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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2009

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES 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 (State or other jurisdiction of incorporation or organization)	**04-3039129** (I.R.S. Employer Identification No.)
130 WAVERLY STREET **CAMBRIDGE, MASSACHUSETTS** (Address of principal executive offices)	**02139-4242** (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 ☒ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No ☒

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 Class	**180,659,165** Outstanding at August 5, 2009

VERTEX PHARMACEUTICALS INCORPORATED
FORM 10-Q
FOR THE QUARTER ENDED JUNE 30, 2009

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"We," "us," the "Company" and "Vertex" as used in this Quarterly Report on Form 10-Q refer to Vertex Pharmaceuticals Incorporated, a Massachusetts corporation, and its subsidiaries.

Part I. Financial Information

Item 1. Financial Statements

Vertex Pharmaceuticals Incorporated

Condensed Consolidated Balance Sheets

(unaudited)

(in thousands, except share and per share amounts)

	June 30, 2009	December 31, 2008
Assets		
Current assets:		
Cash and cash equivalents	$ 408,949	$ 389,115
Marketable securities, available for sale	345,415	442,986
Accounts receivable	14,762	23,489
Prepaid expenses and other current assets	13,630	11,991
Total current assets	782,756	867,581
Restricted cash	30,258	30,258
Property and equipment, net	64,358	68,331
Intangible assets	525,900	—
Goodwill	26,883	—
Other assets	9,721	14,309
Total assets	$ 1,439,876	$ 980,479
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 27,494	$ 51,760
Accrued expenses and other current liabilities	88,190	94,203
Accrued interest	2,565	5,349
Deferred revenues, current portion	37,787	37,678
Accrued restructuring expense, current portion	6,389	6,319
Other obligations	21,255	21,255
Total current liabilities	183,680	216,564
Accrued restructuring expense, excluding current portion	27,661	27,745
Convertible senior subordinated notes (due February 2013)	144,000	287,500
Deferred revenues, excluding current portion	192,975	209,796
Deferred tax liability	162,503	—
Total liabilities	710,819	741,605
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.01 par value; 1,000,000 shares authorized; none issued and outstanding at June 30, 2009 and December 31, 2008	—	—
Common stock, $0.01 par value; 300,000,000 shares authorized at June 30, 2009 and December 31, 2008; 180,203,055 and 151,245,384 shares issued and outstanding at June 30, 2009 and December 31, 2008, respectively	1,784	1,494
Additional paid-in capital	3,108,429	2,281,817
Accumulated other comprehensive income	418	3,168
Accumulated deficit	(2,381,574)	(2,047,605)
Total stockholders' equity	729,057	238,874
Total liabilities and stockholders' equity	$ 1,439,876	$ 980,479

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 amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Revenues:				
Royalty revenues	$ 5,917	$ 9,741	$ 12,057	$ 20,592
Collaborative and other research and development revenues	13,147	59,668	30,986	90,492
Total revenues	19,064	69,409	43,043	111,084
Costs and expenses:				
Royalty expenses	3,267	3,701	6,843	7,277
Research and development expenses	139,331	129,573	282,912	245,846
Sales, general and administrative expenses	32,526	26,448	61,046	46,380
Restructuring expense	1,107	1,168	3,509	1,798
Acquisition-related expenses	—	—	7,793	—
Total costs and expenses	176,231	160,890	362,103	301,301
Loss from operations	(157,167)	(91,481)	(319,060)	(190,217)
Interest income	1,489	3,993	4,088	8,489
Interest expense	(3,325)	(3,833)	(6,703)	(5,747)
Loss on exchange of convertible subordinated notes	(12,294)	—	(12,294)	—
Net loss	$ (171,297)	$ (91,321)	$ (333,969)	$ (187,475)
Basic and diluted net loss per common share	$ (0.99)	$ (0.66)	$ (2.03)	$ (1.37)
Basic and diluted weighted-average number of common shares outstanding	172,563	138,725	164,258	136,607

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,	
	2009	2008
Cash flows from operating activities:		
Net loss	$ (333,969)	$ (187,475)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization expense	14,909	15,668
Stock-based compensation expense	48,862	29,665
Other non-cash based compensation expense	3,311	2,613
Loss on disposal of property and equipment	2,076	—
Loss on exchange of convertible subordinated notes	12,294	—
Realized gain on marketable securities	—	(219)
Changes in operating assets and liabilities, excluding the effect of an acquisition:		
Accounts receivable	8,744	15,955
Prepaid expenses and other current assets	(105)	(5,541)
Accounts payable	(24,565)	3,595
Accrued expenses and other current liabilities	(17,770)	(15,558)
Accrued restructuring expense	(14)	(802)
Accrued interest	(685)	5,121
Deferred revenues	(16,712)	135,201
Net cash used in operating activities	(303,624)	(1,777)
Cash flows from investing activities:		
Purchases of marketable securities	(250,715)	(254,642)
Sales and maturities of marketable securities	345,457	84,372
Payment for the acquisition of ViroChem, net of cash acquired	(87,422)	—
Expenditures for property and equipment	(11,165)	(15,062)
Other assets	365	(946)
Net cash used in investing activities	(3,480)	(186,278)
Cash flows from financing activities:		
Issuances of common stock from employee benefit plans, net	16,584	11,989
Issuances of common stock from stock offerings, net	313,250	112,069
Issuances of convertible senior subordinated notes (due February 2013), net	—	278,000
Repayment of collaborator development loan	—	(19,997)
Debt exchange costs	(85)	—
Net cash provided by financing activities	329,749	382,061
Effect of changes in exchange rates on cash	(2,811)	(37)
Net increase in cash and cash equivalents	19,834	193,969
Cash and cash equivalents—beginning of period	389,115	355,663
Cash and cash equivalents—end of period	$ 408,949	$ 549,632
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 6,828	$ —
Exchange of convertible subordinated notes for common stock	$ 143,500	$ —
Accrued interest offset to additional paid-in capital on exchange of convertible subordinated notes	$ 2,099	$ —
Unamortized debt issuance costs of exchanged convertible subordinated notes offset to additional paid-in capital	$ 3,476	$ —
Fair value of common stock issued to acquire ViroChem	$ 290,557	$ —

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

Vertex Pharmaceuticals Incorporated

Notes to Condensed Consolidated Financial Statements

(unaudited)

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 ("GAAP").

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 normal recurring adjustments (including accruals) necessary for a fair presentation of the financial position and results of operations for the interim periods ended June 30, 2009 and 2008.

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, 2009. These interim financial statements should be read in conjunction with the audited financial statements for the year ended December 31, 2008, which are contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2008 that was filed with the Securities and Exchange Commission (the "SEC") on February 17, 2009.

On March 12, 2009, Vertex acquired ViroChem Pharma Inc. ("ViroChem"). The Company consolidated ViroChem's operating results with those of Vertex beginning on the date of the acquisition. See Note 10, "Acquisition of ViroChem Pharma Inc.," for additional information regarding the acquisition.

In accordance with Financial Accounting Standards Board ("FASB") Statement No. 165, "Subsequent Events," the Company has evaluated subsequent events through August 10, 2009, the date of issuance of the condensed consolidated financial statements. During this period, the Company did not have any material recognizable subsequent events. However, the Company did have a nonrecognizable subsequent event related to the amendment of its license, development and commercialization agreement with Mitsubishi Tanabe Pharma Corporation on July 30, 2009. See Note 17, "Subsequent Event," for additional information regarding the amendment.

2. Accounting Policies

Reclassification in the Preparation of Financial Statements

Certain amounts in prior period condensed consolidated financial statements have been reclassified to conform to the current presentation. The reclassifications had no effect on the reported net loss.

Basic and Diluted Net Loss per Common Share

Basic net loss per common share is based upon the weighted-average number of common shares outstanding during the period, excluding restricted stock that has been issued but is not yet vested. Diluted net loss per common 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 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

Vertex Pharmaceuticals Incorporated

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

2. Accounting Policies (Continued)

repurchase outstanding stock using the treasury stock method), the assumed conversion of convertible notes and vesting of unvested restricted shares of common stock. Common equivalent shares have not been included in the net loss per common share calculations because the effect would have been anti-dilutive. Total potential gross common equivalent shares consisted of the following:

	At June 30,	
	2009	2008
	(in thousands, except per share amounts)	
Stock options	18,095	16,516
Weighted-average exercise price (per share)	$ 30.03	$ 28.02
Convertible notes	6,223	12,425
Conversion price (per share)	$ 23.14	$ 23.14
Unvested restricted shares	1,778	1,943

Stock-based Compensation Expense

The Company records stock-based compensation expense in accordance with FASB Statement No. 123(R), "Share-Based Payment" ("SFAS 123(R)"). SFAS 123(R) requires companies to expense the fair value of employee stock options and other forms of stock-based employee compensation over the employees' service periods or the derived service period for awards with market conditions. Compensation expense is determined based on the fair value of the award at the grant date, including estimated forfeitures, and is adjusted to reflect actual forfeitures and the outcomes of certain conditions. Please refer to Note 3, "Stock-based Compensation Expense," for further information.

Research and Development Expenses

All research and development expenses, including amounts funded by research and development collaborations, are expensed as incurred. Pursuant to Emerging Issues Task Force ("EITF") Issue No. 07-3, "Accounting for Nonrefundable Advance Payments for Goods or Services to Be Used in Future Research and Development Activities," the Company defers and capitalizes nonrefundable advance payments made by the Company for research and development activities until the related goods are delivered or the related services are performed.

Research and development expenses are comprised of costs incurred by the Company in performing research and development activities, including salary and benefits; stock-based compensation expense; laboratory supplies and other direct expenses; contractual services, including clinical trial and pharmaceutical development costs; commercial supply investment in telaprevir; and infrastructure costs, including facilities costs and depreciation expense. The Company evaluates periodically whether a portion of its commercial supply investment may be capitalized as inventory. Generally, inventory may be capitalized if it is probable that future revenues will be generated from the sale of the inventory and that these revenues will exceed the cost of the inventory. The Company is continuing to expense all of its commercial supply investment due to the high risk inherent in drug development.

Vertex Pharmaceuticals Incorporated

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

2. Accounting Policies (Continued)

The Company's collaborators have funded portions of the Company's research and development programs related to specific drug candidates and research targets, including telaprevir, in the three and six months ended June 30, 2009 and 2008. The Company's collaborative and other research and development revenues were $13.1 million and $59.7 million, respectively, for the three months ended June 30, 2009 and 2008. The Company's collaborative and other research and development revenues were $31.0 million and $90.5 million, respectively, for the six months ended June 30, 2009 and 2008. The Company's research and development expenses allocated to programs in which a collaborator funded at least a portion of the research and development expenses were approximately $37 million and approximately $35 million, respectively, for the three months ended June 30, 2009 and 2008, and approximately $86 million and approximately $70 million, respectively, for the six months ended June 30, 2009 and 2008.

Restructuring Expense

The Company records costs and liabilities associated with exit and disposal activities, as defined in FASB Statement No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS 146"), based on estimates of fair value in the period the liabilities are 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. Liabilities are evaluated and adjusted as appropriate at least on a quarterly basis for changes in circumstances.

Revenue Recognition

The Company recognizes revenues in accordance with SEC Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements," as amended by SEC Staff Accounting Bulletin No. 104, "Revenue Recognition," and EITF Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables" ("EITF 00-21").

The Company's revenues are generated primarily through collaborative research, development and/or commercialization agreements. The terms of these agreements typically include payment to the Company of one or more of the following: nonrefundable, up-front license fees; funding of research and/or development efforts; milestone payments; and royalties on product sales.

Agreements containing multiple elements are divided into separate units of accounting if certain criteria are met, including whether the delivered element has stand-alone value to the collaborator and whether there is objective and reliable evidence of the fair value of the undelivered obligation(s). The consideration received is allocated among the separate units either on the basis of each unit's fair value or using the residual method, and the applicable revenue recognition criteria are applied to each of the separate units.

The Company recognizes revenues from nonrefundable, up-front license fees on a straight-line basis over the contracted or estimated period of performance, which is typically the research or development term. Research and development funding is recognized as earned, ratably over the period of effort.

Vertex Pharmaceuticals Incorporated

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

2. Accounting Policies (Continued)

Substantive milestones achieved in collaboration arrangements are recognized as earned when the corresponding payment is reasonably assured, subject to the following policies in those circumstances where the Company has obligations remaining after achievement of the milestone:

- In those circumstances where collection of a substantive milestone payment is reasonably assured, the Company has remaining obligations to perform under the collaboration arrangement and the Company has sufficient evidence of the fair value for the performance of its remaining obligations, management considers the milestone payment and the remaining obligations to be separate units of accounting. In these circumstances, the Company uses the residual method under EITF 00-21 to allocate revenues among the milestones and the remaining obligations.

- In those circumstances where collection of a substantive milestone payment is reasonably assured and the Company has remaining obligations to perform under the collaboration arrangement, but the Company does not have sufficient evidence of the fair value for its remaining obligations, management considers the milestone payment and the remaining obligations under the contract as a single unit of accounting. If the collaboration does not require specific deliverables at specific times or at the end of the contract term, but rather, the Company's obligations are satisfied over a period of time, substantive milestone payments are recognized over the period of performance. This typically results in a portion of the milestone payment being recognized as revenue on the date the milestone is achieved equal to the applicable percentage of the performance period that has elapsed as of the date the milestone is achieved, with the balance being deferred and recognized over the remaining period of performance.

At the inception of each agreement that includes milestone payments, the Company evaluates whether each milestone is substantive on the basis of the contingent nature of the milestone, specifically reviewing factors such as the scientific and other risks that must be overcome to achieve the milestone, as well as the level of effort and investment required. Milestones that are not considered substantive and that do not meet the separation criteria are accounted for as license payments and recognized on a straight-line basis over the remaining period of performance.

Payments received or reasonably assured after performance obligations are met completely are recognized as earned.

Royalty revenues typically are recognized based upon actual and estimated net sales of licensed products in licensed territories, as provided by the licensee, and generally are recognized in the period the sales occur. The Company reconciles and adjusts for differences between actual royalty revenues and estimated royalty revenues in the quarter they become known. These differences have not historically been significant.

In the circumstance where the Company has sold its rights to future royalties under a license agreement and also maintains continuing involvement in the royalty arrangement (but not significant continuing involvement in the generation of the cash flows due to the purchaser), the Company defers recognition of the proceeds it receives for the royalty stream and recognizes these deferred revenues over the life of the license agreement. The Company recognizes these deferred revenues pursuant to the units-of-revenue method in accordance with EITF Issue No. 88-18, "Sales of Future Revenues" ("EITF 88-18"). Under this method, the amount of deferred revenues to be recognized as royalty

Vertex Pharmaceuticals Incorporated

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

2. Accounting Policies (Continued)

revenues in each period is calculated by multiplying the following: (1) the royalty payments due to the purchaser for the period by (2) the ratio of the remaining deferred revenue amount to the total estimated remaining royalty payments due to the purchaser over the term of the agreement.

Debt Issuance Costs and Royalty Sale Transaction Expenses

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

The Company defers direct and incremental costs associated with its sale of its rights to future HIV royalties by analogy to FASB Technical Bulletin No. 90-1, "Accounting for Separately Priced Extended Warranty and Product Maintenance Contracts." These costs are included in other assets on the condensed consolidated balance sheets and are amortized based on the units-of-revenue method in the same manner and over the same period in which the related deferred revenues are recognized as royalty revenues. The amortization expense related to these transaction expenses is included in royalty expenses on the condensed consolidated statements of operations.

Business Combinations

Under FASB Statement No. 141 (Revised 2007), "Business Combinations" ("SFAS 141(R)"), which applies to transactions that occur after January 1, 2009, the Company assigns the value of the consideration transferred to acquire a business to the tangible assets and identifiable intangible assets acquired and liabilities assumed on the basis of their fair values at the date of acquisition. The Company assesses the fair value of assets, including intangible assets such as in-process research and development, using a variety of methods including present-value models. Each asset is measured at fair value in accordance with FASB Statement No. 157, "Fair Value Measurements" ("SFAS 157"), from the perspective of a market participant. The method used to estimate the fair values of in-process research and development assets reflects significant assumptions regarding the estimates a market participant would make in order to evaluate an asset, including a market participant's assumptions regarding the probability of completing in-process research and development projects, which would require obtaining regulatory approval for marketing of the associated drug candidate; a market participant's estimates regarding the timing of and the expected costs to complete in-process research and development projects; a market participant's estimates of future cash flows from potential product sales; and the appropriate discount rates for a market participant. In accordance with SFAS 141(R), transaction costs and restructuring costs associated with the transaction are expensed as incurred.

In-process Research and Development Assets

In-process research and development assets acquired in a business combination initially are recorded at fair value and accounted for as indefinite-lived intangible assets in accordance with FASB Statement No. 142, "Goodwill and Other Intangible Assets," as amended by SFAS 141(R). These assets are maintained on the Company's condensed consolidated balance sheets until either the project underlying them is completed or the assets become impaired. If a project is completed, the carrying

Vertex Pharmaceuticals Incorporated

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

2. Accounting Policies (Continued)

value of the related intangible asset is amortized over the remaining estimated life of the asset beginning in the period in which the project is completed. If a project becomes impaired or is abandoned, the carrying value of the related intangible asset is written down to its fair value and an impairment charge is taken in the period in which the impairment occurs. In-process research and development assets will be tested for impairment on an annual basis during the fourth quarter, or earlier if impairment indicators are present.

Goodwill

The difference between the purchase price and the fair value of assets acquired and liabilities assumed in a business combination is allocated to goodwill. Goodwill will be evaluated for impairment on an annual basis during the fourth quarter, or earlier if impairment indicators are present.

3. Stock-based Compensation Expense

At June 30, 2009, the Company had four stock-based employee compensation plans: the 1991 Stock Option Plan (the "1991 Plan"), the 1994 Stock and Option Plan (the "1994 Plan"), the 1996 Stock and Option Plan (the "1996 Plan") and the 2006 Stock and Option Plan (the "2006 Plan" and together with the 1991 Plan, the 1994 Plan and the 1996 Plan, collectively, the "Stock and Option Plans") and one Employee Stock Purchase Plan (the "ESPP"). On May 15, 2008, the Company's stockholders approved an increase in the number of shares of common stock authorized for issuance under the 2006 Plan of 6,600,000, to a total of 13,902,380 shares of common stock, and an increase in the number of shares of common stock authorized for issuance under the ESPP of 2,000,000. On May 14, 2009, the Company's stockholders approved an increase in the number of shares of common stock authorized for issuance under the 2006 Plan of 7,700,000, to a total of 21,602,380 shares of common stock. In connection with the Stock and Option Plans, the Company issues stock options and restricted stock awards with service conditions, which are generally the vesting periods of the awards. The Company also issues to certain members of senior management restricted stock awards that vest upon the earlier of the satisfaction of (i) a market or performance condition or (ii) a service condition ("PARS").

The Company records stock-based compensation expense in accordance with SFAS 123(R). SFAS 123(R) requires companies to recognize share-based payments to employees as compensation expense using the fair value method. The fair value of stock options and shares purchased pursuant to the ESPP is calculated using the Black-Scholes valuation model. The fair value of restricted stock awards typically is based on intrinsic value on the date of grant. Under the fair value recognition provisions of SFAS 123(R), stock-based compensation, measured at the grant date based on the fair value of the award, is recognized as expense ratably over the service period. The expense recognized over the service period includes an estimate of awards that will be forfeited.

For PARS awards granted in 2008, 2007 and 2006, which vest upon the earlier of the achievement of a market condition or a service condition, a portion of the fair value of the common stock on the date of grant is recognized ratably over a derived service period that is equal to the estimated time to satisfy the market condition. The portion of the fair value of the common stock that is recognized over the derived service period is determined on the basis of the estimated probability that the PARS award will vest as a result of satisfying the market condition. For the PARS awards granted in 2008, 2007 and

Vertex Pharmaceuticals Incorporated

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

3. Stock-based Compensation Expense (Continued)

2006, the derived service period relating to each market condition is shorter than the four-year service-based vesting period of the PARS. The difference between the fair value of the common stock on the date of grant and the value recognized over the derived service period is recognized ratably over the four-year service-based vesting period of the PARS. The stock-based compensation expense recognized over each of the derived service periods and the four-year service periods includes an estimate of awards that will be forfeited prior to the end of the derived service periods or the four-year service periods, respectively. For PARS awards granted in 2009, the shares vest on the fourth anniversary of the grant date, subject to accelerated vesting upon achievement of performance conditions. In accordance with SFAS 123(R), stock-based compensation expense associated with the PARS issued in 2009 is being expensed ratably over the four-year service period.

The effect of stock-based compensation expense during the three and six months ended June 30, 2009 and 2008 was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(in thousands)			
Stock-based compensation expense by type of award:				
Stock options	$ 20,707	$ 11,739	$ 36,864	$ 20,027
Restricted stock (including PARS)	4,948	4,126	9,705	7,925
ESPP issuances	930	728	2,293	1,713
Total stock-based compensation expense	$ 26,585	$ 16,593	$ 48,862	$ 29,665
Effect of stock-based compensation expense by line item:				
Research and development expenses	$ 20,542	$ 13,259	$ 37,894	$ 23,969
Sales, general and administrative expenses	6,043	3,334	10,968	5,696
Total stock-based compensation expense included in net loss	$ 26,585	$ 16,593	$ 48,862	$ 29,665

Stock Options

All stock options awarded during the six months ended June 30, 2009 and 2008 were awarded with exercise prices equal to the fair market value of the Company's common stock on the date the award was granted by the Company's board of directors. Under amendments to the 2006 Plan adopted on May 15, 2008, no options can be issued under the 2006 Plan with an exercise price less than the fair market value on the date of grant.

The stock options granted during the six months ended June 30, 2008 included options to purchase 536,625 shares of common stock (the "Contingent Options") at an exercise price of $18.93 per share that were granted to the Company's executive officers on February 7, 2008, subject to ratification by the Company's stockholders. At the Company's 2008 Annual Meeting of Stockholders, the stockholders ratified the Contingent Options as part of the Company's proposal to increase the number of shares authorized for issuance under the 2006 Plan. Under SFAS 123(R), the Contingent Options are deemed for accounting purposes to have been granted on May 15, 2008 (the date of ratification by the Company's stockholders), and the grant-date fair value of the Contingent Options is based on a Black-Scholes valuation model based on the fair market value of the Contingent Options on May 15, 2008.

Vertex Pharmaceuticals Incorporated

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

3. Stock-based Compensation Expense (Continued)

The options granted during the three and six months ended June 30, 2009 had a weighted-average grant-date fair value per share of $16.12 and $18.58, respectively. The options granted during the three and six months ended June 30, 2008 had a weighted-average grant-date fair value per share of $16.34 and $12.60, respectively.

