even though less that a quorum of the Board of Directors. Any director elected in accordance with the preceding sentence shall hold office for the remainder of the full term of the class of directors in which the new directorship was created or the vacancy occurred and until such director's successor shall have been elected and qualified. No decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director.

Section 4. *Removal of Directors*. Any director may be removed from office by stockholder vote at any time, but only for cause, by the affirmative vote of the holders of at least a majority of the voting power of the then outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors, voting together as a single class. Any director may also be removed from office for cause by vote of a majority of the directors then in office.

Section 5. *Directors Elected by Holders of Preferred Stock*. Whenever the holders of any class or series or Preferred Stock or of any other class or series of shares issued by the Corporation shall have the right, voting separately as a class or series, to elect one or more directors under specified circumstances, the election, term of office, filling of vacancies, and other features of such directorships shall be governed by the terms of the Articles of Organization applicable thereto, and none of the provisions of Sections 1 to 4 of this Article II shall apply with respect to directors so elected.

Section 6. *Resignations*. Any director, member of a committee, or officer may resign at any time by delivering his resignation in writing to the Chairman of the Board, the President, the Clerk, or to a meeting of the Board of Directors. Such resignation shall be effective upon receipt unless specified to be effective at some other time.

Section 7. *Powers*. Except as reserved to the stockholders by law, the Articles of Organization, or by these By-Laws, the business of the Corporation shall be managed by the Board of Directors who shall have and may exercise all the powers of the Corporation.

Section 8. *Executive Committee*. The Board of Directors may, by vote of a majority of the directors then in office, elect from their number an Executive Committee, which shall consist of the Chief Executive Officer and such number of other directors as the Board shall determine. The Executive Committee shall have and may exercise, when the Board of Directors is not in session, the authority of the Board of Directors in the management of the business of the Corporation, except that it shall not have authority to:

(a) Change the principal office of the Corporation;

(b) Amend the By-Laws;

(c) Issue stock;

(d) Establish and designate series of stock or fix and determine the relative rights and preferences of any series of stock;

(e) Elect officers required by law or these By-Laws to be elected by the stockholders or directors or fill vacancies in any such offices;

(f) Change the number of the Board of Directors or fill vacancies in th Board of Directors;

(g) Remove officers or directors from office;

(h) Authorize the payment of any dividend or distribution to stockholders;

(i) Authorize the reacquisition for value of stock of the Corporation; or

(j) Authorize a merger which by law may be authorized by the Board of Directors.

Section 9. *Other Committees*. The Board of Directors may, by vote of a majority of the directors then in office, elect from their number other committees and may delegate to any such committee or committees some or all of the powers of the Board of Directors except those powers which by law, by the Articles of Organization, or by these By-Laws they are prohibited from delegating. Except as the Board of Directors may otherwise determine, the Executive Committee and any such other committee may make rules for the conduct of its business, but unless otherwise provided by the Board of Directors of such rules, its business shall be conducted as nearly as may be in the same manner as is provided by these By-Laws for the conduct of business by the

Board of Directors. The Board of Directors shall have the power to rescind any vote, resolution, or other action of any committee, provided that the rights of third parties shall not be impaired by such rescission.

Section 10. *Regular Meetings*. A regular meeting of the Board of Directors shall be held without call or notice immediately after and at the same place as the annual meeting of the stockholders. Other regular meetings of the Board of Directors may be held without call or notice at such places and at such times as the Board of Directors may, from time to time, determine, provided that notice of the first regular meeting following any such determination shall be given to absent directors.

Section 11. *Special Meetings*. Special meetings of the Board of Directors may be held at any time and at any place designated in the call of the meeting, when called by the Chairman of the Board, the President, or by two or more directors.

Section 12. *Notice of the Meetings*. It shall be sufficient notice to a director of a meeting of the Board of Directors to send notice by mail at least forty-eight (48) hours or by telegram at least twenty-four (24) hours before the meeting, addressed to such directors at his usual or last known business or residence address, or to give notice to such director in person or by telephone at least twenty-four (24) hours before the meeting. Notice of a meeting need not be given to any director if a written waiver of notice, executed by him before or after the meeting, is filed with the records of the meeting, or to any director who attends the meeting without protesting prior thereto or at its commencement the lack of a notice to him. Neither notice of a meeting nor a waiver of a notice need specify the purposes of the meeting.

Section 13. *Quorum of Directors*. At any meeting of the Board of Directors, a majority of the directors then in office shall constitute a quorum. Any meeting may be adjourned from time to time by a majority of the votes cast upon the question, whether or not a quorum is present, and the meeting may be held as adjourned without further notice.

Section 14. *Action by Vote*. When a quorum is present at any meeting, a majority of the directors present may take any action, except when a larger vote is required by law, by the Articles of Organization, or by these By-Laws.

Section 15. *Action by Written Consent*. Unless the Articles of Organization otherwise provide, any action required or permitted to be taken at any meeting of the Board o Directors or of any committee thereof may be taken without a meeting if all the directors or members of the committee as the case may be, consent to the action in writing and the written consents are filed with the records of the meetings of the Board of Directors or such committee. Such consents shall be treated for all purposes as a vote taken at a meeting.

Section 16. *Participation Through Communications Equipment*. Unless otherwise provided by law or the Articles of Organization, members of the Board of Directors or of any committee thereof may participate in a meeting of such Board or committee, as the case may be, through conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other at the same time, and participation by such means shall constitute presence in person at a meeting.

Section 17. *Compensation of Directors*. The Board of Directors may provide for the payment to any of the directors, other than officers or employees of the Corporation, of a specified amount for services as a director or member of a committee of the Board, or of a specified amount for attendance at each regular or special Board or committee meeting or of both, and all directors shall be reimbursed for expenses of attendance at any such meeting; provided, however, that nothing herein contained shall be construed to preclude any director from serving the Corporation in any other capacity and receiving compensation therefor.

ARTICLE III

OFFICERS AND AGENTS

Section 1. *Enumeration; Qualification*. The officers of the Corporation shall be a President, a Treasurer, a Clerk, and such other officers, including, without limitation, a Chairman of the Board, one or more Vice Presidents, Assistant Treasurers, and Assistant Clerks as the Board of Directors from time to time may in their discretion elect or appoint. In addition, the Corporation shall have such other agents as may be appointed by management in accordance with these By-Laws. The Chairman of the Board shall be a director. The President need not be a director. The Clerk shall be a resident of Massachusetts unless the Corporation has a resident agent appointed for the purpose of service of process. Any two or more offices may be held by the same person. Any officer may be required by the Board of Directors to give bond for the faithful performance of his duties to the Corporation in such amount and with such sureties as the directors may determine.

Section 2. *Powers*. Subject to law, to the Articles of Organization, and to the other provisions of these By-Laws, each officer shall have, in addition to the duties and powers herein set forth, such duties and powers as are commonly incident to his office and such duties and powers as the Board of Directors may from time to time designate.

Section 3. *Election*. The Chairman of the Board, if any, the President, the Treasurer, and the Clerk shall be elected annually by the Board of Directors at their first meeting following the annual meeting of the stockholders. Other officers, if any, may be elected or appointed by the Board of Directors at said meeting or at any other time.

Section 4. *Tenure*. Except as otherwise provided by law, by the Articles of organization, or by these By-Laws, the Chairman of the Board, if any, the President, the Treasurer, and the Clerk shall hold office until the first meeting of the Board of Directors following the next annual meeting of the stockholders and until their respective successors are chosen and qualified, and each other officer shall hold office for such term as may be designated in the vote electing or appointing him, or in each case until such officer sooner dies, resigns, is removed, or becomes disqualified.

Section 5 *Chief Executive Officer*. The Chief Executive Officer of the Corporation shall be the Chairman of the Board, the President, or such other officer as may from time to time be designated by the Board of Directors. If no such designation is made, the President shall be the Chief Executive Officer. The Chief Executive Officer shall, subject to the control of the Board of Directors, have general charge and supervision of the business of the Corporation and, except as the Board of Directors shall otherwise determine, shall preside at all meetings of the stockholders and of the Executive Committee. Unless otherwise determined by the Board of Directors, the Chief Executive Officer shall have the authority to appoint such agents, in addition to those officers

enumerated in Section 2 of this Article III as being elected or appointed by the Board of Directors, as he shall deem appropriate and to define their respective duties and powers.

Section 6. *Chairman of the Board*. If a Chairman of the Board of Directors is elected, he shall preside at all meetings of the Board of Directors and shall have the duties and powers specified in these By-Laws and such other duties and powers as may be determined by the Board of Directors.