The Company recorded stock-based compensation expense related to stock options of $20.7 million and $11.7 million, respectively, for the three months ended June 30, 2009 and 2008. The Company recorded stock-based compensation expense related to stock options of $36.9 million and $20.0 million, respectively, for the six months ended June 30, 2009 and 2008. The stock-based compensation expense related to stock options for the three and six months ended June 30, 2009 included $4.5 million and $9.2 million, respectively, related to stock options that were accelerated and modified in connection with Dr. Joshua S. Boger's transition arrangement. The stock-based compensation expense related to stock options for the three and six months ended June 30, 2009 also included $1.5 million related to stock options that were accelerated in connection with another executive officer's severance arrangement. As of June 30, 2009, there was $91.7 million of total unrecognized stock-based compensation expense, net of estimated forfeitures, related to unvested options granted under the Company's Stock and Option Plans. That expense is expected to be recognized over a weighted-average period of 2.75 years.

Restricted Stock

The Company recorded stock-based compensation expense of $4.9 million and $4.1 million, respectively, for the three months ended June 30, 2009 and 2008, and $9.7 million and $7.9 million, respectively, for the six months ended June 30, 2009 and 2008 related to restricted stock, including PARS, outstanding during those periods. The stock-based compensation expense related to restricted stock, including PARS, for the three and six months ended June 30, 2009 included $0.6 million and $1.3 million, respectively, related to accelerated vesting of restricted stock awards in connection with Dr. Joshua S. Boger's transition arrangement and $0.3 million in the three and six months ended June 30, 2009 related to accelerated vesting of restricted stock awards in connection with another executive officer's severance arrangement. The stock-based compensation expense related to restricted stock for the three and six months ended June 30, 2008 included $0.6 million related to accelerated vesting of restricted stock awards in connection with an executive officer's anticipated separation from the Company in the fourth quarter of 2008.

As of June 30, 2009, there was $33.0 million of total unrecognized stock-based compensation expense, net of estimated forfeitures, related to unvested restricted stock, including PARS, granted under the Company's Stock and Option Plans. That expense is expected to be recognized over a weighted-average period of 2.62 years.

Employee Stock Purchase Plan

The stock-based compensation expense related to the ESPP was $0.9 million and $0.7 million, respectively, for the three months ended June 30, 2009 and 2008 and $2.3 million and $1.7 million, respectively, for the six months ended June 30, 2009 and 2008. As of June 30, 2009, there was $2.3 million of total unrecognized stock-based compensation expense, net of estimated forfeitures,

Vertex Pharmaceuticals Incorporated

Notes to Condensed Consolidated Financial Statements (Continued)

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3. Stock-based Compensation Expense (Continued)

related to ESPP shares. That expense is expected to be recognized during the twelve month period ending June 30, 2010.

During the three and six months ended June 30, 2009, the Company issued 208,000 shares to employees under the ESPP at an average price paid of $23.07 per share. During the three and six months ended June 30, 2008, the Company issued 185,000 shares to employees under the ESPP at an average price paid of $22.55 per share.

4. Marketable Securities

A summary of cash, cash equivalents and marketable securities is shown below:

June 30, 2009	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in thousands)		
Cash and cash equivalents				
Cash and money market funds	$ 408,949	$ —	$ —	$ 408,949
Total cash and cash equivalents	$ 408,949	$ —	$ —	$ 408,949
Marketable securities				
Government-sponsored enterprise securities				
Due within 1 year	$ 267,167	$ 283	$ —	$ 267,450
Total government-sponsored enterprise securities	$ 267,167	$ 283	$ —	$ 267,450
Corporate debt securities				
Due within 1 year	$ 77,943	$ 22	$ —	$ 77,965
Total corporate debt securities	$ 77,943	$ 22	$ —	$ 77,965
Total marketable securities	$ 345,110	$ 305	$ —	$ 345,415
Total cash, cash equivalents and marketable securities	$ 754,059	$ 305	$ —	$ 754,364
December 31, 2008				
Cash and cash equivalents				
Cash and money market funds	$ 389,115	$ —	$ —	$ 389,115
Total cash and cash equivalents	$ 389,115	$ —	$ —	$ 389,115
Marketable securities				
Government-sponsored enterprise securities				
Due within 1 year	$ 347,982	$ 2,713	$ —	$ 350,695
Total government-sponsored enterprise securities	$ 347,982	$ 2,713	$ —	$ 350,695
Corporate debt securities				
Due within 1 year	$ 91,863	$ 428	$ —	$ 92,291
Total corporate debt securities	$ 91,863	$ 428	$ —	$ 92,291
Total marketable securities	$ 439,845	$ 3,141	$ —	$ 442,986
Total cash, cash equivalents and marketable securities	$ 828,960	$ 3,141	$ —	$ 832,101

Vertex Pharmaceuticals Incorporated

Notes to Condensed Consolidated Financial Statements (Continued)

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4. Marketable Securities (Continued)

The Company had marketable securities of $345.4 million and $443.0 million that were all classified as current assets on the condensed consolidated balance sheets as of June 30, 2009 and December 31, 2008, respectively.

The Company reviews investments in marketable securities for other-than-temporary impairment whenever the fair value of an investment is less than amortized cost and evidence indicates that an investment's carrying amount is not recoverable within a reasonable period of time. To determine whether an impairment is other-than-temporary, the Company considers the intent to sell, or whether it is more likely than not that the Company will be required to sell, the investment before recovery of the investment's amortized cost basis. Evidence considered in this assessment includes reasons for the impairment, compliance with the Company's investment policy, the severity and the duration of the impairment and changes in value subsequent to period end. As of June 30, 2009 and December 31, 2008, the Company did not have any securities with unrealized losses.

In the three and six months ended June 30, 2009, the Company had proceeds of $171,000 and $345,000, respectively, from sales and maturities of available for sale securities. In the three and six months ended June 30, 2008, the Company had proceeds of $55,000 and $84,000, respectively, from sales and maturities of available for sale securities.

Realized gains and losses are determined on the specific identification method and are included in interest income on the condensed consolidated statements of operations. There were no gross realized gains and losses for the three and six months ended June 30, 2009. Gross realized gains and losses for the three months ended June 30, 2008 were $378,000 and $306,000, respectively. Gross realized gains and losses for the six months ended June 30, 2008 were $525,000 and $306,000, respectively.

5. Fair Value of Financial Instruments and Nonfinancial Assets

On January 1, 2008, the Company adopted SFAS 157, which established a framework for measuring the fair value of assets and liabilities pursuant to GAAP and expanded the required disclosure regarding assets and liabilities that are measured at fair value. SFAS 157 became applicable to the Company's financial assets and liabilities on January 1, 2008 and became applicable to the Company's nonfinancial assets and liabilities on January 1, 2009.

SFAS 157 did not change the standard for determining whether assets and liabilities should be recorded at cost or at fair value. For assets and liabilities required to be disclosed at fair value, SFAS 157 introduced, or reiterated, a number of key concepts that form the foundation of the fair value measurement approach. In accordance with SFAS 157, the fair value of the Company's financial assets and liabilities reflects the Company's estimate of amounts that it would have received in connection with the sale of the assets or paid in connection with the transfer of the liabilities in an orderly transaction between market participants at the measurement date. In connection with measuring the fair value of its assets and liabilities, the Company seeks to maximize the use of observable inputs (market data obtained from sources independent from the Company) and to minimize the use of unobservable inputs (the Company's assumptions about how market participants

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Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

5. Fair Value of Financial Instruments and Nonfinancial Assets (Continued)

would price assets and liabilities). SFAS 157 establishes the following fair value hierarchy for the use of observable inputs and unobservable inputs in valuing assets and liabilities:

Level 1: Quoted prices in active markets for identical assets or liabilities. An active market for an asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2: Observable inputs other than Level 1 inputs. Examples of Level 2 inputs include quoted prices in active markets for similar assets or liabilities and quoted prices for identical assets or liabilities in markets that are not active.

Level 3: Unobservable inputs based on the Company's assessment of the assumptions that market participants would use in pricing the asset or liability.

The Company's investment strategy is focused on capital preservation. The Company invests in instruments that meet credit quality standards as outlined in the Company's investment policy guidelines. These guidelines also limit the amount of credit exposure to any one issue or type of instrument. Beginning in the fourth quarter of 2007, the Company began to shift its investments to instruments that carry less exposure to market volatility and liquidity pressures. As of June 30, 2009, the majority of the Company's investments are in money market funds and short-term government guaranteed or supported securities.

As of June 30, 2009, all of the Company's financial assets that were subject to fair value measurements were valued using observable inputs and the Company had no financial liabilities that were subject to fair value measurement. The Company's financial assets valued based on Level 1 inputs consisted of a money market fund and government-sponsored enterprise securities, which are government supported. The Company's money market fund also invests in government-sponsored enterprise securities. The Company's financial assets valued based on Level 2 inputs consisted of commercial paper, which is guaranteed by the FDIC. The Company's investments in commercial paper consist of high-grade investments. During the six months ended June 30, 2009 and 2008, the Company did not record an other-than-temporary impairment charge related to its investments.

The following table sets forth the Company's financial assets subject to fair value measurements on a recurring basis as of the end of the second quarter of 2009:

	Fair Value Measurements as of June 30, 2009			
		Fair Value Hierarchy		
	Total	Level 1	Level 2	Level 3
	(in thousands)			
Financial assets carried at fair value:				
Cash equivalents	$351,733	$351,733	$ —	$ —
Marketable securities, available for sale	345,415	267,450	77,965	
Restricted cash	30,258	30,258	—	—
Total	$727,406	$649,441	$77,965	$ —

Vertex Pharmaceuticals Incorporated

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

5. Fair Value of Financial Instruments and Nonfinancial Assets (Continued)

Intangible assets acquired in connection with the Company's acquistion of ViroChem were accounted for in accordance with SFAS 157 as described in Note 10, "Acquisition of ViroChem Pharma Inc." The fair value of these nonfinancial assets was based on Level 3 inputs.

The Company had $144.0 million outstanding in aggregate principal amount of 4.75% convertible senior subordinated notes due 2013 included on the condensed consolidated balance sheet as of June 30, 2009. At June 30, 2009, these 2013 Notes had a fair value of $216.9 million as obtained from a quoted market source.

6. Comprehensive Loss

For the three and six months ended June 30, 2009 and 2008, comprehensive loss was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(in thousands)			
Net loss	$(171,297)	$(91,321)	$(333,969)	$(187,475)
Changes in other comprehensive loss:				
Unrealized holding gains (losses) on marketable securities	(843)	(626)	(2,836)	632
Reclassification adjustment for realized gain on marketable securities included in net loss	—	(690)	—	(829)
Foreign currency translation adjustment	118	(30)	86	(37)
Total change in other comprehensive loss	(725)	(1,346)	(2,750)	(234)
Total comprehensive loss	$(172,022)	$(92,667)	$(336,719)	$(187,709)

7. Income Taxes

Effective January 1, 2007, the Company adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109" ("FIN 48"). At June 30, 2009 and December 31, 2008, the Company had no material unrecognized tax benefits and no adjustments to liabilities or operations were required under FIN 48. The Company does not expect that its unrecognized tax benefits will materially increase within the next twelve months. The Company did not recognize any material interest or penalties related to uncertain tax positions at June 30, 2009 and December 31, 2008.

The Company files United States federal income tax returns and income tax returns in various state, local, and foreign jurisdictions. The Company is no longer subject to any tax assessment from an income tax examination in the United States before 2007 and any other major taxing jurisdiction for years before 2005, except where the Company has net operating losses or tax credit carryforwards that originate before 2005. The Company completed an examination by the Internal Revenue Service with respect to 2006 in June 2009 with no material change. The Company currently is not under examination by any jurisdiction for any tax year.

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Notes to Condensed Consolidated Financial Statements (Continued)

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8. Restructuring Expense

In June 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 strategy. 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. In the second quarter of 2005, the Company revised its assessment of its real estate requirements and decided to use approximately 120,000 square feet of the facility subject to the Kendall Square Lease (the "Kendall Square Facility") for its operations, beginning in 2006. The remaining rentable square footage of the Kendall Square Facility currently is subleased to third parties.

The Company estimates the restructuring expense in accordance with SFAS 146. The restructuring expense incurred in the three and six months ended June 30, 2009 and 2008 relates only to the portion of the building that the Company is not occupying and does not intend to occupy for its operations. The remaining lease obligations, which are associated with the portion of the Kendall Square Facility that the Company occupies and uses for its operations, are recorded as rental expense in the period incurred.

In estimating the expense and liability under its Kendall Square Lease obligation, the Company estimated (i) the costs to be incurred to satisfy rental and build-out commitments under the lease (including operating costs), (ii) the lead-time necessary to sublease the space, (iii) the projected sublease rental rates and (iv) the anticipated durations of subleases. The Company uses a credit-adjusted risk-free rate of approximately 10% to discount the estimated cash flows. The Company reviews its estimates and assumptions on at least a quarterly basis, and intends to continue such reviews until the termination of the Kendall Square Lease, and will make whatever modifications the Company 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 the liability, and the effect of any such adjustments could be material. Changes to the Company's estimate of the liability are recorded as additional restructuring expense/(credit). In addition, because the Company's estimate of the liability includes the application of a discount rate to reflect the time-value of money, the Company will record imputed interest costs related to the liability each quarter. These costs are included in restructuring expense on the Company's condensed consolidated statements of operations.

For the three months ended June 30, 2009, the Company recorded restructuring expense of $1.1 million, which was primarily the result of the imputed interest cost relating to the restructuring

Vertex Pharmaceuticals Incorporated

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

8. Restructuring Expense (Continued)

liability. The activity related to the restructuring liability for the three months ended June 30, 2009 was as follows (in thousands):

	Liability as of March 31, 2009	Cash payments in the second quarter of 2009	Cash received from subleases in the second quarter of 2009	Charge in the second quarter of 2009	Liability as of June 30, 2009
Lease restructuring liability	$ 34,811	$ (3,985)	$ 2,117	$ 1,107	$ 34,050

For the three months ended June 30, 2008, the Company recorded restructuring expense of $1.2 million, which was primarily the result of the imputed interest cost relating to the restructuring liability. The activity related to the restructuring liability for the three months ended June 30, 2008 was as follows (in thousands):

	Liability as of March 31, 2008	Cash payments in the second quarter of 2008	Cash received from subleases in the second quarter of 2008	Charge in the second quarter of 2008	Liability as of June 30, 2008
Lease restructuring liability	$ 34,809	$ (3,616)	$ 2,129	$ 1,168	$ 34,490

For the six months ended June 30, 2009, the Company recorded restructuring expense of $3.5 million, which was the result of incremental lease obligations related to the revision of certain key estimates and assumptions about facility operating costs as well as the imputed interest cost relating to the restructuring liability. The activity related to the restructuring liability for the six months ended June 30, 2009 was as follows (in thousands):

	Liability as of December 31, 2008	Cash payments in the first half of 2009	Cash received from subleases in the first half of 2009	Charge in the first half of 2009	Liability as of June 30, 2009
Lease restructuring liability	$ 34,064	$ (7,757)	$ 4,234	$ 3,509	$ 34,050

Vertex Pharmaceuticals Incorporated

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

8. Restructuring Expense (Continued)

For the six months ended June 30, 2008, the Company recorded restructuring expense of $1.8 million, which was primarily the result of the imputed interest cost relating to the restructuring liability. The activity related to the restructuring liability for the six months ended June 30, 2008 was as follows (in thousands):

	Liability as of December 31, 2007	Cash payments in the first half of 2008	Cash received from subleases in the first half of 2008	Charge in the first half of 2008	Liability as of June 30, 2008
Lease restructuring liability	$ 35,292	$ (6,833)	$ 4,233	$ 1,798	$ 34,490

9. Equity and Debt Offerings and Debt Exchanges

On February 24, 2009, the Company completed an offering of 10,000,000 shares of common stock (the "February 2009 Equity Offering"), which were sold at a price of $32.00 per share. This offering resulted in $313.3 million of net proceeds to the Company. The underwriting discount of $6.4 million and other expenses of $0.4 million related to the February 2009 Equity Offering were recorded as an offset to additional paid-in capital.

On September 23, 2008, the Company completed an offering of 8,625,000 shares of common stock (the "September 2008 Equity Offering"), which were sold at a price of $25.50 per share. This offering resulted in $217.4 million of net proceeds to the Company. The underwriting discount of $2.2 million and other expenses of $0.3 million related to the September 2008 Equity Offering were recorded as an offset to additional paid-in capital.

On February 19, 2008, the Company completed concurrent offerings of $287.5 million in aggregate principal amount of 4.75% convertible senior subordinated notes due 2013 (the "2013 Notes") and 6,900,000 shares of common stock (the "February 2008 Equity Offering"), which were sold at a price of $17.14 per share.

The convertible debt offering resulted in net proceeds of $278.6 million to the Company. The underwriting discount of $8.6 million and other expenses of $0.3 million related to the convertible debt offering were recorded as debt issuance costs and are included in other assets on the Company's condensed consolidated balance sheets. The February 2008 Equity Offering resulted in net proceeds of $112.7 million to the Company. The underwriting discount of $5.3 million and other expenses of $0.2 million related to the February 2008 Equity Offering were recorded as an offset to additional paid-in capital.

The 2013 Notes are convertible, at the option of the holder, into common stock at a price equal to approximately $23.14 per share, subject to adjustment. The 2013 Notes bear interest at the rate of 4.75% per annum, and the Company is required to make semi-annual interest payments on the outstanding principal balance of the 2013 Notes on February 15 and August 15 of each year. The 2013 Notes will mature on February 15, 2013.

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Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

9. Equity and Debt Offerings and Debt Exchanges (Continued)

On or after February 15, 2010, the Company may redeem the 2013 Notes at its option, in whole or in part, at the redemption prices stated in the indenture, plus accrued and unpaid interest, if any, to, but excluding, the redemption date. Holders may require the Company to repurchase some or all of their 2013 Notes upon the occurrence of certain fundamental changes of Vertex, as set forth in the indenture, at 100% of the principal amount of the 2013 Notes to be repurchased, plus any accrued and unpaid interest, if any, to, but excluding, the repurchase date.

If a fundamental change occurs that is also a specific type of change of control under the indenture, the Company will pay a make-whole premium upon the conversion of the 2013 Notes in connection with any such transaction by increasing the applicable conversion rate on such 2013 Notes. The make-whole premium will be in addition to, and not in substitution for, any cash, securities or other assets otherwise due to holders of the 2013 Notes upon conversion. The make-whole premium will be determined by reference to the indenture and is based on the date on which the fundamental change becomes effective and the price paid, or deemed to be paid, per share of the Company's common stock in the transaction constituting the fundamental change, subject to adjustment.

The indenture provides the holders of the 2013 Notes with certain remedies if a default occurs under the indenture. If an event of default under the indenture relates solely to the Company's failure to comply with its reporting obligations pursuant to the 2013 Notes, at the election of the Company, the sole remedy of the holders of the 2013 Notes for the first 180 days following such event of default would consist of the right to receive special interest at an annual rate equal to 1.0% of the outstanding principal amount of the 2013 Notes.

Based on the Company's evaluation of the 2013 Notes in accordance with EITF Issue No. 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock," and FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities," the Company determined that the 2013 Notes contain a single embedded derivative. This embedded derivative relates to potential penalty interest payments that could be imposed on the Company for a failure to comply with its reporting obligations pursuant to the 2013 Notes. This embedded derivative required bifurcation as the feature was not clearly and closely related to the host instrument. The Company has determined that the value of this embedded derivative was nominal as of February 19, 2008, December 31, 2008 and June 30, 2009.

On June 10, 2009, the Company exchanged 6,601,000 shares of newly-issued common stock for $143.5 million in aggregate principal amount of the 2013 Notes, plus accrued interest. In the exchanges, the Company issued 46 shares of common stock for each $1,000 in principal amount of 2013 Notes. As a result of the exchanges, the Company incurred a non-cash charge of $12.3 million in the second quarter of 2009. This charge is related to the incremental shares issued in the transaction over the number that would have been issued upon conversion of the 2013 Notes under their original terms, at the original conversion rate of approximately 43.22 shares of common stock per $1,000 in principal amount of the 2013 Notes. In addition, accrued interest of $2.1 million and unamortized debt issuance costs of exchanged convertible notes of $3.5 million were recorded as an offset to additional paid-in capital on the Company's condensed consolidated balance sheet.

Vertex Pharmaceuticals Incorporated

Notes to Condensed Consolidated Financial Statements (Continued)

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10. Acquisition of ViroChem Pharma Inc.

On March 12, 2009, the Company acquired 100% of the outstanding equity of ViroChem, a privately-held biotechnology company based in Canada, for $100.0 million in cash and 10,733,527 shares of the Company's common stock. Vertex acquired ViroChem in order to add two clinical-development stage HCV polymerase inhibitors to Vertex's HCV drug development portfolio. In addition at the time of the acquisition, ViroChem was engaged in additional research stage activities related to viral diseases and was developing an early-stage drug candidate for the treatment of patients with HIV.

The transaction is being accounted for under the acquisition method of accounting in accordance with SFAS 141(R). Under SFAS 141(R), all of the assets acquired and liabilities assumed in the transaction are recognized at their acquisition-date fair values, while transaction costs and restructuring costs associated with the transaction are expensed as incurred.

Purchase Price

The $390.6 million purchase price for ViroChem is based on the acquisition-date fair value of the consideration transferred, which was calculated based on the opening price of the Company's common stock of $27.07 per share on March 12, 2009. The acquisition-date fair value of the consideration consisted of the following:

	Fair Value of Consideration *(in thousands)*
Cash	$ 100,000
Common stock	290,557
Total	$ 390,557

Allocations of Assets and Liabilities

The Company has allocated the purchase price for ViroChem to net tangible assets and intangible assets, goodwill and a deferred tax liability. The difference between the aggregate purchase price and the fair value of assets acquired and liabilities assumed was allocated to goodwill. The following table summarizes the fair values of the assets acquired and liabilities assumed at the acquisition date:

	Fair Values as of March 12, 2009 *(in thousands)*
Cash and cash equivalents	$ 12,578
Other tangible assets	1,920
Intangible assets	525,900
Goodwill	26,883
Accounts payable and accrued expenses	(14,221)
Deferred tax liability	(162,503)
Net assets	$ 390,557

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Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

10. Acquisition of ViroChem Pharma Inc. (Continued)

Under SFAS 141(R), all $525.9 million of the intangible assets acquired in the ViroChem acquisition relate to in-process research and development assets. These in-process research and development assets primarily relate to ViroChem's two clinical-development stage HCV polymerase inhibitors, VX-222 (formerly VCH-222) and VX-759 (formerly VCH-759), which had estimated fair values of $412.9 million and $105.8 million, respectively. The fair values of VX-222 and VX-759 were measured from the perspective of a market participant in accordance with SFAS 157. In addition, the Company also considered ViroChem's other clinical drug candidates and determined that VCH-286, ViroChem's lead HIV drug candidate, had an estimated fair value of $7.2 million, based on development costs through the acquisition date, and that the other clinical drug candidates had no fair value because the clinical and non-clinical data for those drug candidates did not support further development as of the acquisition date. The Company also considered ViroChem's preclinical programs and other technologies and determined that because of uncertainties related to the safety, efficacy and commercial viability of the potential drug candidates market participants would not ascribe value to these assets.

If a project is completed, the carrying value of the related intangible asset will be amortized over the remaining estimated life of the asset beginning in the period in which the project is completed. If a project becomes impaired or is abandoned, the carrying value of the related intangible asset will be written down to its fair value and an impairment charge will be taken in the period in which the impairment occurs. The ViroChem intangible assets will be tested for impairment on an annual basis during the fourth quarter, or earlier if impairment indicators are present.

The deferred tax liability primarily relates to the tax impact of future amortization or impairments associated with the identified intangible assets acquired, which are not deductible for tax purposes.

The difference between the consideration transferred to acquire the business and the fair value of assets acquired and liabilities assumed was allocated to goodwill. This goodwill relates to the potential synergies from the possible development of combination therapies involving telaprevir and the acquired drug candidates. None of the goodwill is expected to be deductible for income tax purposes. As of June 30, 2009, there were no changes in the recognized amounts of goodwill resulting from the acquisition of ViroChem.

Acquisition-related Expenses, Including Restructuring

The Company incurred $0 and $7.8 million, respectively, in expenses that are reflected as acquisition-related expenses on the condensed consolidated statement of operations for the three and six months ended June 30, 2009. These costs include transaction expenses and a restructuring charge that was incurred in March 2009 when Vertex determined it would restructure ViroChem's operations in order to focus ViroChem's activities on its HCV development programs. As a result of this restructuring plan, Vertex recorded a $2.1 million expense related to employee severance, benefits and related costs in accordance with SFAS 146. SFAS 146 requires that a liability be recorded for a cost associated with an exit or disposal activity at its fair value in the period in which the liability is incurred. The accrued liability of $2.1 million, which was included in accrued expenses and other current liabilities on the condensed consolidated balance sheet as of March 31, 2009, was paid in the second quarter of 2009.

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Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

10. Acquisition of ViroChem Pharma Inc. (Continued)

ViroChem Financial Information

The results of operations of ViroChem have been included in the condensed consolidated financial statements since the acquisition date. ViroChem had no revenues in the period from the acquisition date to June 30, 2009, and ViroChem's net loss in the period from the acquisition date to June 30, 2009 was immaterial to the Company's condensed consolidated financial results. Pro forma results of operations for the three and six months ended June 30, 2009 and 2008 assuming the acquisition of ViroChem had taken place at the beginning of each period would not differ significantly from Vertex's actual reported results.

11. Sale of HIV Protease Inhibitor Royalty Stream

In December 1993, the Company and GlaxoSmithKline plc ("GlaxoSmithKline") entered into a collaboration agreement to research, develop and commercialize HIV protease inhibitors, including Agenerase (amprenavir) and Lexiva/Telzir (fosamprenavir calcium). Under the collaboration agreement, GlaxoSmithKline agreed to pay the Company royalties on net sales of drugs developed under the collaboration.

The Company began earning a royalty from GlaxoSmithKline in 1999 on net sales of Agenerase, in the fourth quarter of 2003 on net sales of Lexiva, and in the third quarter of 2004 on net sales of Telzir. GlaxoSmithKline has the right to terminate its arrangement with the Company without cause upon twelve months' notice. Termination of the collaboration agreement by GlaxoSmithKline will relieve it of its obligation to make further payments under the agreement and will end any license granted to GlaxoSmithKline by the Company under the agreement. In June 1996, the Company and GlaxoSmithKline obtained a worldwide, non-exclusive license under certain G.D. Searle & Co. ("Searle," now owned by Pharmacia/Pfizer) patents in the area of HIV protease inhibition. Searle is paid royalties based on net sales of Agenerase and Lexiva/Telzir.

On May 30, 2008, the Company entered into a purchase agreement (the "Purchase Agreement") with Fosamprenavir Royalty, L.P. ("Fosamprenavir Royalty") pursuant to which the Company sold, and Fosamprenavir Royalty purchased, the Company's right to receive royalty payments, net of royalty amounts to be earned and due to Searle, arising from sales of Lexiva/Telzir and Agenerase under the Company's 1993 agreement with GlaxoSmithKline, from April 1, 2008 to the end of the term of the collaboration agreement, for a one-time cash payment of $160.0 million. In accordance with the Purchase Agreement, GlaxoSmithKline will make all royalty payments, net of the subroyalty amounts payable to Searle, directly to Fosamprenavir Royalty. The Purchase Agreement also contains other representations, warranties, covenants and indemnification obligations. The Company continues to be obligated for royalty amounts earned and that are due to Searle. The Company has instructed GlaxoSmithKline to pay such amounts directly to Searle as they become due.

The Company classified the proceeds received from Fosamprenavir Royalty as deferred revenues, to be recognized as royalty revenues over the life of the collaboration agreement because of the Company's continuing involvement in the royalty arrangement over the term of the Purchase Agreement. Such continuing involvement, which is required pursuant to covenants contained in the Purchase Agreement, includes overseeing GlaxoSmithKline's compliance with the collaboration agreement, monitoring and defending patent infringement, adverse claims or litigation involving the

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(unaudited)

11. Sale of HIV Protease Inhibitor Royalty Stream (Continued)

royalty stream, undertaking to cooperate with Fosamprenavir Royalty's efforts to find a new license partner in the event that GlaxoSmithKline terminates the collaboration agreement, and compliance with the license agreement with Searle, including the obligation to make future royalty payments to Searle. Because the transaction was structured as a non-cancellable sale, the Company does not have significant continuing involvement in the generation of the cash flows due to Fosamprenavir Royalty and there are no guaranteed rates of return to Fosamprenavir Royalty, the Company has recorded the proceeds as deferred revenues pursuant to EITF 88-18.

The Company recorded $155.1 million, representing the proceeds of the transaction less the net royalty payable to Fosamprenavir Royalty for the period from April 1, 2008 through May 30, 2008, as deferred revenues to be recognized as royalty revenues over the life of the collaboration agreement under the units-of-revenue method. Under this method, the amount of deferred revenues to be recognized as royalty revenues in each period is calculated by multiplying the following: (1) the net royalty payments due to Fosamprenavir Royalty for the period by (2) the ratio of the remaining deferred revenue amount to the total estimated remaining net royalties that GlaxoSmithKline is expected to pay Fosamprenavir Royalty over the term of the collaboration agreement. On May 31, 2008, the Company began recognizing these deferred revenues. In addition, the Company will continue to recognize royalty revenues for the portion of the royalty earned that is due to Searle.

The Company will recognize royalty expenses in each period based on (i) deferred transaction expenses in the same manner and over the same period in which the related deferred revenues are recognized as royalty revenues plus (ii) the subroyalty paid by GlaxoSmithKline to Searle on net sales of Agenerase and Lexiva/Telzir for the period.

12. Significant Revenue Arrangements

Janssen Pharmaceutica, N.V.

In June 2006, the Company entered into a collaboration agreement with Janssen Pharmaceutica, N.V. ("Janssen") for the development, manufacture and commercialization of telaprevir, the Company's lead investigative HCV protease inhibitor. Under the agreement, Janssen has agreed to be responsible for 50% of the drug development costs incurred under the development program for the parties' territories (North America for the Company, and the rest of the world, other than the Far East, for Janssen) and has exclusive rights to commercialize telaprevir in its territories including Europe, South America, the Middle East, Africa and Australia. Under the development program for telaprevir, each party is incurring reimbursable drug development costs. Reimbursable costs incurred by Janssen are offset against reimbursable costs incurred by the Company. Amounts that Janssen pays to the Company for reimbursement, after the offset, are recorded as revenues. Accordingly, as Janssen incurs increased costs under the development program, the Company's revenues attributable to the reimbursement are reduced.

Janssen made a $165.0 million up-front license payment to the Company in July 2006. The up-front license payment is being amortized over the Company's estimated period of performance under the collaboration agreement. Under the agreement, Janssen agreed to make contingent milestone payments, which could total up to $380.0 million if telaprevir is successfully developed, approved and launched as a product. As of June 30, 2009, the Company had earned $100.0 million of these

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Notes to Condensed Consolidated Financial Statements (Continued)

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12. Significant Revenue Arrangements (Continued)

contingent milestone payments under the agreement. The remaining $280.0 million in milestones under the Company's agreement with Janssen include $100.0 million related to marketing authorization for telaprevir from the European Medicines Evaluation Agency and $150.0 million related to the launch of telaprevir in the European Union. In July 2009, the Company announced its intention to explore the sale of its rights to these $250.0 million in milestones.

The agreement also provides the Company with royalties on any sales of telaprevir in the Janssen territories, with a tiered royalty averaging in the mid-20% range, as a percentage of net sales in the Janssen territories, depending upon successful commercialization of telaprevir. Each of the parties will be responsible for drug supply in their respective territories. However, the agreement provides for the purchase by Janssen from the Company of materials required for Janssen's manufacture of the active pharmaceutical ingredient. In addition, Janssen will be responsible for certain third-party royalties on net sales in its territories. Janssen may terminate the agreement without cause at any time upon six months' notice to the Company.

During the three and six months ended June 30, 2009, the Company recognized $12.8 million and $29.9 million, respectively, in revenues under the Janssen agreement, which included an amortized portion of the up-front payment and net reimbursements from Janssen for telaprevir development costs. During the three months ended June 30, 2008, the Company recognized $58.0 million in revenues under the Janssen agreement, which included an amortized portion of the up-front payment, a milestone of $45.0 million in connection with the commencement of a Phase 3 clinical trial of telaprevir, and net reimbursements from Janssen for telaprevir development costs. During the six months ended June 30, 2008, the Company recognized $83.5 million in revenues under the Janssen agreement, which included an amortized portion of the up-front payment, a milestone of $45.0 million in connection with the commencement of a Phase 3 clinical trial of telaprevir, a milestone of $10.0 million in connection with the commencement of the Phase 2 clinical trial of telaprevir in patients with genotype 2 and genotype 3 HCV infection and net reimbursements from Janssen for telaprevir development costs.

13. Guarantees

As permitted under Massachusetts law, the Company's Articles of Organization and Bylaws provide that the Company will indemnify certain of its officers and directors for certain claims asserted against them in connection with their service as an officer or director. 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 could reduce its monetary exposure and enable it to recover a portion of any future amounts paid. No indemnification claims are currently outstanding and the Company believes the estimated fair value of these indemnification arrangements is minimal.

The Company customarily agrees in the ordinary course of its business to indemnification provisions in agreements with clinical trial 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, development and commercialization collaboration agreements. With respect to the

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13. Guarantees (Continued)

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 its 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 is generally 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 amounts to defend lawsuits or settle claims related to these indemnification provisions. Accordingly, the Company believes the estimated fair value of these indemnification arrangements is minimal.

On February 12, 2008, the Company entered into underwriting agreements with Merrill Lynch, Pierce, Fenner & Smith Incorporated, on September 18, 2008, the Company entered into an underwriting agreement with Goldman, Sachs & Co. and on February 18, 2009, the Company entered into an underwriting agreement with Merrill Lynch, Pierce, Fenner & Smith Incorporated (collectively, the "Underwriting Agreements"), as the representative of the several underwriters, if any, named in such agreements, relating to the public offering and sale of shares of the Company's common stock or convertible senior subordinated notes. The Underwriting Agreement relating to each offering 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 Underwriting Agreements are of a type customary in agreements of this sort. The Company believes the estimated fair value of these indemnification arrangements is minimal.

14. Contingencies

The Company has certain contingent liabilities that arise in the ordinary course of its business activities. The Company accrues a reserve for contingent liabilities when it is probable that future expenditures will be made and such expenditures can be reasonably estimated. There were no contingent liabilities accrued as of June 30, 2009 or December 31, 2008.

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Notes to Condensed Consolidated Financial Statements (Continued)

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15. Management Transition

Matthew W. Emmens, one of the Company's directors, became the Company's Chairman and Chief Executive Officer in May 2009. On February 5, 2009, the Company entered into a transition arrangement with Dr. Joshua S. Boger. The benefits under the transition arrangement include: (i) a lump sum payment of $2.9 million payable in November 2009, (ii) 18 months' accelerated vesting of his outstanding stock options, which will remain exercisable until December 31, 2010, subject to specified limitations, (iii) 18 months' accelerated vesting of each outstanding restricted stock award, treating each award as if it vests ratably over the term of the grant rather than the end of the service period and (iv) reimbursement for certain expenses. The Company recorded expenses of $1.4 million and $2.9 million, respectively, in the three and six months ended June 30, 2009 in connection with the lump sum payable in November 2009. In the three and six months ended June 30, 2009, the Company recorded a non-cash charge of $5.2 million and $10.5 million, respectively, due to the acceleration and extended exercisability of Dr. Boger's equity awards under the transition arrangement.

16. Recent Accounting Pronouncements

In June 2009, the FASB issued SFAS No. 167, "Amendments to FASB Interpretation No. 46(R)" ("SFAS 167"). SFAS 167 requires a qualitative approach to identifying a controlling financial interest in a variable interest entity ("VIE"), and requires ongoing assessment of whether an entity is a VIE and whether an interest in a VIE makes the holder the primary beneficiary of the VIE. SFAS 167 is effective for the Company on January 1, 2010. The Company is evaluating the effect of the pending adoption of SFAS 167 on the Company's condensed consolidated financial statements.

In June 2009, the FASB issued SFAS No. 166, "Accounting for Transfers of Financial Assets—an amendment of FASB Statement No. 140" ("SFAS 166"). SFAS 166 amends FASB Statement No. 140 to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement in transferred financial assets. The recognition and measurement provisions of SFAS 166 shall be applied to transfers that occur on or after January 1, 2010, the effective date of SFAS 166 to the Company. The Company is evaluating the effect of the pending adoption of SFAS 166 on the Company's condensed consolidated financial statements.

In April 2009, the FASB issued three FASB Staff Positions ("FSP"s) that are intended to provide additional application guidance and enhance disclosures about fair value measurements and impairments of securities. FSP No. FAS 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly," clarifies the objective and method of fair value measurement even when there has been a significant decrease in market activity for the asset being measured. FSP No. FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments," establishes a new model for measuring other-than-temporary impairments for debt securities, including establishing criteria for when to recognize a write-down through earnings instead of other comprehensive income. FSP No. FAS 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments," expands the fair value disclosures required for all financial instruments within the scope of FASB Statement No. 107, "Disclosures about Fair Value of Financial Instruments," to interim periods. All of these FSPs became effective for the Company on April 1, 2009. FSP No. FAS 157-4, FSP No.

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Notes to Condensed Consolidated Financial Statements (Continued)

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16. Recent Accounting Pronouncements (Continued)

FAS 115-2 and FAS 124-2, and FSP No. FAS 107-1 and APB 28-1 did not have an effect on the Company's condensed consolidated financial statements.

In April 2009, the FASB issued FSP No. FAS 141(R)-1, "Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies," which amends SFAS 141(R) by establishing a model to account for certain pre-acquisition contingencies. In November 2008, the FASB ratified EITF Issue No. 08-7, "Accounting for Defensive Intangible Assets" ("EITF 08-7"). EITF 08-7 applies to defensive intangible assets, which are acquired intangible assets that the acquirer does not intend to actively use but intends to hold to prevent its competitors from obtaining access to them. FSP No. FAS 141(R)-1 and EITF 08-7 became effective on January 1, 2009. The implementation of FSP No. FAS 141(R)-1 and EITF 08-7 did not have an effect on the Company's condensed consolidated financial statements.

17. Subsequent Event

On July 30, 2009, the Company amended its license, development and commercialization agreement with Mitsubishi Tanabe Pharma Corporation ("Mitsubishi Tanabe"). Under the amended agreement, the Company will receive $105.0 million following signing the amendment, and will be eligible to receive further contingent milestone payments in lieu of royalties, which if realized would range between $15.0 million and $65.0 million. The amended agreement provides to Mitsubishi Tanabe a fully-paid license to commercialize telaprevir as part of a combination regimen with interferon and ribavirin to treat HCV infection in Japan and other countries in the Far East, as well as rights to manufacture telaprevir for sale in Japan and the Far East.

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

Overview

We are in the business of discovering, developing and commercializing small molecule drugs for the treatment of serious diseases. Telaprevir, our lead drug candidate, is an oral hepatitis C protease inhibitor and one of the most advanced of a new class of antiviral treatments in clinical development that targets hepatitis C virus, or HCV, infection. Telaprevir is being evaluated in a fully-enrolled registration program focused on treatment-naïve and treatment-failure patients with genotype 1 HCV. We currently intend to submit a new drug application, or NDA, for telaprevir in the United States in the second half of 2010, assuming the successful completion of the registration program. We also are developing, among other compounds, VX-770 and VX-809, drug candidates for the treatment of patients with cystic fibrosis, or CF. In the second quarter of 2009, we began a registration program for VX-770 that focuses on CF patients with the G551D mutation in the gene responsible for CF. We intend to continue investing in our research programs with the goal of adding to our pipeline drug candidates designed to address significant unmet medical needs and provide substantial benefits to patients.

Business Focus

Over the next several years, we expect to focus a substantial portion of our resources on the development and commercialization of telaprevir. Our clinical development program is designed to support registration by us of telaprevir in North America for treatment-naïve and treatment-failure patients with genotype 1 HCV, and by our collaborators, Janssen Pharmaceutica, N.V., a Johnson & Johnson company, and Mitsubishi Tanabe Pharma Corp., in international markets.

In the second quarter of 2009, we initiated a registration program for VX-770 focused on patients with CF who have the G551D mutation. We also expect to continue the development of VX-809, an investigational CFTR corrector compound that is being evaluated in a Phase 2a clinical trial in patients with CF. As a result, we expect that over the next several years we will need to substantially increase resources focused on the development of our CF drug candidates. We plan to leverage the infrastructure that we are building in preparation for the launch of telaprevir to support the potential launch of VX-770.

In addition to the registration programs for telaprevir and VX-770, we plan to continue investing in our research and early development programs and to develop selected drug candidates that emerge from those programs, alone or with third-party collaborators. Using our drug discovery capability, which integrates biology, pharmacology, biophysics, chemistry, automation and information technologies in a coordinated manner, we have identified, among other drug candidates: telaprevir; VX-813 and VX-985, two additional HCV protease inhibitors; VX-770 and VX-809; and VX-509 and VX-467, novel Janus Kinase 3, or JAK3, inhibitors that target immune-mediated inflammatory diseases.

Our acquisition of ViroChem Pharma Inc., or ViroChem, in March 2009 for $100.0 million in cash plus 10.7 million shares of our common stock, represents a significant investment in order to acquire drug candidates that are in Phase 1 clinical development and could potentially be used to treat HCV infection in combination with telaprevir. In order to realize benefits from this acquisition, we will need to invest significant resources in the development of these potential combination therapies.

Drug Discovery and Clinical Development

Discovery and development of a 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, designed to generate information concerning efficacy, side-effects, proper dosage levels and a variety of

other physical and chemical characteristics that are important in determining whether a drug candidate should be approved for marketing as a pharmaceutical product. The toxicity characteristics and profile of drug candidates at varying dose levels administered for varying periods of time also are 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 sufficient efficacy against the disease target, the lack of acceptable absorption characteristics or other physical properties, difficulties in developing a cost-effective manufacturing or formulation method, or the discovery of toxicities or side-effects that are unacceptable for the disease indication being treated or that adversely affect the competitive commercial profile of the drug candidate.

Designing and coordinating large-scale clinical trials to determine the efficacy and safety of drug candidates and to support the submission of an NDA requires significant financial resources, along with extensive technical and regulatory expertise and infrastructure. Prior to commencing a late-stage clinical trial of any drug candidate, we must work collaboratively with regulatory authorities, including the United States Food and Drug Administration, or FDA, in order to identify the specific scientific issues that need to be addressed by the clinical trials in order to support continued development and approval of the drug candidate. These discussions with regulatory authorities typically occur over a period of months and can result in significant changes to planned clinical trial designs or timelines. In addition, even after agreement with respect to a clinical trial design has been reached, regulatory authorities may request additional clinical trials or changes to existing clinical trial protocols. If the data from our ongoing clinical trials or nonclinical studies regarding the safety or efficacy of our drug candidates are not favorable, we may be forced to delay or terminate the clinical development program, which, particularly in the case of telaprevir, would materially harm our business. Further, even if we obtain marketing approvals from the FDA and comparable foreign regulatory authorities in a timely manner, we cannot be sure that the drug will be commercially successful.

Our investments are subject to the considerable risk that one or more of our drug candidates will not progress to product registration due to a wide range of adverse experimental outcomes. We monitor the results of our clinical trials, discovery research and our nonclinical studies and frequently evaluate our portfolio investments in light of new data and scientific, business and commercial insights with the objective of balancing risk and potential. This process can result in relatively abrupt changes in focus and priority as new information becomes available and is analyzed and we gain additional insights into ongoing programs and potential new programs. Although we believe that our development activities and the clinical trial data we have obtained to date have reduced the risks associated with obtaining marketing approval for telaprevir, we cannot be sure that our development of telaprevir will lead successfully to regulatory approval of telaprevir on a timely basis, or at all, or that obtaining regulatory approval will lead to commercial success of telaprevir. With respect to our other drug candidates, we have more limited data from clinical trials and nonclinical studies and as a result it is difficult to predict which, if any, of these drug candidates will result in pharmaceuticals products.

Drug Candidates

HCV

Telaprevir

Telaprevir, our oral HCV protease inhibitor, is being investigated in a registration program focused on patients with genotype 1 HCV that includes ADVANCE and ILLUMINATE, which are Phase 3 clinical trials in treatment-naïve patients, and REALIZE, which is a Phase 3 clinical trial in treatment-failure patients. Enrollment in ADVANCE, ILLUMINATE and REALIZE was completed in October

2008, January 2009 and February 2009, respectively. Telaprevir dosing is complete in all three of these Phase 3 clinical trials. We expect to have sustained viral response, or SVR, data from the ADVANCE and ILLUMINATE clinical trials in the first half of 2010 and SVR data from the REALIZE clinical trial in mid-2010. We currently intend to submit an NDA for telaprevir in the second half of 2010, assuming the successful completion of our ongoing registration program. In addition to the clinical trials in our registration program, our collaborators and we are conducting several additional clinical trials, including trials evaluating twice-daily dosing of telaprevir and the use of telaprevir for treatment of patients with other HCV genotypes. We expect to present SVR data from the clinical trial evaluating twice-daily dosing of telaprevir at the Annual Meeting of the American Association for the Study of Liver Diseases that begins in October 2009.