Section 7. *President and Vice Presidents*. The President shall have the duties and powers specified in these By-Laws and shall have such other duties and powers as may be determined by the Board of Directors.

The Vice Presidents shall have such duties and powers as shall be designated from time to time by the Board of Directors. Unless the Board of Directors otherwise determines, one Vice President shall be designated as the Chief Financial officer of the Corporation and, as such, shall be the chief financial and accounting officer of the Corporation and shall have the duties and powers commonly incident thereto.

Section 8. *Treasurer and Assistant Treasurers*. The Treasurer shall have general responsibility for the corporate treasury function, shall be in charge of its funds and valuable papers, books of account, and accounting records, and shall have such other duties and powers as may be designated from time to time by the Board of Directors.

Any Assistant Treasurer shall have such duties and powers as shall be designated from time to time by the Board of Directors or the Treasurer.

Section 9. *Clerk and Assistant Clerks*. The Clerk shall record all proceedings of the stockholders and Board of Directors in a book or series of books to be kept for that purpose, which book or books shall be kept as the principal office of the Corporation and shall be open at all reasonable times to the inspection of any stockholder. In the absence of the Clerk from any meeting of the stockholders or Board of Directors, an Assistant Clerk, or if there be none or he is absent, a temporary clerk chosen at the meeting, shall record the proceedings thereof in the aforesaid book.

Any Assistant Clerks shall have such other duties and powers as shall be designated from time by the Board of Directors or the Clerk.

ARTICLE IV

CAPITAL STOCK

Section 1. *Stock Certificates*. Each stockholder shall be entitled to a certificate stating the number and the class and the designation of the series, if any, of the shares held by him, in such form as shall, in conformity to law, be prescribed from time to time by the Board of Directors. Such certificate shall be signed by the President or a Vice President and by the Treasurer or an Assistant Treasurer. Such signatures may be facsimile if the certificate is signed by a transfer agent, or by a registrar, other than a director, officer, or employee of the Corporation. In case any officer who has signed or whose facsimile signature has been placed on such certificate shall have ceased to be such officer before such certificate is issued, it may be issued by the Corporation with the same effect as if he were such officer at the time of its issue.

Every certificate for shares of stock which are subject to any restriction on transfer pursuant to the Articles of Organization, these By-Laws, or any agreement to which the Corporation is a party shall have the restriction noted conspicuously on the certificate and shall also set forth on the face or back either the full text of the restriction or a statement of the existence of such restriction and a statement that the Corporation will, upon written request, furnish a copy thereof to the holder of such certificate without charge.

Every certificate issued when the Corporation is authorized to issue more that one class or series of stock shall set forth on its face or back either the full text of the preferences, voting powers, qualifications, and special and relative rights of the shares of each class and series authorized to be issued or a statement of the existence of such preferences, powers, qualifications, and rights and a statement that the Corporation will, upon written request, furnish a copy thereof to the holder of such certificate without charge.

Section 2. *Lost Certificates*. In the case of the alleged loss, destruction, or mutilation of a certificate of stock, a duplicate certificate may be issued in place thereof, upon such conditions as the Board of Directors may prescribe. When authorizing such issue of a new certificate, the Board may in its discretion require the owner of such lost, destroyed, or mutilated certificate, or his legal representative, to give the Corporation a bond, with or without surety, sufficient in the Board's opinion to indemnify the Corporation against any loss or claim that may be made against it with request to the certificate alleged to have been lost, destroyed, or mutilated.

Section 3. *Transfer of Shares*. Subject to the restrictions, if any, stated or noted on the stock certificates, shares of stock may be transferred on the books of the Corporation by the surrender to the Corporation or its transfer agent of the certificate therefor properly endorsed or accompanied by a written assignment and power of attorney properly executed with necessary transfer stamps affixed, and with such proof of the authenticity of signature as the Board of Directors or the transfer agent of the Corporation may reasonably require. Except as may be otherwise required by law, by the Articles of Organization, or by these By-Laws, the Corporation shall be entitled to treat the record holder of stock as shown on its on its books as the owner of such stock for all purposes, including the payment of dividends and the right to receive notice and to vote with respect thereto, regardless of any transfer, pledge, or other disposition of such stock, until the shares have been transferred on the books of the stock, until the shares have been transferred on the books of the Corporation in accordance with the requirements of these By-Laws.

Section 4. *Record Date and Closing Transfer Books*. The Board of Directors may fix in advance a time, which shall not be more than sixty (60) days before the date of any meeting of stockholders or the date for the payment of any dividend or making of any distribution to stockholders or the last day on which the consent or dissent of stockholders may be effectively expressed for any purpose, as the record date for determining the stockholders having the right to notice of and to vote at such meeting and any adjournment thereof or the right to receive such dividend or distribution or the right to give such consent or dissent, and in such case only stockholders of record on such record date shall have such right, notwithstanding any transfer of stock on the books of the Corporation after the record date; or without fixing such record date the Board of Directors may for any such purposes close the transfer books for all or any part of such period.

If no record date is fixed and the transfer books are not closed, the record date for determining stockholders having the right to notice of or to vote at a meeting of stockholders shall be at the close of business on the date next preceding the day on which notice is given, and the record date for determining stockholders for any other purpose shall be at the close of business on the date on which the Board of Directors acts with respect thereto.

ARTICLE V

INDEMNIFICATION

Section 1. *Directors and Officers*. The Corporation shall, to the full extent permitted by law, indemnify each of its directors and officers (including persons who serve at its request as directors, officers, or trustees of another organization in which it has any interest, direct or indirect, as a shareholder, creditor, or otherwise or who serve at its request in any capacity with respect to any employee benefit plan) against all liabilities and expenses, including amounts paid in satisfaction of judgements, in compromise, or as fines and penalties, and counsel fees, reasonably incurred by him in connection with the defense or disposition of any action, suit, or other proceeding, whether civil or criminal, in which he may be involved or with which he may be threatened, while in office or thereafter, by reason of his being or having been such a director, officer, or trustee except with respect to any matter as to which he shall have been adjudicated in any proceeding not to have acted in good faith in the reasonable belief that this action was in the best interests of the Corporation or, to the extent that such matter relates to service with respect to an employee benefit plan, in the best interests of the participants or beneficiaries of such employee benefit plan; provided, however, that as to any matter disposed of by a compromise payment by such director or officer, pursuant to a consent decree or otherwise, no indemnification either for said payment or for any other expenses shall be provided unless such compromise shall be approved as in the best interests of the Corporation, after notice that it involves such indemnification: (a) by a disinterested majority of the directors then in office; or (b) by a majority of the disinterested directors then in office, provided that there has been obtained an opinion in writing of independent legal counsel to the effect that such director or officer appears to have acted in good faith in the reasonable belief that his action was in the best interests of the Corporation; or (c) by the holders of a majority of the outstanding stock at the time entitled to vote for directors, voting as a single class, exclusive of any stock owned by any interested director or officer.

Expenses, including counsel fees, reasonably incurred by any director or officer in connection with the defense or disposition of any such action, suit, or other proceeding may be paid from time to time by the Corporation, at the discretion of a majority of the disinterested directors then in office, in advance of the final disposition thereof upon receipt of an undertaking by such director or officer to repay the amounts so paid to the Corporation if it is ultimately determined that indemnification for such expenses is not authorized under this Article V, which undertaking may be accepted without reference to the financial ability of such director or officer to make repayment.

The right of indemnification hereby provided shall not be exclusive of or affect any other rights to which any director or officer may be entitled. As used in this section, the terms “director” and “officer” include their respective heirs, executors, and administrators, an “interested” director or officer is one against whom in such capacity the proceedings in question or another proceeding on the same or similar grounds is then pending or threatened, and a “disinterested” director is one against whom no such proceeding is then pending or threatened. Nothing contained in this section shall affect any rights to indemnification to which corporate personnel other than directors and officers may be entitled by contract or otherwise under law.

The Board of Directors may authorize the purchase and maintenance of insurance, in such amounts as the Board of Directors may from time to time deem appropriate, on behalf of any person who is or was a director or officer or agent of the Corporation, or who is or was serving at the request of the Corporation as a director, officer, or agent of another organization in which it has any interest, direct or indirect, as a shareholder, creditor, or otherwise, or with respect to any employee benefit plan, against any liability incurred by him in any such capacity, or arising out of his status as such, whether or not such person is entitled to indemnification by the Corporation pursuant to this Article V or otherwise and whether or not the Corporation would have the power to indemnify him against such liability.