We have completed three Phase 2b clinical trials of telaprevir-based combination therapy in patients with genotype 1 HCV, which enrolled an aggregate of approximately 580 treatment-naïve patients and 440 patients who did not achieve an SVR with a previous treatment with pegylated-interferon, or peg-IFN, and ribavirin, or RBV. The SVR rates on an intent-to-treat basis of the patients in the 24-week telaprevir-based treatment arms and the control arms of PROVE 1 and PROVE 2, the two Phase 2b clinical trials that evaluated treatment-naïve patients, are set forth in the table below:

	PROVE 1	PROVE 2
24-week telaprevir-based treatment arm:		
telaprevir in combination with peg-IFN and RBV for 12 weeks, followed by peg-IFN and RBV alone for 12 weeks	61%	69%
48-week control arm:		
48 weeks of therapy with peg-IFN and RBV	41%	46%

The SVR rates of the patients on an intent-to-treat basis in the 24-week telaprevir-based triple-therapy treatment arm, the 48-week telaprevir-based treatment arm and the control arm of PROVE 3, the Phase 2b clinical trial that evaluated treatment-failure patients, are set forth in the table below:

	Non-responders	Relapsers	Breakthroughs	Total
24-week telaprevir-based triple-therapy treatment arm:				
telaprevir in combination with peg-IFN and RBV for 12 weeks, followed by peg-IFN and RBV alone for 12 weeks	39% (n=66)	69% (n=42)	57% (n=7)	51% (n=115)
48-week telaprevir-based treatment arm:				
telaprevir in combination with peg-IFN and RBV for 24 weeks, followed by peg-IFN and RBV alone for 24 weeks	38% (n=64)	76% (n=41)	50% (n=8)	52% (n=113)
48-week control arm:				
48 weeks of therapy with peg-IFN and RBV	9% (n=68)	20% (n=41)	40% (n=5)	14% (n=114)

The adverse event profile of telaprevir generally has been consistent across our Phase 2 clinical trials, which have principally involved clinical trial sites in North America and Europe. Safety data from our Phase 2 clinical trials indicated that the most common adverse events, regardless of treatment assignment, were fatigue, rash, headache and nausea. The most common adverse events reported more frequently in patients receiving telaprevir than in the control arms were gastrointestinal events, skin events—rash and pruritus—and anemia. There have been reports of severe rashes in clinical trials involving telaprevir-based treatments, including several reports from the clinical trials being conducted by Mitsubishi Tanabe in Japan, where telaprevir has advanced into Phase 3 clinical trials in combination with peg-IFN and RBV. Rash resulted in treatment discontinuations in the telaprevir-based treatment arms in approximately 7% of patients in PROVE 1 and PROVE 2 and 5% of patients in PROVE 3.

Other adverse events reported in our Phase 2 clinical trials generally were similar in type and frequency to those seen with peg-IFN and RBV treatment.

The successful development and commercialization of telaprevir is critical to the success of our business as currently conducted. While we are devoting significant resources, time and attention to the development, potential regulatory approval and a successful commercial launch of telaprevir, all of these efforts involve significant scientific and execution risks and can be adversely affected by events, such as competitive activities, adverse trial results and regulatory actions, outside of our direct control.

HCV Polymerase Inhibitors

HCV polymerase inhibitors, including our HCV polymerase inhibitors VX-222 (formerly VCH-222) and VX-759 (formerly VCH-759), are direct-acting antivirals that inhibit the ability of the hepatitis C virus to replicate through a mechanism that is distinct from HCV protease inhibitors such as telaprevir. VX-222 and VX-759 were evaluated by ViroChem in Phase 1 clinical trials. In a Phase 1 viral kinetic clinical trial involving five treatment-naïve patients with genotype 1 HCV infection, VX-222 dosed at 750 mg twice daily resulted in a median 3.7 log10 decrease in HCV RNA—equivalent to a 5,000-fold reduction in virus in the blood—at the end of three days of dosing. The results were consistent from patient to patient, and across HCV genotype 1 subtypes. In clinical evaluations of VX-222 to date, no serious adverse events have been observed. VX-222 has completed 28-day non-clinical toxicology studies in two species.

In the second quarter of 2009, we initiated a multi-dose viral kinetic clinical trial to evaluate the antiviral activity, safety, tolerability and pharmacokinetics of VX-222 in patients with genotype 1 HCV infection. There currently are no ongoing clinical trials of VX-759. The ongoing clinical trial of VX-222 will evaluate the antiviral activity of VX-222 dosed as monotherapy for three days in approximately 32 treatment-naïve patients. We expect to complete this clinical trial in the third quarter of 2009. We anticipate initiating a drug-drug interaction clinical trial of VX-222 and telaprevir in healthy volunteers in the third quarter of 2009. We plan to begin a combination clinical trial of telaprevir with VX-222 in patients with genotype 1 HCV as early as the fourth quarter of 2009 and expect to have data from this clinical trial in the first half of 2010.

Cystic Fibrosis

VX-770

In May 2009, we initiated a registration program, referred to as ENDEAVOR, for VX-770, which is an investigational cystic fibrosis transmembrane conductance regulator, or CFTR, potentiator that targets the defective CFTR protein that causes CF. The VX-770 registration program will focus on patients with the G551D mutation, which is present in approximately 4% of the CF population in the United States. ENDEAVOR will consist of three clinical trials.

The primary clinical trial, which is referred to as STRIVE, is a Phase 3 clinical trial of VX-770 in patients 12 years and older with the G551D mutation on at least one of the patient's two *CFTR* genes, or alleles. This randomized, placebo-controlled, double-blind, parallel-group clinical trial is designed to enroll a minimum of 80 patients who will receive either VX-770 or placebo for 48 weeks. In the trial, VX-770 will be dosed as a single 150 mg tablet twice daily. The primary endpoint for the STRIVE clinical trial is absolute change from baseline in percent predicted forced expiratory volume in one second, or FEV_1, the lung function test most commonly used to monitor CF disease progression, through week 24. Additional FEV_1 measurements will be taken through 48 weeks as a secondary endpoint. Additional secondary endpoints, including sweat chloride, will be measured to evaluate the effect of VX-770 on improving the function of the defective CFTR protein. The STRIVE clinical trial is currently open to patient enrollment, and we expect STRIVE to be fully enrolled in the first quarter of 2010.

The second clinical trial, which is referred to as ENVISION, is a Phase 3 clinical trial of VX-770 in patients between 6 to 11 years of age with the G551D mutation on at least one allele. ENVISION is a two-part, randomized, placebo-controlled, double-blind, parallel-group clinical trial of VX-770. Part 1 of ENVISION will be a single-dose pharmacokinetic clinical trial that is expected to enroll approximately 10 patients. Following an analysis of data from Part 1, Part 2 of the ENVISION trial is expected to enroll approximately 30 patients who will receive either VX-770 or placebo for 48 weeks. The primary endpoint of the trial is absolute change from baseline in percent predicted FEV_1 through week 24. Secondary endpoints, including sweat chloride, will be measured to evaluate the effect of VX-770 on improving the function of the defective CFTR protein. Part 1 of the ENVISION clinical trial is opened to patient enrollment.

The third clinical trial, which is referred to as DISCOVER, will be a Phase 2 exploratory clinical trial of VX-770 in patients with CF who are 12 years and older and homozygous for the F508del mutation. This randomized, placebo-controlled, double-blind, parallel-group clinical trial is expected to enroll approximately 120 patients who will receive either VX-770 or placebo for 16 weeks. In DISCOVER, VX-770 will be dosed as a single 150 mg tablet twice daily. The primary endpoints of the DISCOVER clinical trial are safety as well as absolute change from baseline in percent predicted FEV_1 through week 16. Additional secondary endpoints, including sweat chloride, will be measured to evaluate the effect of VX-770 on improving the function of the defective CFTR protein. We expect to initiate the DISCOVER clinical trial in the third quarter of 2009.

In October 2008, we completed a Phase 2a clinical trial of VX-770 in 39 patients with CF with the G551D mutation. Patients in the Phase 2a clinical trial received VX-770 over 14-day and 28-day dosing periods. The primary endpoint for this clinical trial was safety, and no serious adverse events attributable to VX-770 were observed. The promising lung function data from this Phase 2a clinical trial, as measured by improvements in FEV_1, and the observed changes in biomarkers that seek to measure the activity of the CFTR protein, were used to design the ENDEAVOR registration program.

VX-809

We have conducted Phase 1 clinical trials of VX-809 in healthy volunteers and an escalating single-dose pharmacokinetics and safety clinical trial of VX-809 in patients with CF who carry the F508del mutation on at least one allele. In the first quarter of 2009, we initiated a Phase 2a clinical trial primarily designed to evaluate the safety and tolerability of multiple doses of VX-809 in patients with CF. In addition to assessing safety, the trial will evaluate the effect of VX-809 on measures of CFTR function and whether VX-809 has an effect on FEV_1. The trial is expected to enroll approximately 90 patients homozygous for the F508del mutation in the *CFTR* gene, the most common mutation in CF patients. We expect to complete this clinical trial in early 2010.

Immune-mediated Inflammatory Disease

VX-509 is a novel oral JAK3 inhibitor that we believe has the potential to be used in multiple immune-mediated inflammatory disease, or IMID, indications. We have completed the Phase 1 clinical trials of VX-509, including a Phase 1 single and multiple, 14-day, dose-ranging clinical trial of VX-509 in healthy volunteers. The safety data from the 14-day dose-ranging clinical trial of VX-509 supported further development. In addition, VX-509 showed a dose-dependent and reversible reduction in PSTAT-5, a specific biomarker of JAK3 activity, and a high degree of selectivity for JAK3 over JAK2. These data were consistent with data from *in vitro* studies that indicated that VX-509 was highly selective for JAK3 compared to certain other JAK and non-JAK kinases in cell-based assays. We may seek to license VX-509 and/or VX-467 to a corporate collaborator in order to fund and support other research and development investments.

Corporate Collaborations

Corporate collaborations have been and will continue to be an important component of our business strategy. Under our agreement with Janssen, we have retained exclusive commercial rights to telaprevir in North America, and we are leading the global clinical development program. Janssen agreed to be responsible for 50% of the drug development costs under the development program for telaprevir in North America and the Janssen territories, to pay us contingent milestone payments based on successful development, approval and launch of telaprevir, to be responsible for the commercialization of telaprevir outside of North America and the Far East and to pay us royalties on any sales of telaprevir in its territories. The principal remaining milestones under our agreement with Janssen relate to marketing authorization for telaprevir from the European Medicines Evaluation Agency and the launch of telaprevir in the European Union. These milestones include $100.0 million related to regulatory submission and approval and $150.0 million related to launch of telaprevir. We anticipate, based on projected development and commercial timelines for telaprevir, and assuming successful development, that these milestones will be earned prior to April 2012. In July 2009, we announced our intention to explore the sale of our rights to these milestone payments.

We also have a collaboration with Mitsubishi Tanabe with respect to the development of telaprevir in Japan and other countries in the Far East. Mitsubishi Tanabe is conducting Phase 3 registration trials in Japan of telaprevir in combination with peg-IFN and RBV, in approximately 300 patients with genotype 1 HCV. This registration program is expected to be fully enrolled in the third quarter of 2009, and SVR data from these clinical trials is expected to be available in 2010. On July 30, 2009, we amended our license, development and commercialization agreement with Mitsubishi Tanabe. Under the amended agreement, we expect to receive $105.0 million in the third quarter of 2009, and will be eligible to receive further contingent milestone payments in lieu of royalties, which if realized would range between $15.0 million and $65.0 million. The amended agreement provides to Mitsubishi Tanabe a fully-paid license to commercialize telaprevir as part of a combination regimen with peg-IFN and RBV to treat HCV in Japan and the Far East, as well as rights to manufacture telaprevir for sale in Japan and the Far East.

Our drug candidate pipeline also includes Aurora kinase inhibitors that are being investigated by Merck & Co., Inc. for oncology indications. In the second quarter of 2008, Merck initiated a Phase 1 clinical trial of MK-5108 (VX-689) alone and in combination with docetaxel in patients with advanced and/or refractory tumors. In the third quarter of 2008, Merck selected additional Aurora kinase inhibitors for potential development.

We will not have the resources for some time to develop and commercialize all drug candidates for which we have rights, and therefore we will need to rely on corporate collaborations for the development and commercialization of some or all of our new drug candidates. Historically, we have been successful in initiating and concluding productive collaborations, but we will need to continue to do so in the future, even though economic and competitive conditions may be different than in the past.

Acquisition of ViroChem Pharma Inc.

In March 2009, we acquired ViroChem, a privately-held Canadian biotechnology company, for $100.0 million in cash plus 10.7 million shares of our common stock. ViroChem was in the business of discovering and developing drug candidates for the treatment of HCV and HIV infection, including VX-222 and VX-759, which were two HCV polymerase inhibitors and ViroChem's two lead drug candidates. We are planning on pursuing potential combination therapies for the treatment of HCV infection.

After acquiring ViroChem, we restructured its operations in order to focus ViroChem's research and development activities on drug candidates for the treatment of HCV infection. ViroChem currently

has approximately 35 employees and leases a research facility in Laval, Canada. The expenses associated with continuing the research and development activities at our new research site in Canada are not expected to be significant in comparison to the costs and expenses related to our other ongoing research and development activities. We currently are evaluating ViroChem's non-HCV programs and may seek to license rights to ViroChem's other assets to a third-party collaborator.

Financing Strategy

At June 30, 2009, we had $754.4 million of cash, cash equivalents and marketable securities, which was a decrease of $77.7 million from $832.1 million at December 31, 2008. This decrease was a result of cash used to fund our operations during the first half of 2009 and the $100.0 million of cash used in our acquisition of ViroChem in March 2009 partially offset by net proceeds of $313.3 million from the sale in February 2009 of 10.0 million shares of our common stock.

We have incurred losses from our inception and expect to continue to incur losses at least until we obtain approval for and successfully commercialize a product, if we ever do. Therefore, we are dependent in large part on our continued ability to raise significant funding to finance our research and development operations, to create a commercial infrastructure, and to meet our overhead costs and long-term contractual commitments and obligations. To date, we have secured funds principally through capital market transactions, strategic collaborative agreements, proceeds from the disposition of assets, investment income and the issuance of common stock under our employee benefit plans.

We expect that we will need additional capital in order to complete the development and commercialization of telaprevir while at the same time continuing the development of our other drug candidates, including VX-770. We may raise additional capital from public offerings or private placements of our securities or other methods of financing. We cannot be sure that any such financing opportunities will be available on acceptable terms, if at all. If adequate funds are not available on acceptable terms, or at all, we may be required to curtail significantly or discontinue one or more of our research, drug discovery or development programs, including clinical trials, incur significant cash exit costs, or attempt to obtain funds through arrangements with collaborators or others that may require that we relinquish rights to certain of our technologies or drug candidates.

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. For example, in the second quarter of 2009, we exchanged 6.6 million shares of newly-issued common stock for $143.5 million in aggregate principal amount of our 4.75% convertible senior subordinated notes due 2013, or 2013 Notes, plus accrued interest. We expect to continue pursuing a general financial strategy that may lead us to undertake one or more additional transactions with respect to our outstanding debt obligations, and the amounts involved in any such transactions, individually or in the aggregate, may be material. Any such transactions may or may not be similar to transactions in which we have engaged in the past.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations is based upon our condensed consolidated financial statements prepared in accordance with generally accepted accounting principles in the United States. 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 revenues and expenses 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 reflected in reported results for

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. There were no material changes during the six months ended June 30, 2009 to our critical accounting policies as reported in our Annual Report on Form 10-K for the year ended December 31, 2008. We have added a critical accounting policy regarding business combinations as a result of our acquisition of ViroChem in March 2009 and have supplemented our critical accounting policy regarding up-front license fees.

Business Combinations

In March 2009, we acquired ViroChem for $100.0 million in cash and common stock with a fair market value of $290.6 million. Under Financial Accounting Standards Board ("FASB") Statement No. 141 (Revised 2007), "Business Combinations" ("SFAS 141(R)"), which became effective on January 1, 2009, we assign the value of the consideration transferred to acquire a business to the tangible assets and identifiable intangible assets acquired and liabilities assumed on the basis of their fair values at the date of acquisition. For purposes of the condensed consolidated balance sheet, we allocated the purchase price for ViroChem to the net tangible assets and intangible assets. The difference between the purchase price and the fair value of assets acquired and liabilities assumed was allocated to goodwill. This goodwill relates to the potential synergies from the possible development of combination therapies involving telaprevir and the acquired drug candidates. The allocations recorded on our condensed consolidated balance sheet included $525.9 million of intangible assets related to in-process research and development and a $162.5 million deferred tax liability.

The intangible assets are in-process research and development assets relating to the drug candidates being developed by ViroChem, primarily VX-222 and VX-759, each of which was in Phase 1 clinical development at the date of acquisition. VX-222 and VX-759 had estimated fair values of $412.9 million and $105.8 million, respectively. In addition, we considered ViroChem's other clinical drug candidates and determined that VCH-286, ViroChem's lead HIV drug candidate, had an estimated fair value of $7.2 million, based on development costs through the acquisition date, and that the other clinical drug candidates had no fair value because the clinical and non-clinical data for those drug candidates did not support further development as of the acquisition date. We also considered ViroChem's preclinical programs and other technologies and determined that because of uncertainties related to the safety, efficacy and commercial viability of the potential drug candidates, market participants would not ascribe value to these assets.

We assess the fair value of assets, including intangible assets such as in-process research and development, using a variety of methods including present-value models that are based upon multiple probability-weighted scenarios involving the development and potential commercialization of the acquired drug candidates. The present-value models used to estimate the fair values of VX-222 and VX-759 reflect significant assumptions regarding the estimates a market participant would make in order to evaluate a drug development asset, including the probability of completing in-process research and development projects, which requires successfully completing clinical trials and obtaining regulatory approval for marketing of the associated drug candidate; estimates regarding the timing of and the expected costs to complete in-process research and development projects; estimates of future cash flows from potential product sales; and appropriate discount rates. The fair value of VX-222 and VX-759 was based on the estimated fair value that would be ascribed to each of these compounds by a market participant that acquired both compounds in a single transaction. The probability of advancing VX-222 and VX-759 through various phases of development reflects the understanding among market participants that most drug candidates that enter Phase 2 clinical trials are not ultimately approved. While on the date of acquisition each of the HCV polymerase inhibitors was at a similar stage of development, we attributed a significantly higher value to VX-222 than to VX-759 because the clinical

and non-clinical data regarding VX-222 was significantly more promising than the clinical and non-clinical data regarding VX-759. In addition, we determined that a market participant would not be likely to continue development of VX-759 unless future data from clinical trials or non-clinical studies of VX-222 resulted in a delay or discontinuation of the VX-222 development program. Finally, while the duration and cost of non-clinical studies and clinical trials may vary significantly over the life of a project and are difficult to predict, a market participant would assume that it would take several years to complete each phase of clinical trials for a drug candidate for the treatment of patients with HCV and that future cash flows, if any, would not be generated until a drug candidate had completed all required phases of clinical trials and had obtained regulatory approval. The risk-adjusted discount rate for each of these projects is approximately 28%.

Initially, the in-process research and development assets are recorded at fair value and accounted for as indefinite-lived intangible assets in accordance with FASB Statement No. 142, "Goodwill and Other Intangible Assets," as amended by SFAS 141(R). These assets will be maintained on our condensed consolidated balance sheets until either the research and development project underlying them is completed or the assets become impaired. If a project is completed, the carrying value of the related intangible asset would be amortized over the remaining estimated life of the asset. If a project becomes impaired or is abandoned, the carrying value of the related intangible asset would be written down to its fair value and an impairment charge would be taken in the period in which the impairment occurs. In order to complete an acquired research and development project, the related drug candidate will need to be evaluated in later-stage clinical trials, which are subject to all of the risks and uncertainties associated with the development of pharmaceutical products. If the fair value of any of these drug candidates, and in particular VX-222, becomes impaired as the result of unfavorable safety or efficacy data from any ongoing or future clinical trial or because of any other information regarding the prospects of successfully developing or commercializing the drug candidate, we could incur significant charges in the period in which the impairment occurs. These intangible assets will be tested for impairment on an annual basis during the fourth quarter, or earlier if impairment indicators are present. Post-acquisition research and development expenses related to the in-process research and development projects will be expensed as incurred.

Up-front License Fees

We recognize revenues from nonrefundable, up-front license fees related to collaboration agreements, including the $165.0 million we received from Janssen in 2006, on a straight-line basis over the contracted or estimated period of performance. The period of performance over which the revenues are recognized is typically the period over which the research and/or development is expected to occur. As a result, we often are required to make estimates regarding drug development and commercialization timelines for compounds being developed pursuant to a collaboration agreement. Because the drug development process is lengthy and our collaboration agreements typically cover activities over several years, this approach often has resulted in the deferral of significant amounts of revenue into future periods. In addition, we periodically evaluate our estimates in light of changes and anticipated changes in the development plans for our drug candidates and because of the many risks and uncertainties associated with the development of drug candidates, our estimates regarding the period of performance have changed in the past and may change in the future. Our estimates regarding the period of performance under the Janssen collaboration agreement were adjusted in 2007 as a result of changes in the global development plan for telaprevir. This adjustment was made on a prospective basis beginning in the period in which the change was identified and resulted in a decrease in the amount of revenues we were recognizing from the Janssen collaboration by $2.6 million per fiscal quarter after the adjustment. Any future adjustment in our estimates of the period of performance under our collaborations could result in substantial changes to the period over which the revenues from an up-front license fee related to each such collaboration are recognized. If we adjusted our estimates as of July 1, 2009 to increase the period of performance under the Janssen agreement by one year, it

would result in a decrease in the amount of deferred revenues we recognize from our Janssen collaboration of approximately $1.1 million per fiscal quarter beginning in the third quarter of 2009.

Results of Operations—Three and Six Months Ended June 30, 2009 Compared with Three and Six Months Ended June 30, 2008

	Three Months Ended June 30,		Increase/ (Decrease) $	Increase/ (Decrease) %	Six Months Ended June 30,		Increase/ (Decrease) $	Increase/ (Decrease) %
	2009	2008			2009	2008		
		(in thousands)				(in thousands)		
Revenues	$ 19,064	$ 69,409	$(50,345)	(73)%	$ 43,043	$ 111,084	$ (68,041)	(61)%
Costs and expenses	176,231	160,890	15,341	10%	362,103	301,301	60,802	20%
Other income (expense)	(14,130)	160	(14,290)	n/a	(14,909)	2,742	(17,651)	n/a
Net loss	$(171,297)	$ (91,321)	$ 79,976	88%	$(333,969)	$(187,475)	$146,494	78%

Net Loss

In the second quarter of 2009 as compared to the second quarter of 2008, our net loss increased by $80.0 million, or 88%. In the first half of 2009 as compared to the first half of 2008, our net loss increased by $146.5 million, or 78%. The increases in net loss in the second quarter and first half of 2009 as compared to the comparable periods in 2008 were the result of significant increases in costs and expenses combined with significant decreases in our revenues. Our lower revenues were primarily the result of a $45.0 million milestone payment that we recognized in the second quarter of 2008 and a $10.0 million milestone payment that we recognized in the first quarter of 2008 for which there were no corresponding milestone payments in the first half of 2009. The increased expenses included increased operating expenses related to the increased size of our workforce and to our late-stage clinical programs and increased stock-based compensation expense and restructuring expense. In addition, in the second quarter of 2009, we had a $12.3 million non-cash expense on the exchange of a portion of the 2013 Notes into our common stock and in the first half of 2009 we had $7.8 million of acquisition-related expenses from our acquisition of ViroChem and additional expenses related to our CEO transition.

Net Loss per Share

Our net loss for the three months ended June 30, 2009 was $0.99 per basic and diluted common share compared to $0.66 per basic and diluted common share for the three months ended June 30, 2008. Our net loss for the six months ended June 30, 2009 was $2.03 per basic and diluted common share compared to $1.37 per basic and diluted common share for the six months ended June 30, 2008. The increases in net loss per common share in the three and six months ended June 30, 2009 compared to the comparable periods in 2008 were the result of the increased net losses for the periods in 2009 partially offset by increases in the basic and diluted weighted-average number of common shares outstanding in 2009. The increases in the weighted-average number of common shares outstanding in 2009 were primarily the result of the equity offerings in February 2008, September 2008 and February 2009 and our acquisition of ViroChem in March 2009. Our basic and diluted weighted-average number of common shares outstanding increased from 138.7 million in the three months ended June 30, 2008 to 172.6 million in the three months ended June 30, 2009 and from 136.6 million in the six months ended June 30, 2008 to 164.3 million in the six months ended June 30, 2009.

Stock-based Compensation, Restructuring and Acquisition-related Expenses and Note Exchange

The comparison of our costs and expenses in the 2009 periods and the 2008 periods is affected by increases in our stock-based compensation expense and our restructuring expense as well as expenses related to our acquisition of ViroChem in March 2009, the CEO transition that began in February 2009 and the exchange of a portion of the 2013 Notes into our common stock in June 2009. Our costs and expenses in the three and six months ended June 30, 2009 and 2008 included:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(in thousands)			
Stock-based compensation expense	$26,585	$16,593	$48,862	$29,665
Restructuring expense	1,107	1,168	3,509	1,798
Acquisition-related expenses	—	—	7,793	—
Loss on exchange of a portion of the 2013 Notes	12,294	—	12,294	—

Revenues

	Three Months Ended June 30,		Increase/ (Decrease)	Increase/ (Decrease)	Six Months Ended June 30,		Increase/ (Decrease)	Increase/ (Decrease)
	2009	2008	$	%	2009	2008	$	%
	(in thousands)				*(in thousands)*			
Royalty revenues	$ 5,917	$ 9,741	$ (3,824)	(39)%	$ 12,057	$ 20,592	$ (8,535)	(41)%
Collaborative and other research and development revenues	13,147	59,668	(46,521)	(78)%	30,986	90,492	(59,506)	(66)%
Total revenues	$ 19,064	$ 69,409	$ (50,345)	(73)%	$ 43,043	$ 111,084	$ (68,041)	(61)%

Our total revenues in recent periods have consisted primarily of collaborative and other research and development revenues. On a quarterly basis our collaborative and other research and development revenues have fluctuated significantly based on the timing of recognition of significant milestone payments and the level of reimbursement we have received under our collaboration agreements for our development programs.

Collaborative and Other Research and Development Revenues

The table presented below is a summary of revenues from collaborative arrangements for the three and six months ended June 30, 2009 and 2008:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(in thousands)			
Janssen	$12,790	$57,958	$29,925	$83,486
Other	357	1,710	1,061	7,006
Total collaborative and other research and development revenues	$13,147	$59,668	$30,986	$90,492

Our revenues from the Janssen collaboration in each period consist of:

- development milestone payments, if any, recognized in the period;
- net reimbursements from Janssen for development costs of telaprevir; and

- an amortized portion of the $165.0 million up-front payment.

The $45.2 million, or 78%, decrease in our revenues from Janssen in the second quarter of 2009 compared to the second quarter of 2008 and the $53.6 million, or 64%, decrease in our revenues from Janssen in the six months ended June 30, 2009 compared to the six months ended June 30, 2008 were primarily the result of a decrease in milestone payments from our Janssen collaboration. We recognized a $45.0 million milestone payment in the second quarter of 2008 and a total of $55.0 million in milestone payments in the first half of 2008 for which there were no corresponding milestone payments in 2009. During the second half of 2009, we expect to continue to recognize revenue from net reimbursements from Janssen for telaprevir development costs and an amortized portion of the $165.0 million up-front payment. The principal remaining milestones under our agreement with Janssen relate to marketing authorization for telaprevir from the European Medicines Evaluation Agency and the launch of telaprevir in the European Union. These milestones include $100.0 million related to regulatory filing and approval and $150.0 million related to launch of telaprevir. We have announced our intention to explore the sale of our rights to these milestones, which we anticipate, based on projected development and commercial timelines for telaprevir, and assuming successful development, will be earned prior to April 2012.

Our revenues from our other collaborative arrangements decreased in the three months ended June 30, 2009 compared to the three months ended June 30, 2008 and decreased significantly in the six months ended June 30, 2009 compared to the six months ended June 30, 2008. On July 30, 2009, we entered into an amendment to our license, development and commercialization agreement with Mitsubishi Tanabe that provides for a $105.0 million payment in connection with the execution of the amendment. We expect that we will begin recognizing revenues related to this payment commencing in the third quarter of 2009, and that as a result our total collaborative and other research and development revenues will increase in the second half of 2009 as compared to the first half of 2009.

Royalty Revenues

Our royalty revenues relate to sales of the HIV protease inhibitors Lexiva/Telzir and Agenerase by GlaxoSmithKline. Until May 30, 2008, these royalty revenues were based on actual and estimated worldwide net sales of Lexiva/Telzir and Agenerase. On May 30, 2008, we sold our right to receive future royalties from GlaxoSmithKline with respect to these HIV protease inhibitors, excluding the portion allocated to pay a subroyalty on these net sales to a third party, in return for a one-time cash payment of $160.0 million. We deferred the recognition of $155.1 million of revenues from this sale. We are recognizing these deferred revenues over the term of our agreement with GlaxoSmithKline under the units-of-revenue method. We will also continue to recognize royalty revenues equal to the amount of the third-party subroyalty and an offsetting royalty expense for the third-party subroyalty payment.

The $3.8 million, or 39%, decrease in royalty revenues in the three months ended June 30, 2009 compared to three months ended June 30, 2008 and the $8.5 million, or 41%, decrease in royalty revenues in the six months ended June 30, 2009 compared to six months ended June 30, 2008 resulted primarily from this sale of our future HIV royalties in the second quarter of 2008. In 2009, we expect that we will recognize as royalty revenues a portion of the remaining deferred revenues from the sale of our HIV royalty stream plus the full amount of the third-party subroyalty.

Costs and Expenses

	Three Months Ended June 30,		Increase/ (Decrease) $	Increase/ (Decrease) %	Six Months Ended June 30,		Increase/ (Decrease) $	Increase/ (Decrease) %
	2009	2008			2009	2008		
	(in thousands)				*(in thousands)*			
Royalty expenses	$ 3,267	$ 3,701	$ (434)	(12)%	$ 6,843	$ 7,277	$ (434)	(6)%
Research and development expenses	139,331	129,573	9,758	8%	282,912	245,846	37,066	15%
Sales, general and administrative expenses	32,526	26,448	6,078	23%	61,046	46,380	14,666	32%
Restructuring expense	1,107	1,168	(61)	(5)%	3,509	1,798	1,711	95%
Acquisition-related expenses	—	—	—	n/a	7,793	—	7,793	n/a
Total costs and expenses	$176,231	$160,890	$ 15,341	10%	$362,103	$301,301	$ 60,802	20%

Our costs and expenses primarily relate to our research and development expenses and our sales, general and administrative expenses. Our research and development expenses fluctuate on a quarterly basis due to the timing of expenses relating to our clinical trials, and in particular our clinical trials of telaprevir.

Research and Development Expenses

	Three Months Ended June 30,		Increase/ (Decrease) $	Increase/ (Decrease) %	Six Months Ended June 30,		Increase/ (Decrease) $	Increase/ (Decrease) %
	2009	2008			2009	2008		
	(in thousands)				*(in thousands)*			
Research expenses	$ 44,852	$ 41,962	$ 2,890	7%	$ 86,755	$ 81,815	$ 4,940	6%
Development expenses	94,479	87,611	6,868	8%	196,157	164,031	32,126	20%
Total research and development expenses	$139,331	$129,573	$ 9,758	8%	$282,912	$245,846	$ 37,066	15%

The $9.8 million and $37.1 million increases in our total research and development expenses in the three and six months ended June 30, 2009, respectively, compared to the same periods in 2008 were primarily the result of increases in expenses related to our workforce.

Our research and development expenses include internal and external costs incurred for our drug candidates, including telaprevir and VX-770. We do not assign to individual drug candidates our internal costs such as salary and benefits, stock-based compensation expense, laboratory supplies and infrastructure costs because the employees within our research and development groups are typically deployed across multiple research and development programs. These internal costs are significantly greater than our external costs, such as the costs of services provided to us by clinical research organizations and other outsourced research, which we do allocate by individual drug program. All research and development costs for our drug candidates are expensed as incurred.

To date, we have incurred in excess of $3.1 billion in research and development expenses associated with drug discovery and development. The successful development of our drug candidates is highly uncertain and subject to a number of risks. In addition, the duration of clinical trials may vary substantially according to the type, complexity and novelty of the drug candidate. The FDA and comparable agencies in foreign countries impose substantial requirements on the introduction of therapeutic pharmaceutical products, typically requiring lengthy and detailed laboratory and clinical testing procedures, sampling activities and other costly and time-consuming procedures. Data obtained from nonclinical and clinical activities at any step in the testing process may be adverse and lead to discontinuation or redirection of development activity. Data obtained from these activities also are

susceptible to varying interpretations, which could delay, limit or prevent regulatory approval. The duration and cost of discovery, nonclinical studies and clinical trials may vary significantly over the life of a project and are difficult to predict. Therefore, accurate and meaningful estimates of the ultimate costs to bring our drug candidates to market are not available.

Our lead drug candidate telaprevir represents the largest portion of our development costs for our clinical drug candidates. Based on the completion of enrollment of our Phase 3 clinical trials of telaprevir in February 2009, we anticipate that our ongoing Phase 3 clinical trials will be completed in mid 2010, but that development costs associated with other clinical trials of telaprevir may continue after the completion of the registration trials. If we are able to successfully commercialize telaprevir in accordance with current development timelines, we anticipate revenues and cash flows from the sales of telaprevir to commence in 2011. Our other drug candidates are less advanced and as a result any estimates regarding development timelines for these drug candidates are highly subjective and subject to change, and we cannot at this time make a meaningful estimate when, if ever, these drug candidates, including the drug candidates we acquired from ViroChem, will generate revenues and cash flows.

Research Expenses

	Three Months Ended June 30,		Increase/ (Decrease) $	Increase/ (Decrease) %	Six Months Ended June 30,		Increase/ (Decrease) $	Increase/ (Decrease) %
	2009	2008			2009	2008		
	(in thousands)				*(in thousands)*			
Research Expenses:								
Salary and benefits	$15,549	$13,559	$ 1,990	15%	$30,120	$26,915	$ 3,205	12%
Stock-based compensation expense	7,252	5,042	2,210	44%	13,605	9,628	3,977	41%
Laboratory supplies and other direct expenses	7,668	6,182	1,486	24%	14,283	12,328	1,955	16%
Contractual services	1,372	2,417	(1,045)	(43)%	2,346	4,549	(2,203)	(48)%
Infrastructure costs	13,011	14,762	(1,751)	(12)%	26,401	28,395	(1,994)	(7)%
Total research expenses	$44,852	$41,962	$ 2,890	7%	$86,755	$81,815	$ 4,940	6%

The $2.9 million and $4.9 million increases in total research expenses in the three and six months ended June 30, 2009, respectively, compared to the same periods in 2008, were primarily the result of increased expenses related to our workforce partially offset by decreased contractual services and infrastructure costs.

Development Expenses

	Three Months Ended June 30,		Increase/ (Decrease)	Increase/ (Decrease)	Six Months Ended June 30,		Increase/ (Decrease)	Increase/ (Decrease)
	2009	2008	$	%	2009	2008	$	%
	(in thousands)				*(in thousands)*			
Development Expenses:								
Salary and benefits	$23,406	$18,544	$ 4,862	26%	$ 46,436	$ 36,156	$ 10,280	28%
Stock-based compensation expense	13,290	8,217	5,073	62%	24,289	14,341	9,948	69%
Laboratory supplies and other direct expenses	7,242	8,275	(1,033)	(12)%	13,823	15,201	(1,378)	(9)%
Contractual services	28,492	28,776	(284)	(1)%	63,177	53,586	9,591	18%
Commercial supply investment in telaprevir	3,448	4,496	(1,048)	(23)%	10,111	8,807	1,304	15%
Infrastructure costs	18,601	19,303	(702)	(4)%	38,321	35,940	2,381	7%
Total development expenses	$94,479	$87,611	$ 6,868	8%	$196,157	$164,031	$ 32,126	20%

Our development expenses increased in the three and six months ended June 30, 2009 compared to the same periods in 2008 primarily as a result of increased expenses related to our workforce. The number of employees in our development group increased by approximately 20% from the second quarter of 2008 to the second quarter of 2009 and by approximately 22% from the first half of 2008 to the first half of 2009. Our contractual services expenses, which fluctuate significantly from quarter to quarter based on the timing of activities related to our clinical trials, decreased slightly in the second quarter of 2009 compared to the second quarter of 2008, but were higher in the first half of 2009 as compared to the first half of 2008 due to the timing of expenses related to our telaprevir clinical trials.

Sales, General and Administrative Expenses

	Three Months Ended June 30,		Increase/ (Decrease)	Increase/ (Decrease)	Six Months Ended June 30,		Increase/ (Decrease)	Increase/ (Decrease)
	2009	2008	$	%	2009	2008	$	%
	(in thousands)				*(in thousands)*			
Sales, general and administrative expenses	$32,526	$26,448	$ 6,078	23%	$61,046	$46,380	$ 14,666	32%

The increases in sales, general and administrative expenses in the three and six months ended June 30, 2009 compared to the same periods in 2008 are the result of increased headcount as we advanced our drug candidates, particularly telaprevir, into late-stage development. In the three months ended June 30, 2009 and 2008, our sales, general and administrative expenses included $6.0 million and $3.3 million, respectively, of stock-based compensation expense. In the six months ended June 30, 2009 and 2008, our sales, general and administrative expenses included $11.0 million and $5.7 million, respectively, of stock-based compensation expense.

Royalty Expenses

Royalty expenses decreased slightly in the three and six months ended June 30, 2009 as compared to the three and six months ended June 30, 2008. Royalty expenses primarily relate to a subroyalty payable to a third party on net sales of Lexiva/Telzir and Agenerase. The subroyalty results in both a royalty expense and corresponding royalty revenues. We expect to continue to recognize this subroyalty as an expense in future periods.

Restructuring Expense

We recorded restructuring expense of $1.1 million for the three months ended June 30, 2009 compared to $1.2 million for the three months ended June 30, 2008. We recorded restructuring expense of $3.5 million for the six months ended June 30, 2009 compared to $1.8 million for the six months ended June 30, 2008. The restructuring expense in all periods includes imputed interest cost related to the restructuring liability associated with our Kendall Square lease. The increase in restructuring expense for the six months ended June 30, 2009 compared to the six months ended June 30, 2008 was primarily the result of a revision, in the first quarter of 2009, of certain key estimates and assumptions about facility operating costs for the remaining period of the lease commitment, for which there was no corresponding revision in the six months ended June 30, 2008. The lease restructuring liability was $34.1 million as of June 30, 2009.

We review our estimates and assumptions with respect to the Kendall Square lease on at least a quarterly basis, and will make whatever modifications we believe are necessary to reflect any changed circumstances, based on our best judgment, until the termination of the lease. Our estimates have changed in the past, and may change in the future, resulting in additional adjustments to the estimate of the liability, and the effect of any such adjustments could be material.

Acquisition-related Expenses

We incurred $7.8 million of expenses in the six months ended June 30, 2009, all in the first quarter, in connection with our acquisition of ViroChem, including $5.7 million in transaction expenses and $2.1 million related to a restructuring of ViroChem's operations that we undertook in March 2009 in order to focus ViroChem's activities on its HCV assets. We did not have corresponding acquisition-related expenses in the six months ended June 30, 2008.

Non-operating Items—Other Income (Expense)

Interest income decreased by $2.5 million, or 63%, to $1.5 million for the three months ended June 30, 2009 from $4.0 million for the three months ended June 30, 2008. Interest income decreased by $4.4 million, or 52%, to $4.1 million for the six months ended June 30, 2009 from $8.5 million for the six months ended June 30, 2008. The decrease was a result of lower portfolio yields during the 2009 period as compared to the 2008 period. Our cash, cash equivalents and marketable securities yielded approximately 1% on an annual basis in the second quarter of 2009 compared to approximately 2% on an annual basis in the second quarter of 2008.

Interest expense decreased by $0.5 million, or 13%, to $3.3 million for the three months ended June 30, 2009 from $3.8 million for the three months ended June 30, 2008. Interest expense was $6.7 million and $5.7 million, respectively, for the six months ended June 30, 2009 and June 30, 2008. We recorded interest expense of $2.1 million on the $143.5 million in aggregate principal amount of 2013 Notes that were exchanged in June 2009 through the date on which we entered into the exchange agreements with respect to such 2013 Notes. Our outstanding principal amount of 2013 Notes decreased from $287.5 million on March 31, 2009 to $144.0 million on June 30, 2009. As a result, we expect that interest expense will decrease significantly in the second half of 2009 as compared to the second half of 2008.

In the three months ended June 30, 2009, we incurred a non-cash charge of $12.3 million in connection with the exchange of $143.5 million in aggregate principal amount of the 2013 Notes for 6.6 million newly-issued shares of our common stock. The charge related to the additional approximately 400,000 shares of common stock that we issued in excess of the number of shares of common stock into which such 2013 Notes were convertible prior to the exchange.

Liquidity and Capital Resources

We have incurred operating losses since our inception and have financed our operations principally through public and private offerings of our equity and debt securities, strategic collaborative agreements that include research and/or development funding, development milestones and royalties on the sales of products, strategic sales of assets or businesses, investment income and proceeds from the issuance of common stock under our employee benefit plans. We expect that we will require additional capital in order to commercialize telaprevir and continue our planned activities in other areas.

At June 30, 2009, we had cash, cash equivalents and marketable securities of $754.4 million, which was a decrease of $77.7 million from $832.1 million at December 31, 2008. The decrease was the result of cash expenditures we made in the six months ended June 30, 2009 related to, among other things, research and development expenses and sales, general and administrative expenses, $100.0 million in cash that we paid for ViroChem, and the timing of payments to our vendors. These cash expenditures were largely offset by the $313.3 million of net proceeds from the offering of common stock that we completed in February 2009. In addition, we received payments from our collaborators and $16.6 million from the issuance of common stock under our employee benefits plans. Capital expenditures for property and equipment during the six months ended June 30, 2009 were $11.2 million.

During the three months ended June 30, 2009, we reduced the aggregate principal amount of our 2013 Notes outstanding from $287.5 million to $144.0 million. The 2013 Notes bear interest at the rate of 4.75% per annum, and we are required to make semi-annual interest payments on the outstanding principal balance of the 2013 Notes on February 15 and August 15 of each year. The 2013 Notes will mature on February 15, 2013. The 2013 Notes are convertible, at the option of the holder, into our common stock at a price equal to approximately $23.14 per share, subject to adjustment. On or after February 15, 2010, we may redeem the 2013 Notes at our option, in whole or in part, at the redemption prices stated in the indenture related to the 2013 Notes, plus accrued and unpaid interest, if any, to, but excluding, the redemption date.

Our accrued restructuring expense of $34.1 million at June 30, 2009 relates to the portion of the facility that we lease in Kendall Square that we do not intend to occupy and includes other related lease obligations, recorded at net present value. In the six months ended June 30, 2009, we made cash payments of $7.8 million against the accrued expense and received $4.2 million in sublease rental payments. During the second half of 2009, we expect to make additional cash payments of $7.5 million against the accrued expense and receive $4.2 million in sublease rental payments.

We expect to continue to make significant investments in our development pipeline, particularly in clinical trials of telaprevir, in our effort to prepare for potential registration, regulatory approval and commercial launch of telaprevir, and in clinical trials for our other drug candidates, including VX-770. We also expect to maintain our substantial investment in research. As a result, we expect to incur future losses on a quarterly and annual basis. The adequacy of our available funds to meet our future operating and capital requirements will depend on many factors, including the number, breadth and prospects of our discovery and development programs, the costs and timing of obtaining regulatory approvals for any of our drug candidates and our decisions regarding manufacturing and commercial investments.

We believe that our current cash, cash equivalents and marketable securities, in addition to amounts we expect to receive from our collaborators under existing contractual obligations, will be sufficient to fund our operations for at least the next twelve months. We expect that we will need additional capital in order to complete the development and commercialization of telaprevir and to continue the development of our other drug candidates, including VX-770. We may raise additional capital through public offerings or private placements of our securities, securing new collaborative agreements, or other methods of financing. Any such capital transactions may or may not be similar to

transactions in which we have engaged in the past. We also will 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. If adequate funds are not available, we may be required to curtail significantly or discontinue one or more of our research, drug discovery or development programs or attempt to obtain funds through arrangements that may require us to relinquish rights to certain of our technologies or drug candidates.

Contractual Commitments and Obligations

Our commitments and obligations were reported in our Annual Report on Form 10-K for the year ended December 31, 2008, which was filed with the Securities and Exchange Commission, or SEC, on February 17, 2009. There have been no material changes from the contractual commitments and obligations previously disclosed in that Annual Report on Form 10-K, except that as a result of the exchanges of $143.5 million of our outstanding 2013 Notes for 6.6 million newly-issued shares of our common stock in June 2009, the principal amount on the 2013 Notes that we are obligated to repay in 2013 has been reduced to $144.0 million from $287.5 million. In addition, the interest payment on the 2013 Notes that we are obligated to make in August 2009 is reduced from $6.8 million to $3.4 million, and the interest payments we are obligated to make in 2010, 2011, 2012 and 2013 have been reduced by $6.8 million, $6.8 million, $6.8 million and $3.4 million, respectively.