ARTICLE VI

MISCELLANEOUS

Section 1. *Corporate Seal*. The seal of the Corporation shall be in such form as the Board of Directors may from time to time determine. Section 2. Fiscal Year. The fiscal year of the Corporation shall be such period as shall from time to time be determined by the Board of Directors.

Section 3. *Authorization of Loans and Indebtedness*. No loan shall be contracted on behalf of the Corporation, and no bond, note, debenture, guarantee, or other obligation or evidence of indebtedness of the Corporation issued with respect thereto shall be made, executed, and delivered, unless authorized by the Board of Directors, which authorization may be general or confined to specific instances.

Section 4. *Execution of Documents*. Except as the Board of Directors may generally or in specific instances authorize the execution thereof in some other manner, all deeds, leases, transfers, contracts, checks, drafts, and other orders for the payment of money out of the funds of the Corporation, and (if the issuance thereof shall have been authorized pursuant to Section 3 of this Article VI) all bonds, notes, debentures, guarantees, and other obligations or evidences or indebtedness of the Corporation shall be executed by the Chairman of the Board, the President, any Vice President, or the Treasurer.

Section 5. *Voting of Securities*. Except as the Board of Directors may generally or in specific instances direct otherwise, the Chairman of the Board, the President, any Vice President, or the Treasurer shall have the power, in the name and on behalf of the Corporation, to waive notice of, appoint any person or persons to act as proxy or attorney-in-fact of the Corporation (with or without power of substitution) to vote at, or attend and act for the Corporation at, any meeting of holders of shares or other securities of any other organization of which the Corporation holds shares or securities.

Section 6. *Appointment of Auditor*. The Board of Directors, or a committee thereof, shall each year select independent public accountants to report to the stockholders on the financial statements of the Corporation for such year. The selection of such accountants shall be presented to the stockholders for their approval at the annual meeting each year; provided, however, that if the shareholders shall not approve the selection made by the Board, the Board shall appoint other independent public accountants for such year.

ARTICLE VII

AMENDMENTS

Except as provided in the second paragraph of this Article VII, these By-Laws may be altered, amended, or repealed, and new By-Laws not inconsistent with any provision of the Articles of organization or applicable statute may be made either by the affirmative vote of a majority of the voting power of the then outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors, voting together as a single class, at any annual or special meeting of the stockholders called for the purpose, or (except with respect to any provision hereof which by law, the Articles of Organization, or these By-Laws requires action by the stockholders) by the affirmative vote of a majority of the Board of Directors then in office. Not later that the time of giving notice of the meeting of stockholders next following the making, amending, or repealing by the Board of Directors of any By-Law, notice thereof stating the substance of such change shall be given to all stockholders entitled to vote on amending the By-Laws. Any By-Law made, amended, or repealed by the Board of Directors may be altered, amended, repealed, or reinstated by the stockholders.

Notwithstanding anything contained in these By-Laws to the contrary, the affirmative vote of the holders of 80% of the voting power of the then outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors, voting together as a single class, shall be required to alter, amend, adopt any provision inconsistent with, or repeal any provision of Section 1,2,3, or 4 or Article II of these By-Laws or this Article VII.

Exhibit 31.1

Certification
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Joshua S. Boger, certify that:

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

August 9, 2005

By: /s/ JOSHUA S. BOGER
Joshua S. Boger
Chairman, President and
Chief Executive Officer

Exhibit 31.2

Certification
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Ian F. Smith, certify that:

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

August 9, 2005

By: /s/ IAN F. SMITH
Ian F. Smith
Senior Vice President and Chief Financial Officer

Exhibit 32.1

Certification
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(Subsections (a) and (b) of Section 1350,
Chapter 63 of Title 18, United States Code)

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), each of the undersigned officers of Vertex Pharmaceuticals Incorporated, a Massachusetts corporation (the "Company"), does hereby certify, to such officer's knowledge, that the Quarterly Report on Form 10-Q for the quarter ended June 30, 2005 (the "Form 10-Q") of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operation of the Company.

Dated: August 9, 2005

/s/ JOSHUA S. BOGER
Joshua S. Boger
Chairman, President and Chief Executive Officer
(principal executive officer)

Dated: August 9, 2005

/s/ IAN F. SMITH
Ian F. Smith
Senior Vice President and Chief Financial Officer
(principal financial officer)