Recent Accounting Pronouncements

In June 2009, the FASB issued SFAS No. 167, "Amendments to FASB Interpretation No. 46(R)" ("SFAS 167"). SFAS 167 requires a qualitative approach to identifying a controlling financial interest in a variable interest entity ("VIE"), and requires ongoing assessment of whether an entity is a VIE and whether an interest in a VIE makes the holder the primary beneficiary of the VIE. SFAS 167 is effective for us on January 1, 2010. We are evaluating the effect of the pending adoption of SFAS 167 on our condensed consolidated financial statements.

In June 2009, the FASB issued SFAS No. 166, "Accounting for Transfers of Financial Assets—an amendment of FASB Statement No. 140" ("SFAS 166"). SFAS 166 amends FASB Statement No. 140 to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement in transferred financial assets. The recognition and measurement provisions of this statement shall be applied to transfers that occur on or after January 1, 2010, the effective date of SFAS 166 for us. We are evaluating the effect of the pending adoption of SFAS 167 on our condensed consolidated financial statements.

In April 2009, the FASB issued three FASB Staff Positions ("FSP"s) that are intended to provide additional application guidance and enhance disclosures about fair value measurements and impairments of securities. FSP No. FAS 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly," clarifies the objective and method of fair value measurement even when there has been a significant decrease in market activity for the asset being measured. FSP No. FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments," establishes a new model for measuring other-than-temporary impairments for debt securities, including establishing criteria for when to recognize a write-down through earnings instead of other comprehensive income. FSP No. FAS 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments," expands the fair value disclosures required for all financial instruments within the scope of FASB Statement No. 107, "Disclosures about Fair Value of Financial Instruments," to interim periods. All of these FSPs became effective for us on April 1, 2009. FSP No. FAS 157-4, FSP No. FAS 115-2 and

FAS 124-2, and FSP No. FAS 107-1 and APB 28-1 did not have an effect on our condensed consolidated financial statements.

In April 2009, the FASB issued FSP No. FAS 141(R)-1, "Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies," which amends SFAS 141(R) by establishing a model to account for certain pre-acquisition contingencies. In November 2008, the FASB ratified Emerging Issues Task Force ("EITF") Issue No. 08-7, "Accounting for Defensive Intangible Assets" ("EITF 08-7"). EITF 08-7 applies to defensive intangible assets, which are acquired intangible assets that the acquirer does not intend to actively use but intends to hold to prevent its competitors from obtaining access to them. FSP No. FAS 141(R)-1 and EITF 08-7 became effective on January 1, 2009. The implementation of FSP No. FAS 141(R)-1 and EITF 08-7 did not have an effect on our condensed consolidated financial statements.

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 United States government and its agencies, investment grade commercial paper and money market funds. These investments are denominated in United States 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 our 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

Our chief executive officer and chief financial officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this Quarterly Report on Form 10-Q, have concluded that, based on such evaluation, as of June 30, 2009 our disclosure controls and procedures were effective and designed to provide reasonable assurance that the information required to be disclosed is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. In designing and evaluating our disclosure controls and procedures, our 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 our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended) occurred during the second quarter of 2009 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Part II. Other Information

Item 1A. Risk Factors

Information regarding risk factors appears in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2008, which was filed with the SEC on February 17, 2009, as updated by our Quarterly Report on Form 10-Q for the three months ended March 31, 2009, which was filed with the SEC on May 11, 2009. There have been no material changes from the risk factors previously disclosed in the Form 10-K as updated by the Form 10-Q.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q and, in particular, our Management's Discussion and Analysis of Financial Condition and Results of Operations set forth in Part I—Item 2, contain or incorporate a number of forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including statements regarding:

- our expectations regarding clinical trials, development timelines and regulatory authority filings for telaprevir, VX-770, VX-809, VX-222 and other drug candidates under development by us and our collaborators including our intention to submit an NDA for telaprevir in the United States in the second half of 2010;
- our expectations regarding the number of patients that will be evaluated, the trial design that will be utilized, and the expected date by which SVR data, interim data and/or final data will be available and/or publicly announced for our ADVANCE, REALIZE and ILLUMINATE trials, the other ongoing or planned clinical trials of telaprevir, the ENDEAVOR registration program for VX-770, including the STRIVE, ENVISION and DISCOVER trials, the Phase 2a clinical trials of VX-809, the Phase 1 clinical trial of VX-222, and the clinical trials being conducted by our collaborators of drug candidates for the treatment of cancer;
- expectations regarding the amount of, timing of and trends with respect to our revenues and costs and expenses;
- the data that will be generated by ongoing and planned clinical trials, and the ability to use that data for the design and initiation of further clinical trials and to support regulatory filings, including potentially applications for marketing approval for telaprevir and VX-770;
- our ability to potentially register telaprevir for marketing across a range of genotypes and patient populations;
- our plan to begin clinical evaluation of novel combination regimens of telaprevir with VX-222 as early as the fourth quarter of 2009;
- our expectations regarding the future market demand and medical need for telaprevir and our other drug candidates;
- our beliefs regarding the support provided by clinical trials and preclinical and nonclinical studies of our drug candidates for further investigation, clinical trials or potential use as a treatment of those drug candidates;
- our ability to successfully market telaprevir and VX-770 if we are able to obtain regulatory approval;
- the focus of our drug development efforts and our financial and management resources and our plan to invest significant resources in telaprevir and our other drug candidates;
- the establishment, development and maintenance of collaborative relationships;

- potential business development activities, including with respect to our JAK3 program and our telaprevir milestones;
- our ability to use our research programs to identify and develop new drug candidates to address serious diseases and significant unmet medical needs;
- our estimates regarding obligations associated with a lease of a facility in Kendall Square, Cambridge, Massachusetts; and
- our liquidity and our expectations regarding our needs for and ability to raise additional capital.

Without limiting the foregoing, the words "believes," "anticipates," "plans," "intends," "expects" and similar expressions are intended to identify forward-looking statements. Any or all of our forward-looking statements in this Quarterly Report on Form 10-Q may turn out to be wrong. They can be affected by inaccurate assumptions we might make or by known or unknown risks and uncertainties. Many factors mentioned in our discussion in this Quarterly Report on Form 10-Q will be important in determining future results. Consequently, no forward- looking statement can be guaranteed. Actual future results may vary materially from expected results. We also provide a cautionary discussion of risks and uncertainties under "Risk Factors" in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2008, which was filed with the SEC on February 17, 2009, and updated and supplemented by "Part II—Item 1A—Risk Factors" of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2009, which was filed with the SEC on May 11, 2009. These are factors that we think could cause our actual results to differ materially from expected results. Other factors besides those listed could also adversely affect us. In addition, the forward-looking statements contained herein represent our estimate only as of the date of this filing and should not be relied upon as representing our estimate as of any subsequent date. While we may elect to update these forward-looking statements at some point in the future, we specifically disclaim any obligation to do so to reflect actual results, changes in assumptions or changes in other factors affecting such forward-looking statements.

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

Issuer Repurchases of Equity Securities

The table set forth below shows all repurchases of securities by us during the three months ended June 30, 2009:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as part of publicly announced Plans or Programs	Maximum Number of Shares that may yet be purchased under publicly announced Plans or Programs
April 1, 2009 to April 30, 2009	4,286	$ 0.01	—	—
May 1, 2009 to May 31, 2009	56,726	$ 0.01	—	—
June 1, 2009 to June 30, 2009	22,622	$ 0.01	—	—

The repurchases were made under the terms of our 1996 Stock and Option Plan and 2006 Stock and Option Plan. Under these plans, we award shares of restricted stock that typically are subject to a lapsing right of repurchase by us. We may exercise this right of repurchase in the event that a restricted stock recipient's service to us is terminated. If we exercise this right, we are required to repay the purchase price paid by or on behalf of the recipient for the repurchased restricted shares, which typically is the par value per share of $0.01. Repurchased shares are returned to the applicable Stock and Option Plan under which they were issued. Shares returned to the 2006 Stock and Option Plan are available for future awards under the terms of that plan.

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

Our annual meeting of stockholders was held on May 14, 2009.

Our stockholders elected Roger W. Brimblecombe and Bruce I. Sachs to serve on our board of directors until the annual meeting of stockholders to be held in 2012. The tabulation of votes with respect to the election of such directors is as follows:

	For	Withheld
Roger W. Brimblecombe	144,019,962	1,875,621
Bruce I. Sachs	144,069,795	1,825,788

Following the meeting, our board of directors consisted of Joshua S. Boger, Roger W. Brimblecombe, Stuart J.M. Collinson, Eugene H. Cordes, Matthew W. Emmens (Chair), Bruce I. Sachs, Charles A. Sanders, and Elaine S. Ullian. On July 6, 2009, our board of directors appointed Jeffrey M. Leiden and Dennis L. Winger to our board of directors.

In addition, our stockholders approved (i) amendments to our Amended and Restated 2006 Stock and Option Plan to increase the number of shares of common stock authorized for issuance thereunder by 7,700,000 and increase the number of shares a participant may receive in any calendar year thereunder by 100,000, and (ii) the ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for the year ending December 31, 2009. The tabulation of votes with respect to these two proposals was as follows:

	For	Against	Abstain	Broker Non-Votes
Amendments to Our Amended and Restated 2006 Stock and Option Plan	78,790,465	51,154,625	35,153	15,735,340
Ratification of Our Independent Registered Public Accounting Firm	145,395,086	458,266	42,231	0

Item 6. Exhibits

Exhibit No.	Description
10.1	Lease between MEPC Milton Park No.1 Limited and MEPC Milton Park No. 2 Limited, Vertex Pharmaceuticals (Europe) Limited and Vertex Pharmaceuticals Incorporated, dated June 10, 2009.
10.2	Amended and Restated 2006 Stock and Option Plan, as amended.
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 10, 2009 VERTEX PHARMACEUTICALS INCORPORATED

By: /s/ IAN F. SMITH

Ian F. Smith
Executive Vice President and Chief Financial Officer
(principal financial officer and duly authorized officer)

Exhibit 10.1

Dated 10 June 2009

Lease

between

MEPC Milton Park No. 1 Limited and
MEPC Milton Park No. 2 Limited

and

Vertex Pharmaceuticals (Europe) Limited

and

Vertex Pharmaceuticals Incorporated

relating to

Building 86 and 87
Milton Park

BrookStreet des Roches LLP

MEPC Milton Park

PRESCRIBED CLAUSES

LR1. Date of lease : 2009

LR2. Title number(s)

LR2.1 Landlord's title number(s)

BK102078

LR2.2 Other title number(s)

ON122118, ON122717, ON130108, ON130606, ON137010, ON145942, ON146219, ON225380, ON38283, ON61862, ON72772, ON96949

LR3. Parties to this lease :

Landlord

MEPC MILTON PARK NO. 1 LIMITED (Company number 5491670) and **MEPC MILTON PARK NO. 2 LIMITED** (Company number 5491806), on behalf of MEPC Milton Park Limited Partnership, both of whose registered offices are at 4th Floor Lloyds Chambers 1 Portsoken Street London E1 8LW

Tenant

VERTEX PHARMACEUTICALS (EUROPE) LIMITED (Company number 2907620) whose registered office is at 88 Milton Park Abingdon Oxfordshire OX14 4RY

Other parties

VERTEX PHARMACEUTICALS INCORPORATED (A company registered in Massachusetts) of 130 Waverly Street Cambridge Massachusetts MA02139-4242 whose address for service is care of Vertex Pharmaceuticals (Europe) Limited 88 Milton Park Abingdon Oxfordshire OX14 4RY - **Guarantor**)

LR4. Property : **In the case of a conflict between this clause and the remainder of this lease then, for the purposes of registration, this clause shall prevail.**

Building 86 and 87, The Forum, Milton Park, Abingdon, Oxfordshire, OX14 4RY shown edged red on the Plan with a net internal floor area of 3,839.5 square metres (41,329 square feet) measured in accordance with the RICS Code of Measuring Practice (sixth edition)

LR5. Prescribed Statements etc.	:	None
LR6. Term for which the Property is leased		From and including 23 April 2009 To and including 22 April 2024
LR7. Premium		None
LR8. Prohibitions or restrictions on disposing of this lease		This lease contains a provision that prohibits or restricts dispositions

LR9. Rights of acquisition etc.	**LR9.1 Tenant's contractual rights to renew this lease, to acquire the reversion or another lease of the Property, or to acquire an interest in other land** None **LR9.2 Tenant's covenant to (or offer to) surrender this lease** None **LR9.3 Landlord's contractual rights to acquire this lease** None
LR10. Restrictive covenants given in this lease by the Landlord in respect of land other than the Property	None
LR11. Easements	**LR11.1 Easements granted by this lease for the benefit of the Property** The easements specified in Part I of the First Schedule of this lease **LR11.2 Easements granted or reserved by this lease over the Property for the benefit of other property** The easements specified in Part II of the First Schedule of this lease
LR12. Estate rentcharge burdening the Property	None
LR13. Application for standard form of restriction	None
LR14. Declaration of trust where there is more than one person comprising the Tenant	None

This lease made on the date and between the parties specified in the Prescribed Clauses **Witnesses** as follows:

1 Definitions and Interpretation

In this lease unless the context otherwise requires:

1.1 Definitions

Adjoining Property means any adjoining or neighbouring premises in which the Landlord or a Group Company of the Landlord holds or shall at any time during the Term hold a freehold or leasehold interest;

Base Rate means the base rate from time to time of Barclays Bank PLC or (if not available) such comparable rate of interest as the Landlord shall reasonably require;

Break Date: 1 means 22 April 2014;

Break Date: 2 means 22 April 2019;

Building Specification means the specification of the Property annexed to this lease;

Centre means the part of the Estate known as **The Forum** comprising buildings 86-88 Milton Park (of which the Property forms part) shown edged green on the Plan and includes any part of it and any alteration or addition to it or replacement of it;

Centre Services means the services provided or procured by the Landlord in relation to the Centre as set out in Part III of the Fourth Schedule;

Common Parts means the accesses and other areas of the Centre from time to time designated by the Landlord for common use by the tenants and occupiers of the Centre;

Conduit means any existing or future media for the passage of substances or energy and any ancillary apparatus attached to them and any enclosures for them;

Contractual Term means the term specified in the Prescribed Clauses;

Encumbrances means the obligations and encumbrances (if any) specified in Part III of the First Schedule;

Estate means Milton Park, Abingdon, Oxfordshire (of which the Centre forms part) and the buildings from time to time standing on it shown on the Plan together with any other adjoining land which is incorporated into Milton Park;

Estate Common Areas means the accesses, landscaped areas, car parks, estate management offices and other areas or amenities on the Estate or outside the Estate but serving or otherwise benefiting the Estate as a whole which are from time to time provided or designated for the common amenity or benefit of the owners or occupiers of the Estate;

Estate Services means the services provided or procured by the Landlord in relation to the Estate as set out in Part II of the Fourth Schedule;

Group Company means a company which is a member of the same group of companies within the meaning of Section 42 of the 1954 Act;

Guarantor means any party to this lease so named in the Prescribed Clauses (which in the case of an individual includes his personal representatives) and any guarantor of the obligations of the Tenant for the time being;

Insurance Commencement Date means 23 April 2009;

Insured Risks means fire, lightning, earthquake, explosion, aircraft (other than hostile aircraft) and other aerial devices or articles dropped therefrom, riot, civil commotion, malicious damage, storm or tempest, bursting or overflowing of water tanks apparatus or pipes, flood and impact by road vehicles (to the extent that insurance against such risks may ordinarily be arranged with an insurer of good repute) and such other risks or insurance as may from time to time be reasonably

required by the Landlord (subject in all cases to such usual exclusions and limitations as may be imposed by the insurers), and **Insured Risk** means any one of them;

Landlord means the party to this lease so named in the Prescribed Clauses and includes any other person entitled to the immediate reversion to this lease;

Landlord's Surveyor means a suitably qualified person or firm appointed by the Landlord (including an employee of the Landlord or a Group Company) to perform the function of a surveyor for the purposes of this lease;

Permitted Use means use within Class B1 of the 1987 Order;

Plan means the plan or plans annexed to this lease;

Prescribed Clauses means the descriptions and terms in the section headed **Prescribed Clauses** which form part of this lease;

Principal Rent means NINE HUNDRED AND THIRTY FOUR THOUSAND POUNDS (£934,000) per annum subject to increase in accordance with the Second Schedule;

Property means the property described in the Prescribed Clauses and includes any part of it, any alteration or addition to the Property and any fixtures and fittings in or on the Property;

Quarter Days means 25 March, 24 June, 29 September and 25 December in every year and **Quarter Day** means any of them;

Rent Commencement Date means 23 September 2011;

Review Dates means 23 April 2014 and 23 April 2019;

Service Charge means the Service Charge set out in the Fourth Schedule;

Service Charge Commencement Date means 23 April 2009;

Services means the Estate Services and the Centre Services;

Subletting Unit means part of the Property consisting of a self contained unit suitable and economically viable for underletting and approved as such by the Landlord (such approval not to be unreasonably withheld or delayed);

Tenant means the party to this lease so named in the Prescribed Clauses and includes its successors in title;

Term means the Contractual Term together with any continuation of the term or the tenancy (whether by statute, common law holding over or otherwise);

This lease means this lease and any document supplemental to it or entered into pursuant to it;

Unit 86A means the part of the Property shown on the Plan coloured orange and marked “86A”;

Unit 86B means the part of the Property shown on the Plan coloured blue and marked “86B”;

Unit 87B means the part of the Property shown on the Plan coloured yellow and marked “87B;

Unit 87C means the part of the Property shown on the Plan coloured green and marked “87C”;

Unit 87/88 Link means any building linking the Property to Building 88 Milton Park;

VAT means Value Added Tax and any similar tax substituted for it or levied in addition to it;

1954 Act means the Landlord and Tenant Act 1954;

1987 Order means the Town and Country Planning (Use Classes) Order 1987 (as originally made);

1995 Act means the Landlord and Tenant (Covenants) Act 1995;

2003 Order means The Regulatory Reform (Business Tenancies) (England and Wales) Order 2003.

1.2 Interpretation

1.2.1 If the Tenant or the Guarantor is more than one person then their covenants are joint and several;

1.2.2 Any reference to a statute includes any modification extension or re-enactment of it and any orders, regulations, directions, schemes and rules made under it;

1.2.3 Any covenant by the Tenant not to do any act or thing includes an obligation not knowingly to permit or suffer such act or thing to be done;

1.2.4 If the Landlord reserves rights of access or other rights over or in relation to the Property then those rights extend to persons authorised by it;

1.2.5 References to the **act or default of the Tenant** include acts or default or negligence of any undertenant or of anyone at the Property with the Tenant’s or any undertenant’s permission or sufferance;

1.2.6 The index and Clause headings in this lease are for ease of reference only;

1.2.7 References to the **last year of the Term** shall mean the twelve months ending on the expiration or earlier termination of the Term;

1.2.8 References to **Costs** include all liabilities, claims, demands, proceedings, damages, losses and proper and reasonable costs and expenses.

2 Demise

The Landlord with Full Title Guarantee DEMISES the Property to the Tenant for the Contractual Term TOGETHER WITH the rights set out in Part I of the First Schedule, EXCEPT AND RESERVING as mentioned in Part II of the First Schedule and SUBJECT TO the Encumbrances so far as they are still subsisting and affect the Property;

3 Rent

The Tenant will pay by way of rent during the Term or until released pursuant to the 1995 Act without any deduction counterclaim or set off except where required by law:

3.1 The Principal Rent and any VAT by equal quarterly payments in advance on the Quarter Days to be paid by Direct Debit, Banker’s Standing Order or other means as the Landlord reasonably requires, the first payment for the period from and including the Rent Commencement Date to (but excluding) the next Quarter Day to be made on the Rent Commencement Date;

3.2 The Service Charge and any VAT at the times and in the manner set out in the Fourth Schedule;

3.3 The following amounts and any VAT:

3.3.1 the sums specified in Clauses 4.1 [interest] and 4.2 [outgoings and utilities];

3.3.2 the sums specified in Clause 6.2.1 [insurance];

3.3.3 all Costs properly incurred by the Landlord as a result of any breach of the Tenant’s covenants in this lease.

4 Tenant’s covenants

The Tenant covenants with the Landlord throughout the Term, or until released pursuant to the 1995 Act, as follows:

4.1 Interest

If the Landlord does not receive any sum due to it under this lease (other than interest payable under this Clause 4.1) within 14 days of the due date to pay on demand interest on such sum at 2 per cent above Base Rate from the due date until payment (both before and after any judgment), provided this Clause shall not prejudice any other right or remedy for the recovery of such sum;

4.2 Outgoings and Utilities

4.2.1 To pay all existing and future rates, taxes, charges, assessments and outgoings in respect of the Property (whether assessed or imposed on the owner or the occupier), except any tax (other than VAT) arising as a result of the receipt by the Landlord of the rents reserved by this lease and any tax arising on any dealing by the Landlord with its reversion to this lease;

4.2.2 To pay for all gas, electricity, water, telephone and other utilities used on the Property, and all charges for meters and all standing charges, and a fair and reasonable proportion of any joint charges as determined by the Landlord's Surveyor acting reasonably;

4.3 VAT

4.3.1 Any payment or other consideration to be provided to the Landlord is exclusive of VAT, and the Tenant shall in addition pay any VAT chargeable on the date the payment or other consideration is due;

4.3.2 Any obligation to reimburse or pay the Landlord's expenditure extends to irrecoverable VAT on that expenditure, and the Tenant shall also reimburse or pay such VAT;

4.4 Repair

4.4.1 To keep the Property in good and substantial repair and condition (damage by the Insured Risks excepted save to the extent that insurance moneys are irrecoverable as a result of the act or default of the Tenant) but it is acknowledged that the window/curtain walling panelling/framing has suffered some UV degradation of the surface finish. For these elements only there will be no requirement to improve the quality of the appearance of the finished surface where this appearance is due to UV degradation;

4.4.2 To make good any disrepair for which the Tenant is liable within 2 months after the date of written notice from the Landlord (or sooner if the Landlord reasonably requires);

4.4.3 If the Tenant fails to comply with any such notice the Landlord may enter and carry out the work and the cost shall be reimbursed by the Tenant on demand as a debt;

4.4.4 To enter into maintenance contracts with reputable contractors for the regular servicing of all plant and equipment serving only the Property;

4.5 Decoration

4.5.1 To clean, prepare and paint or treat and generally redecorate:

(i) all external parts of the Property in every third year and in the last year of the Term;

(ii) all internal parts of the Property in the fifth and tenth years and in the last year of the Term;

4.5.2 All the work described in Clause 4.5.1 is to be carried out:

(i) in a good and workmanlike manner to the Landlord's reasonable satisfaction; and

(ii) in colours which (if different from the existing colour) are first approved in writing by the Landlord (approval not to be unreasonably withheld or delayed);

4.6 Cleaning

4.6.1 To keep the Property clean, tidy and free from rubbish;

4.6.2 To clean the inside and outside of windows and any washable surfaces at the Property as often as reasonably necessary;

4.7 Overloading

Not to overload the floors, ceilings or structure of the Property or any plant machinery or electrical installation serving the Property;

4.8 Conduits

To keep the Conduits in or serving the Property clear and free from any noxious, harmful or deleterious substance, and to remove any obstruction and repair any damage to the Conduits as soon as reasonably practicable to the Landlord's reasonable satisfaction;

4.9 User

4.9.1 Not to use the Property otherwise than for the Permitted Use;

4.9.2 Not to use the Property for any purpose which is:

(i) noisy, offensive, dangerous, illegal, immoral or an actionable nuisance; or

(ii) which in the reasonable opinion of the Landlord causes damage or disturbance to the Landlord, or to owners or occupiers of any neighbouring property; or

(iii) which involves any substance which may be harmful, polluting or contaminating other than in quantities which are normal for and used in connection with the Permitted Use;

4.9.3 Not to use more than 836.1 square metres (9,000 square feet) of space within the Property and Unit 87/88 Link (in aggregate) for the purposes of conducting scientific experiments on live animals (**Pharmacology**) provided that such use shall be subject to the Tenant strictly complying with the following conditions:

(i) it shall before commencing any Pharmacology obtain all necessary consents and shall in the course of conducting Pharmacology comply with all relevant statutes or European Union laws, regulations or directives;

(ii) it shall not publicise or promote (whether orally or in writing) the fact that Pharmacology is conducted at the Property;

(iii) subject to the Landlord's prior written approval (such approval not to be unreasonably withheld or delayed) it shall make suitable provision in relation to the protection of the animals, personnel and the Property;

(iv) it shall limit the Pharmacology conducted in the Property to that which is related to medical research;

(v) it shall only use mice and rats in Pharmacology;

(vi) it shall cease forthwith upon written notice from the Landlord to conduct Pharmacology if in the Landlord's reasonable opinion:-

(a) Pharmacology is having the effect of materially diminishing the rental or capital value of the Property or any other premises on the Estate;

(b) Pharmacology is materially impeding the letting of any nearby building on the Estate;

(c) Pharmacology is causing the Landlord to take significant management action as a result of or in reasonable anticipation of the actions of third parties due to the carrying on of Pharmacology at the Property;

(d) the carrying out of Pharmacology at the Property is materially and adversely damaging the reputation of the Landlord or its employees or the Estate;

4.10 Signs

Not to erect any sign, notice or advertisement which is visible outside the Property without the Landlord's prior written consent (which is not to be unreasonably withheld in the case of the display of signs showing the tenant's name which conform with the Landlord's regulations (if any) for the Estate from time to time);

4.11 Alterations

4.11.1 Not to make any alterations or additions which:

(i) affect the structural integrity of the Property (including without limitation the roofs and foundations and the principal or load-bearing walls, floors, beams and columns);

(ii) merge the Property with any adjoining premises;

(iii) affect the external appearance of the Property;

4.11.2 Not to make any other alterations or additions to the Property without the Landlord's written consent (which is not to be unreasonably withheld or delayed);

4.12 Preservation of Easements

4.12.1 Not to prejudice the acquisition of any right of light for the benefit of the Property and to preserve all rights of light and other easements enjoyed by the Property;

4.12.2 Promptly to give the Landlord notice if any easement enjoyed by the Property is obstructed, or any new easement affecting the Property is made or attempted;

4.13 Alienation

4.13.1 Not to:

(i) assign, charge, underlet or part with possession of the whole or part only of the Property nor to agree to do so except by an assignment or underletting of the whole of the Property or an underletting of a Subletting Unit permitted by this Clause 4.13;

(ii) share the possession or occupation of the whole or any part of the Property;

4.13.2 Assignment

Not to assign or agree to assign the whole of the Property without the Landlord's written consent (not to be unreasonably withheld or delayed), provided that:

(i) the Landlord may withhold consent in circumstances where in the reasonable opinion of the Landlord

(a) the proposed assignee is not of sufficient financial standing to enable it to comply with the Tenant's covenants in this lease; or

(b) such persons as the Landlord reasonably requires do not act as guarantors for the assignee and do not enter into direct covenants with the Landlord including the provisions set out in the Third Schedule (but referring in paragraph 1.2 to the assignee);

(ii) the Landlord's consent shall in every case be subject to conditions (unless expressly excluded) requiring that:

(a) the assignee covenants with the Landlord to pay the rents and observe and perform the Tenant's covenants in this lease during the residue of the Term, or until released pursuant to the 1995 Act;

(b) the Tenant enters into an authorised guarantee agreement guaranteeing the performance of the Tenant's covenants in this lease by the assignee including the provisions set out in the Third Schedule (but omitting paragraph 1.2);

(c) all rent and other payments due under this lease (in the case of sums other than the Principal Rent: which have been previously demanded) are paid before completion of the assignment;

4.13.3 Underletting

Not to underlet or agree to underlet the whole of the Property or a Subletting Unit nor vary the terms of any underlease without the Landlord's written consent (not to be unreasonably withheld or delayed). Any permitted underletting must comply with the following:

(i) the rent payable under the underlease must be:

(a) not less than the rent reasonably obtainable in the open market for the Property or the Subletting Unit without fine or premium;

(b) payable no more than one quarter in advance;

(c) subject to upward only reviews at intervals no less frequent than the rent reviews under this lease;

(ii) the undertenant covenants with the Landlord and in the underlease:

(a) to observe and perform the Tenant's covenants in this lease (except for payment of the rents) during the term of the underlease or until released pursuant to the 1995 Act;

(b) not to underlet, share or part with possession or occupation of the whole or any part of the underlet premises, nor to assign or charge part only of the underlet premises;

(c) not to assign the whole of the underlet premises without the Landlord's prior written consent (which shall not be unreasonably withheld or delayed);

(iii) all rents and other payments due under this lease (not the subject of a bona fide dispute) are paid before completion of the underletting;

(iv) Save in the case of any underletting for a term in excess of five years and which is of any of Unit 86A, Unit 86B, Unit 87B or Unit 87C sections 24 to 28 of the 1954 Act must be excluded and before completion of the underletting a certified copy of each of the following documents must be supplied to the Landlord:

(a) the notice served on the proposed undertenant pursuant to section 38A(3)(a) of the 1954 Act; and

(b) the declaration actually made by the proposed undertenant in compliance with the requirements of Schedule 2 of the 2003 Order; and

(c) the proposed form of underlease containing an agreement to exclude the provisions of sections 24 to 28 of the 1954 Act and a reference to both the notice pursuant to section 38A(3)(a) of the 1954 Act and the declaration pursuant to the requirements of Schedule 2 of the 2003 Order as referred to in this clause 4.13.3

and before completion of the underletting the Tenant must warrant to the Landlord that both the notice pursuant to section 38A(3)(a) of the 1954 Act has been served on the relevant persons as required by the 1954 Act and the appropriate declaration pursuant to the requirements of Schedule 2 of the 2003 Order as referred to in this sub-clause 4.13.3 has been made prior to the date on which the Tenant and the proposed undertenant became contractually bound to enter into the tenancy to which the said notice applies;

(v) in relation to any Subletting Unit the underlease grants such rights as are appropriate for the separate occupation and use of the Property, reserves such rights as are appropriate for the separate occupation and use of the remainder of the property let by this lease and to enable the Tenant to comply with its obligations under this lease, and reserves as rent:-

(a) a fair proportion of the cost of insuring the Property and the whole cost of insuring the loss of the principal rent and service charge payable under the underlease; and

(b) a service charge which provides for the undertenant to pay a fair and reasonable proportion of expenditure incurred by the Tenant in relation to the maintenance, repair, renewal, decoration and cleaning of the Property (including without limitation the Conduits, plant and equipment therein) and the provision of services to the Property;

(vi) there shall be no more than six (6) units of occupation at any time (and for this purpose a unit of occupation shall comprise (a) each Subletting Unit which is separately underlet and (b) the residue of the net lettable area of the Property (if any) retained by the Tenant);

(vii) (in the case of an underletting of the whole of the Property) the underlease reserves as rent the Service Charge payable under this lease;

(viii) (in the case of an underletting of a Subletting Unit) the underlease reserves as rent a fair and reasonable proportion of the Service Charge payable under this lease;

4.13.4 To take all necessary steps and proceedings to remedy any breach of the covenants of the undertenant under the underlease and not to permit any reduction of the rent payable by any undertenant;

4.13.5 Group Sharing

Notwithstanding Clause 4.13.1 the Tenant may share occupation of the whole or any part of the Property with a Group Company

PROVIDED THAT

(a) the relationship of landlord and tenant is not created; and

(b) occupation by any Group Company shall cease upon it ceasing to be a Group Company; and

(c) the Tenant informs the Landlord in writing before each occupier commences occupation and after it ceases occupation;

4.14 Registration

Within 21 days to give to the Landlord's solicitors (or as the Landlord may direct) written notice of any assignment, charge, underlease or other devolution of the Property or a Subletting Unit together with a certified copy of the relevant document and a reasonable registration fee of not less than £50;

4.15 Statutory Requirements and Notices

4.15.1 To supply the Landlord with a copy of any notice, order or certificate or proposal for any notice order or certificate affecting or capable of affecting the Property as soon as it is received by or comes to the notice of the Tenant;

4.15.2 To comply promptly with all notices served by any public, local or statutory authority, and with the requirements of any present or future statute or European Union law, regulation or directive (whether imposed on the owner or occupier), which affects the Property or its use;

4.15.3 At the request of the Landlord, but at the cost of the Landlord**,** to make or join the Landlord in making such objections or representations against or in respect of any such notice, order or certificate as the Landlord may reasonably require;

4.16 Planning

4.16.1 Not to apply for or implement any planning permission affecting the Property without first obtaining the Landlord's written consent (not to be unreasonably withheld in cases where the subject matter of the planning permission has been approved by the Landlord pursuant to the other provisions of this lease);

4.16.2 If a planning permission is implemented the Tenant shall complete all the works permitted and comply with all the conditions imposed by the permission before the determination of the Term (including any works stipulated to be carried out by a date after the determination of the Term unless the Landlord requires otherwise);

4.17 Contaminants and Defects

4.17.1 To give the Landlord prompt written notice upon becoming aware of the existence of any defect in the Property, or of the existence of any contaminant, pollutant or harmful substance on the Property but not used in the ordinary course of the Tenant's use of the Property;

4.17.2 If so requested by the Landlord, to remove from the Property or remedy to the Landlord's reasonable satisfaction any such contaminant, pollutant or harmful substance introduced on the Property by or at the request of the Tenant;

4.18 Entry by Landlord

To permit the Landlord at all reasonable times and on reasonable notice (except in emergency) to enter the Property in order to:

4.18.1 inspect and record the condition of the Property or the Centre or the Adjoining Property;

4.18.2 remedy any breach of the Tenant's obligations under this lease;

4.18.3 repair, maintain, clean, alter, replace, install, add to or connect up to any Conduits which serve the Centre or the Adjoining Property;

4.18.4 repair, maintain, alter or rebuild the Centre or the Adjoining Property;

4.18.5 comply with any of its obligations under this lease

Provided that the Landlord shall cause as little inconvenience as reasonably practicable in the exercise of such rights and shall promptly make good all physical damage to the Property caused by such entry;

4.19 Landlord's Costs

To pay to the Landlord on demand amounts equal to such Costs as it may properly and reasonably incur:

4.19.1 in connection with any application for consent made necessary by this lease (including where consent is lawfully refused or the application is withdrawn);

4.19.2 incidental to or in reasonable contemplation of the preparation and service of a schedule of dilapidations (whether before or within three (3) months after the end of the Term) or a notice or proceedings under Section 146 or Section 147 of the Law of Property Act 1925 (even if forfeiture is avoided other than by relief granted by the Court);

4.19.3 in connection with the enforcement or remedying of any breach of the covenants in this lease on the part of the Tenant and any Guarantor;

4.19.4 incidental to or in reasonable contemplation of the preparation and service of any notice under Section 17 of the 1995 Act;

4.20 Yielding up

Immediately before the end of the Term:

(i) to give up the Property repaired and decorated and otherwise in accordance with the Tenant's covenants in this lease;

(ii) if the Landlord so requires, to remove all alterations made during the Term or any preceding period of occupation by the Tenant and reinstate the Property in accordance with the Building Specification and as the Landlord shall reasonably direct and to its reasonable satisfaction;

(iii) in the event that the Tenant is or has been engaged in carrying out any Pharmacology to comply with any relevant statute or European Union law, regulation or directive regarding all decommissioning of laboratories;

(iv) to remove all signs, tenant's fixtures and fittings and other goods from the Property, and make good any damage caused thereby to the Landlord's reasonable satisfaction;

(v) to replace any damaged or missing Landlord's fixtures with ones of no less quality and value;

(vi) to give to the Landlord all operating and maintenance manuals together with any health and safety files relating to the Property;

(vii) to provide evidence of satisfactory maintenance of plant and machinery including (without limitation) copies of all service records;

(viii) to return any security cards or passes provided by the Landlord for use by the Tenant and its visitors;

4.21 Encumbrances

To perform and observe the Encumbrances so far as they relate to the Property;

4.22 Roads Etc

Not to obstruct the roads, pavements, footpaths and forecourt areas from time to time on the Estate in any way whatsoever and not to use any part of the forecourts and car parking spaces or other open parts of the Property for the purpose of storage or deposit of any materials, goods, container ships' pallets, refuse, waste scrap or any other material or matter;

4.23 Parking Restrictions

Except as to any right specifically granted in this lease not to permit any vehicles belonging to or calling upon the Tenant to stand on the roads, car parking spaces, forecourts, pavements or footpaths on the Estate;

4.24 Regulations and Common Parts

4.24.1 At all times during the Term to observe and perform such regulations (if any) in respect of the Centre or the Estate as the Landlord may reasonably think expedient to the proper management of the Centre or the Estate and which are notified in writing to the Tenant;

4.24.2 Not to cause any obstruction to the Common Parts or any part of the Centre;

4.25 Land Registration Provisions

4.25.1 Promptly following the grant of this lease to apply to register this lease at the Land Registry and to ensure that any requisitions raised by the Land Registry in connection with that application are dealt with promptly and properly and within one month after completion of the registration, to send the Landlord official copies of its title;

4.25.2 Immediately after the end of the Term (and notwithstanding that the Term has ended), to make an application to close the registered title of this lease and shall ensure that any requisitions raised by the Land Registry in connection with that application are dealt with

promptly and properly and to shall keep the Landlord informed of the progress and completion of its application.

5 Landlord's Covenants

5.1 Quiet Enjoyment

The Landlord covenants with the Tenant that the Tenant may peaceably enjoy the Property during the Term without any interruption by the Landlord or any person lawfully claiming under or in trust for it;

5.2 Provision of Services

The Landlord will use its reasonable endeavours to provide or procure the provision of the Services PROVIDED THAT the Landlord shall be entitled to withhold or vary the provision or procurement of such of the Services as the Landlord reasonably considers necessary or appropriate in the interests of good estate management and PROVIDED FURTHER THAT the Landlord will not be in breach of this Clause as a result of any failure or interruption of any of the Services:

5.2.1 resulting from circumstances beyond the Landlord's reasonable control, so long as the Landlord uses its reasonable endeavours to remedy the same as soon as reasonably practicable after becoming aware of such circumstances; or

5.2.2 to the extent that the Services (or any of them) cannot reasonably be provided as a result of works of inspection, maintenance and repair or other works being carried out at the Centre or the Estate.

6 Insurance

6.1 Landlord's insurance covenants

The Landlord covenants with the Tenant as follows:

6.1.1 To insure the Property (other than tenant's and trade fixtures and fittings) unless the insurance is invalidated in whole or in part by any act or default of the Tenant:

(i) with an insurance office or underwriters of repute;

(ii) against loss or damage by the Insured Risks;

(iii) subject to such excesses as may be imposed by the insurers;

(iv) in the full cost of reinstatement of the Property (in modern form if appropriate) including shoring up, demolition and site clearance, professional fees, VAT and allowance for building cost increases;

6.1.2 To insure against loss of the Principal Rent thereon payable or reasonably estimated by the Landlord to be payable under this lease arising from damage to the Property by the Insured Risks for three years or such longer period as the Landlord may reasonably require having regard to the likely period for reinstating the Property;

6.1.3 To use its reasonable endeavours to procure that the insurer waives its rights of subrogation against the Tenant (so long as such provision is available in the London insurance market);

6.1.4 At the request and cost of the Tenant (but not more frequently than once in any twelve month period) to produce summary details of the terms of the insurance under this Clause 6.1;

6.1.5 If the Property is destroyed or damaged by an Insured Risk, then, unless payment of the insurance moneys is refused in whole or part because of the act or default of the Tenant, and subject to obtaining all necessary planning and other consents (which the Landlord will use reasonable endeavours to obtain) to use the insurance proceeds (except those relating to loss of rent and fees) and any uninsured excess paid by the Tenant under Clause 6.2.4(ii) in reinstating the same (other than tenant's and trade fixtures and fittings) as quickly as reasonably practicable substantially as it was before the destruction or

damage in modern form if appropriate but not necessarily identical in layout and making up any shortfall in the insurance proceeds out of its own funds;

6.2 Tenant's insurance covenants

The Tenant covenants with the Landlord from and including the Insurance Commencement Date and then throughout the Term or until released pursuant to the 1995 Act as follows:

6.2.1 To pay to the Landlord within 14 days of demand sums equal to:

(i) the amount which the Landlord spends on insurance pursuant to Clause 6.1;

(ii) the cost of property owners' liability and third party liability insurance in connection with the Property;

(iii) the cost of any professional valuation of the Property properly required by the Landlord (but not more than once in any two year period);

6.2.2 To give the Landlord immediate written notice on becoming aware of any event or circumstance which might affect or lead to an insurance claim;

6.2.3 Not to do anything at the Property which would or might prejudice or invalidate the insurance of the Property or the Adjoining Property or cause any premium for their insurance to be increased;

6.2.4 To pay to the Landlord within 14 days of demand:

(i) any increased premium and any Costs incurred by the Landlord as a result of a breach of Clause 6.2.3;

(ii) any uninsured excess to which the insurance policy may be subject;

(iii) the whole of the irrecoverable proportion of the insurance moneys if the Property or any part are destroyed or damaged by an Insured Risk but the insurance moneys are irrecoverable in whole or part due to the act or default of the Tenant;

6.2.5 To comply with the requirements and reasonable recommendations of the insurers;

6.2.6 To notify the Landlord of the full reinstatement cost of any fixtures and fittings installed at the Property at the cost of the Tenant which become Landlord's fixtures and fittings;

6.2.7 Not to effect any insurance of the Property against an Insured Risk but if the Tenant effects or has the benefit of any such insurance the Tenant shall hold any insurance moneys upon trust for the Landlord and pay the same to the Landlord as soon as practicable;

6.3 Suspension of Rent

If the Property is unfit for occupation and use because of damage by an Insured Risk then (save to the extent that payment of the loss of rent insurance moneys is refused due to the act or default of the Tenant) the Principal Rent and the Service Charge (or a fair proportion according to the nature and extent of the damage) shall be suspended until the date on which the Property is again fit for occupation and use.

6.4 Determination Right

6.4.1 If the Property is destroyed or damaged by an Insured Risk such that the Property is unfit for occupation and use and shall not be rendered fit for occupation and use within two years and nine months of the date of such damage then either the Landlord or the Tenant may whilst the Property has not been rendered fit for occupation and use terminate the Contractual Term by giving to the other not less than three calendar months' previous notice in writing PROVIDED THAT if the Property has been rendered fit for occupation and use within three years of the date of such damage then such notice shall be deemed not to have been given.

6.4.2 Termination of this lease pursuant to the provisions of Clause 6.4.1 shall be without prejudice to the liability of either party for any antecedent breach of the covenants and

conditions herein contained (save for Clause 6.1.5 which shall be deemed not to have applied).

7 Provisos

7.1 Forfeiture

If any of the following events occur:

7.1.1 the Tenant fails to pay any of the rents payable under this lease within 21 days of the due date (whether or not formally demanded); or

7.1.2 the Tenant or Guarantor breaches any of its obligations in this lease; or

7.1.3 the Tenant or Guarantor being a company incorporated within the United Kingdom

(i) has an Administration Order made in respect of it; or

(ii) passes a resolution, or the Court makes an Order, for the winding up of the Tenant or the Guarantor, otherwise than a member's voluntary winding up of a solvent company for the purpose of amalgamation or reconstruction previously consented to by the Landlord (consent not to be unreasonably withheld); or

(iii) has a receiver or administrative receiver or receiver and manager appointed over the whole or any part of its assets or undertaking; or

(iv) is struck off the Register of Companies; or

(v) is deemed unable to pay its debts within the meaning of Section 123 of the Insolvency Act 1986; or

7.1.4 proceedings or events analogous to those described in Clause 7.1.3 shall be instituted or shall occur where the Tenant or Guarantor is a company incorporated outside the United Kingdom; or

7.1.5 the Tenant or Guarantor being an individual:

(i) has a bankruptcy order made against him; or

(ii) appears to be unable to pay his debts within the meaning of Section 268 of the Insolvency Act 1986

then the Landlord may re-enter the Property or any part of the Property in the name of the whole and forfeit this lease and the Term shall immediately end, but without prejudice to the rights of either party against the other in respect of any breach of the obligations contained in this lease;

7.2 Notices

7.2.1 All notices under or in connection with this lease shall be given in writing

7.2.2 Any such notice shall be duly and validly served if it is served (in the case of a company) to its registered office or (in the case of an individual) to his last known address;

7.2.3 Any such notice shall be deemed to be given when it is:

(i) personally delivered to the locations listed in Clause 7.2.2; or

(ii) sent by registered post, in which case service shall be deemed to occur on the third Working Day after posting.

7.3 No Implied Easements

The grant of this lease does not confer any rights over the Centre or the Adjoining Property or any other property except those mentioned in Part I of the First Schedule, and Section 62 of the Law of Property Act 1925 is excluded from this lease;

8 Guarantee

The Guarantor covenants with the Landlord in the terms set out in the Third Schedule.

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9 Break Clause

9.1 The Tenant may terminate the Contractual Term either on Break Date: 1 or on Break Date: 2 by giving to the Landlord not less than twelve (12) calendar months' previous notice in writing;

9.2 Any notice given by the Tenant shall operate to terminate the Contractual Term only if:

9.2.1 The Principal Rent reserved by this lease has been paid by the time of such termination; and

9.2.2 All other rents reserved by this lease which have been demanded at least 14 days before Break Date: 1 or Break Date: 2 as the case may require have been paid by the time of such termination; and

9.2.3 (in the case of notice being given by the Tenant to terminate the lease on Break Date: 1) a sum equal to six (6) months' worth of the Principal Rent for the time being payable together with a sum equal to VAT thereon at the standard rate for the time being payable has been paid to the Landlord in cleared funds by Break Date: 1; and

9.2.4 the Tenant gives the Landlord full vacant possession of the Property on termination;

9.3 Upon termination the Contractual Term shall cease but without prejudice to any claim in respect of any prior breach of the obligations contained in this lease;

9.4 If the Tenant does not terminate the Contractual Term on Break Date: 1, the Principal Rent shall be suspended from the date falling immediately after Break Date: 1 for a period of six (6) months, after which period the Tenant's obligation to pay the Principal Rent shall resume.

10 Contracts (Rights of Third Parties) Act 1999

A person who is not a party to this lease has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce any terms of this lease.

11 Jurisdiction

This lease shall be governed by and construed in all respects in accordance with the law of England and the Guarantor submits to the non-exclusive jurisdiction of the English Courts.

Executed by the parties as a **Deed** on the date specified in the Prescribed Clauses.

The First Schedule

Part I - Easements and Other Rights granted

There are granted to the Tenant (in common with others authorised by the Landlord)

1 The right to use the relevant Estate Common Areas and the Common Parts for access to and from the Property;

2 Free and uninterrupted use of all existing and future Conduits which are in the Centre and which serve the Property, subject to the Landlord's rights to re-route the same subject to there being no unreasonable interruption of services;

3 The right to enter the Centre to perform Clause 4.4 [repair] on reasonable prior written notice to the Landlord, subject to causing as little inconvenience as practicable and complying with conditions reasonably imposed by the Landlord and making good all physical damage caused;

4 The right to use 204 parking spaces at the Centre in such locations as the Landlord from time to time allocates.

Part II - Exceptions and Reservations

There are excepted and reserved to the Landlord:

1 The right to carry out any building, rebuilding, alteration or other works to the Centre the Estate and the Adjoining Property (including the erection of scaffolding) notwithstanding any temporary interference with light and air enjoyed by the Property;

2 Free and uninterrupted use of all existing and future Conduits which are in the Property and serve the Centre the Estate or the Adjoining Property;

3 Rights of entry on the Property as referred to in Clause 4.18;

4 The right to regulate and control in a reasonable manner the use of the Common Parts and Estate Common Areas;

5 The right to alter the layout of the roads forecourts footpaths pavements and car parking areas from time to time on the Estate in such manner as the Landlord may reasonably require PROVIDED THAT such alterations do not materially diminish the Tenant's rights under this lease;

6 The right in the last six months of the Term to view the Property with prospective tenants upon giving reasonable notice and the right throughout the Term to view the Property with prospective purchasers upon giving reasonable notice.

Part III - Encumbrances

The covenants declarations and other matters affecting the Property contained or referred to in the Landlord's freehold reversionary title number BK102078 as at the date of this lease

The Second Schedule

Rent Review

1 In this Schedule:

1.1 **Review Date** means each of the Review Dates and **Relevant Review Date** shall be interpreted accordingly;

1.2 **Rack Rental Value** means the annual rent (exclusive of VAT) at which the Property might reasonably be expected to be let in the open market at the Relevant Review Date

ASSUMING

1.2.1 the letting is on the same terms as those contained in this lease but subject to the following qualifications:

(i) the Property is as described in the Building Specification;

(ii) the term shall commence on the Relevant Review Date and be for the unexpired residue of the Contractual Term subject to a right for the Tenant to break the lease at the end of each period of five (5) years calculated from and including the commencement date of the hypothetical term;

(iii) the amount of the Principal Rent shall be disregarded, but it shall be assumed that the Principal Rent is subject to review on the terms of and at the same intervals as the Principal Rent under this lease;

1.2.2 the Property is available to let as a whole, with vacant possession, by a willing landlord to a willing tenant, without premium;

1.2.3 the Property is ready, fit and available for immediate occupation and use for the Permitted Use;

1.2.4 all the obligations on the part of the Tenant contained in this lease have been fully performed and observed;

1.2.5 no work has been carried out to the Property which has reduced the rental value of the Property;

1.2.6 if the whole or any part of the Property has been destroyed or damaged it has been fully reinstated;

BUT DISREGARDING

1.2.7 any goodwill attached to the Property by reason of any business carried on there;

1.2.8 any effect on rent of the fact that any Tenant and any undertenant is or has been in occupation of the Property;

1.2.9 any effect on rent of any improvements at the Property made with the Landlord's consent by the Tenant or any undertenant, except improvements carried out pursuant to an obligation to the Landlord or at the expense of the Landlord

PROVIDED THAT the Rack Rental Value shall be that which would be payable after the expiry of any rent free period or concessionary rent period for fitting out (or the receipt of any contribution to fitting out works or other inducement in lieu thereof) which might be given on a letting of the Property, so that no discount reduction or allowance is made to reflect (or compensate the tenant for the absence of) any such rent free or concessionary rent period or contribution or other inducement for fitting out;

1.3 **Revised Rent** means the new Principal Rent following each Rent Review Date pursuant to paragraph 2 of this Schedule.

1.4 **Expert** means a surveyor (who shall be a Fellow of the Royal Institution of Chartered Surveyors with at least ten (10) years experience in the letting and valuation of premises of a similar nature to and situate in the same region as the Property) agreed between the Landlord and the Tenant,

or in the absence of agreement nominated on the application of either party by the President for the time being of the Royal Institution of Chartered Surveyors.

2 The Principal Rent shall be reviewed on each Review Date to the higher of:

2.1 the Principal Rent payable immediately before the Relevant Review Date (disregarding any suspension or abatement of the Principal Rent); and

2.2 the Rack Rental Value on the Relevant Review Date agreed or determined in accordance with this lease.

3 The Rack Rental Value at each Review Date shall be:

3.1 agreed in writing between the Landlord and the Tenant;

3.2 determined by an Expert (acting as an expert) on the application of either Landlord or Tenant at any time after the Relevant Review Date;

4 In the case of determination by an Expert:

4.1 the Expert will be instructed to afford the Landlord and the Tenant the opportunity to make written representations to him and comment upon written representations received by him;

4.2 if an Expert dies, refuses to act or becomes incapable of acting, or if he fails to notify the parties of his determination within 2 months after receiving the last submission delivered to him, either the Landlord or the Tenant may apply to the President to discharge him and appoint another in his place;

4.3 the fees and expenses of the Expert and any VAT thereon shall be paid by the Landlord and the Tenant in such shares as the Expert shall decide (or in equal shares if the Expert does not decide this point); if one party pays all the Expert's fees and expenses, the paying party may recover the other's share from the other party, in the case of the Landlord as arrears of rent.

5 If a Revised Rent is not agreed or determined by the Relevant Review Date:

5.1 the Principal Rent payable immediately before the Relevant Review Date shall continue to be payable until the Revised Rent is ascertained;

5.2 when the Revised Rent is ascertained:

5.2.1 the Tenant shall pay within 14 days of ascertainment:

(i) any difference between the Principal Rent payable immediately before the Relevant Review Date and the Principal Rent which would have been payable had the Revised Rent been ascertained on the Relevant Review Date (the **Balancing Payment**); and

(ii) interest on the Balancing Payment at Base Rate from the date or dates when the Balancing Payment or the relevant part or parts would have been payable had the Revised Rent been ascertained on the Relevant Review Date;

5.2.2 the Landlord and Tenant shall sign and exchange a memorandum recording the agreed amount of the Revised Rent.

6 Time shall not be of the essence for the purposes of this Schedule.

The Third Schedule

Guarantee

1 The Guarantor covenants with the Landlord as principal debtor:

1.1 that throughout the Term or until the Tenant is released from its covenants pursuant to the 1995 Act:

1.1.1 The Tenant will pay the rents reserved by and perform its obligations contained in this lease;

1.1.2 The Guarantor will indemnify the Landlord on demand against all Costs arising from any default of the Tenant in paying the rents and performing its obligations under this lease;

1.2 the Tenant (here meaning the Tenant so named in the Prescribed Clauses) will perform its obligations under any authorised guarantee agreement that it gives with respect to the performance of any of the covenants and conditions in this lease.

2 The liability of the Guarantor shall not be affected by:

2.1 Any time given to the Tenant or any failure by the Landlord to enforce compliance with the Tenant's covenants and obligations;

2.2 The Landlord's refusal to accept rent at a time when it would or might have been entitled to re-enter the Property;

2.3 Any variation of the terms of this lease;

2.4 Any change in the constitution, structure or powers of the Guarantor the Tenant or the Landlord or the administration, liquidation or bankruptcy of the Tenant or Guarantor;

2.5 Any act which is beyond the powers of the Tenant;

2.6 The surrender of part of the Property;

3 Where two or more persons have guaranteed obligations of the Tenant the release of one or more of them shall not release the others.

4 The Guarantor shall not be entitled to participate in any security held by the Landlord in respect of the Tenant's obligations or stand in the Landlord's place in respect of such security.

5 If this lease is disclaimed, and if the Landlord within 3 months of the disclaimer requires in writing the Guarantor will enter into a new lease of the Property at the cost of the Guarantor on the terms of this lease (but as if this lease had continued and so that any outstanding matters relating to rent review or otherwise shall be determined as between the Landlord and the Guarantor) for the residue of the Contractual Term from and with effect from the date of the disclaimer.

6 If this lease is forfeited and if the Landlord within 3 months of the forfeiture requires in writing the Guarantor will (at the option of the Landlord):

6.1 enter into a new lease as in paragraph 5 above with effect from the date of the forfeiture; or

6.2 pay to the Landlord on demand an amount equal to the moneys which would otherwise have been payable under this lease until the earlier of 3 months after the forfeiture and the date on which the Property is fully relet.

The Fourth Schedule
Service Charge
Part I - Calculation and payment of the Service Charge

1 In this Schedule unless the context otherwise requires:

1.1 **Accounting Date** means 31 December in each year or such other date as the Landlord notifies in writing to the Tenant from time to time;

1.2 **Accounting Year** means the period from but excluding one Accounting Date to and including the next Accounting Date;

1.3 **Estimated Service Charge** means the Landlord's Surveyor's reasonable and proper estimate of the Service Charge for the Accounting Year notified in writing to the Tenant from time to time;

1.4 **Service Cost** means the reasonable and proper costs and expenses paid or incurred by the Landlord in relation to the provision of the Centre Services and the Estate Services (including irrecoverable VAT);

1.5 **Tenant's Share** means a fair and reasonable proportion of the Service Cost.

2 The Service Charge shall be the Tenant's Share of the Service Cost in respect of each Accounting Year, and if only part of an Accounting Year falls within the Term the Service Charge shall be the Tenant's Share of the Service Cost in respect of the relevant Accounting Period divided by 365 and multiplied by the number of days of the Accounting Year within the Term.

3 The Landlord shall have the right to adjust the Tenant's Share from time to time to make reasonable allowances for differences in the services provided to or enjoyable by the other occupiers of the Centre or the Estate.

4 The Tenant shall pay the Estimated Service Charge for each Accounting Year to the Landlord in advance by equal instalments on the Quarter Days, (the first payment for the period from and including the Service Charge Commencement Date to (but excluding) the next Quarter Day after the Service Charge Commencement Date to be made on the Service Charge Commencement Date); and

4.1 If the Landlord's Surveyor does not notify an estimate of the Service Charge for any Accounting Year the Estimated Service Charge for the preceding Accounting Year shall apply; and

4.2 Any adjustment to the Estimated Service Charge after the start of an Accounting Year shall adjust the payments on the following Quarter Days equally.

5 As soon as practicable after the end of each Accounting Year the Landlord shall serve on the Tenant a summary of the Service Cost and a statement of the Service Charge certified by the Landlord's Surveyor which shall be conclusive (save in the case of manifest error).

6 The difference between the Service Charge and the Estimated Service Charge for any Accounting Year (or part) shall be paid by the Tenant to the Landlord within fourteen days of the date of the statement for the Accounting Year, or allowed against the next Estimated Service Charge payment, or after the expiry of the Term refunded to the Tenant.

7 The Tenant shall be entitled by appointment within a reasonable time following service of the Service Charge statement to inspect the accounts maintained by the Landlord and the Landlord's Surveyor relating to the Service Cost and supporting vouchers and receipts at such location as the Landlord reasonably directs.

Part II - Estate Services

In relation to the Estate the provision of the following services or the Costs incurred in relation to:

1 The Common Areas

Repairing, maintaining and (where appropriate) cleaning, lighting and (as necessary) altering renewing, rebuilding and reinstating the Estate Common Areas.

2 Conduits

The repair, maintenance and cleaning and (as necessary) replacement and renewal of all Conduits within the Estate Common Areas.

3 Plant and machinery

Hiring, operating, inspecting, servicing, overhauling, repairing, maintaining, cleaning, lighting and (as necessary) renewing or replacing any plant, machinery, apparatus and equipment from time to time within the Estate Common Areas or used for the provision of services to the Estate and the supply of all fuel and electricity for the same and any necessary maintenance contracts and insurance in respect thereof.

4 Signs

Maintaining and (where appropriate) cleaning and lighting and (as necessary) renewing and replacing the signboards, all directional signs, fire regulation notices, advertisements, bollards, roundabouts and similar apparatus or works.

5 Landscaping

Maintaining, tending and cultivating and (as necessary) re-stocking any garden or grassed areas including replacing plants, shrubs and trees as necessary.

6 Common facilities

Repairing maintaining and (as necessary) rebuilding as the case may be any party walls or fences, party structures, Conduits or other amenities and easements which may belong to or be capable of being used or enjoyed by the Estate in common with any land or buildings adjoining or neighbouring the Estate.

7 Security

Installation, operation, maintenance, repair, replacement and renewal of closed circuit television systems and other security systems.

8 Outgoings

Any existing and future rates, taxes, charges, assessments and outgoings in respect of the Estate Common Areas or any part of them except tax (other than VAT) payable in respect of any dealing with or any receipt of income in respect of the Estate Common Areas.

9 Transport

The provision of a bus service to and from Didcot or such other transport and/or location (if any) deemed necessary by the Landlord.

10 Statutory requirements

The cost of carrying out any further works (after the initial construction in accordance with statutory requirements) to the Estate Common Areas required to comply with any statute.

11 Management and Staff

11.1 The proper and reasonable fees, costs, charges, expenses and disbursements (including irrecoverable VAT) of any person properly employed or retained by the Landlord for or in connection with surveying or accounting functions or the performance of the Estate Services and

any other duties in and about the Estate relating to the general management, administration, security, maintenance, protection and cleanliness of the Estate:

11.2 Management costs fees and disbursements in respect of the Estate of 10% of the Service Cost (excluding costs under this paragraph 11.2).

11.3 Providing staff in connection with the Estate Services and the general management, operation and security of the Estate and all other incidental expenditure including but not limited to:

11.3.1 salaries, National Health Insurance, pension and other payments contributions and benefits;

11.3.2 uniforms, special clothing, tools and other materials for the proper performance of the duties of any such staff;

11.3.3 providing premises and accommodation and other facilities for staff.

12 Enforcement of Regulations

The reasonable and proper costs and expenses incurred by the Landlord in enforcing the rules and regulations from time to time made pursuant to Clause 4.24 provided that the Landlord shall use all reasonable endeavours to recover such costs and expenses from the defaulting party and provided further that there shall be credited against the Service Cost any such costs recovered.

13 Insurances

13.1 Effecting such insurances (if any) as the Landlord may properly think fit in respect of the Estate Common Areas the plant, machinery, apparatus and equipment used in connection with the provision of the Estate Services (including without prejudice those referred to in paragraph 3 above) and any other liability of the Landlord to any person in respect of those items or in respect of the provision of the Estate Services.

13.2 Professional valuations for insurance purposes (but not more than once in any two year period);

13.3 Any uninsured excesses to which the Landlord's insurance may be subject.

14 Generally

Any reasonable and proper costs (not referred to above) which the Landlord may incur in providing such other services and in carrying out such other works as the Landlord may reasonably consider to be reasonably desirable or necessary for the benefit of occupiers of the Estate.

15 Anticipated Expenditure

Establishing and maintaining reserves to meet the future costs (as from time to time estimated by the Landlord's Surveyor) of providing the Estate Services;

16 Borrowing

The costs of borrowing any sums required for the provision of the Estate Services at normal commercial rates available in the open market or if any such sums are loaned by the Landlord or a Group Company of the Landlord interest at Base Rate.

17 VAT

Irrecoverable VAT on any of the foregoing.

Part III - Centre Services

In relation to the Centre, the provision of the following services or the Costs incurred in relation to:

1 Repairs to the Centre (including Conduits)

Repair, renewal, decoration, cleaning and maintenance of the foundations, roof, exterior and structure, the Conduits, plant and equipment (which are not the responsibility of any tenants of the Centre).

2 Common Parts

(a) Repair, renewal, decoration, cleaning, maintenance and lighting of the Common Parts and other parts of the Centre;

(b) Providing and maintaining any plants in the Common Parts;

(c) Providing signs, nameboards and other notices within the Centre including a sign giving the name of the Tenant or other permitted occupier and its location within the Centre in the entrance lobby of the Centre.

3 Services

Procuring water and sewerage services.

4 Fire Fighting and Security

Provision, operation, repair, renewal, cleaning and maintenance of fire alarms, sprinkler systems, fire prevention and fire fighting equipment and ancillary apparatus and security alarms, apparatus, closed circuit television and systems as the Landlord considers appropriate.

5 Statutory Requirements

All existing and future rates, taxes, charges, assessments and outgoings payable to any competent authority or for utilities.

6 Management and Staff

6.1 The proper and reasonable fees, costs, charges, expenses and disbursements (including irrecoverable VAT) of any person properly employed or retained by the Landlord for or in connection with surveying or accounting functions or the performance of the Centre Services and any other duties in and about the Centre relating to the general management, administration, security, maintenance, protection and cleanliness of the Centre:

6.2 Management fees and disbursements incurred in respect of the Centre of 10% of the Service Cost (excluding costs under this paragraph 6.2).

6.3 Providing staff in connection with the Centre Services and the general management, operation and security of the Centre and all other incidental expenditure including but not limited to:

(i) salaries, National Health Insurance, pension and other payments contributions and benefits;

(ii) uniforms, special clothing, tools and other materials for the proper performance of the duties of any such staff;

(iii) providing premises and accommodation and other facilities for staff.

7 General

7.1 Establishing and maintaining reserves to meet the future costs (as from time to time estimated by the Landlord's Surveyor) of providing the Centre Services;

7.2 Any reasonable and proper costs (not referred to above) which the Landlord may incur in providing such other services and in carrying out such other works as the Landlord may reasonably consider to be reasonably desirable or necessary for the benefit of occupiers of the Centre.

7.3 The costs of borrowing any sums required for the provision of the Services at normal commercial rates available in the open market or if any such sums are loaned by the Landlord or a Group Company of the Landlord interest at Base Rate.

8 VAT

Irrecoverable VAT on any of the foregoing.

Annexure

(Building Specification)

LEASE PARTICULARS

(forming part of this lease only insofar as not inconsistent with the other provisions of this lease)

Date of Lease	:	2009
Original Landlord	:	**MEPC MILTON PARK NO. 1 LIMITED** (Company number 5491670) and **MEPC MILTON PARK NO. 2 LIMITED** (Company number 5491806)
Original Tenant	:	**VERTEX PHARMACEUTICALS (EUROPE) LIMITED** (Company number 2907620)
Original Guarantor	:	**VERTEX PHARMACEUTICALS INCORPORATED**
Property	:	Building 86 and 87 Milton Park
Floor Area		3,839.5 square metres (41,329 square feet) net internal
Contractual Term	:	15 years from and including 23 April 2009 to and including 22 April 2024
Initial Principal Rent	:	NINE HUNDRED AND THIRTY FOUR THOUSAND POUNDS (£934,000) per annum
Rent Commencement Date	:	23 September 2011
Review Dates	:	23 April 2014 and 23 April 2019
Review Type	:	Market — upwards only
Service Charge Commencement Date	:	23 April 2009
Principal Rent and Service Charge Payment Dates	:	Quarterly: 25 March, 24 June, 29 September and 25 December
Insurance Commencement Date	:	23 April 2009
Permitted Use: (1987 Order)	:	B1
Break Date: 1	:	22 April 2014
Break Date: 2	:	22 April 2019
Break Type	:	Tenant
Parking Spaces	:	204
Security of Tenure: Landlord and Tenant Act 1954	:	Included

EXECUTED AS A DEED by **MEPC MILTON PARK NO. 1 LIMITED** acting by a director and the company secretary or by two directors

Director

Director/Company Secretary

EXECUTED AS A DEED by **MEPC MILTON PARK NO. 2 LIMITED** acting by a director and the company secretary or by two directors

Director

Director/Company Secretary

EXECUTED AS A DEED by **VERTEX PHARMACEUTICALS (EUROPE) LIMITED** acting by a director and the company secretary or by two directors

Director

Director/Company Secretary

EXECUTED AS A DEED by **VERTEX PHARMACEUTICALS INCORPORATED** acting by:

VERTEX PHARMACEUTICALS INCORPORATED
AMENDED AND RESTATED 2006 STOCK and OPTION PLAN

1. DEFINITIONS

Unless otherwise specified or unless the context otherwise requires, the following terms, as used in this Vertex Pharmaceuticals Incorporated Amended and Restated 2006 Stock and Option Plan, have the following meanings:

Administrator means the Board of Directors and/or a committee of the Board of Directors to which the Board of Directors has delegated power to act on its behalf in administering this Plan in whole or in part.

Affiliate means a corporation that, for purposes of Section 424 of the Code, is a parent or subsidiary of the Company, direct or indirect.

Board of Directors means the Board of Directors of the Company.

Code means the United States Internal Revenue Code of 1986, as amended.

Common Stock means shares of the Company's common stock, $.01 par value.

Company means Vertex Pharmaceuticals Incorporated, a Massachusetts corporation.

Employee means an employee of the Company or of an Affiliate (including, without limitation, an employee who is also serving as an officer or director of the Company or of an Affiliate), designated by the Administrator to be eligible to be granted one or more Stock Rights under the Plan.

Exchange Act means the Securities Exchange Act of 1934, as amended.

Fair Market Value of a Share of Common Stock on a particular date shall be the mean between the highest and lowest quoted selling prices on such date (the "valuation date") on the securities market where the Common Stock is traded, or if there were no sales on the valuation date, on the next preceding date within a reasonable period (as determined in the sole discretion of the Administrator) on which there were sales. If there were no sales in such a market within a reasonable period, the fair market value shall be as determined in good faith by the Administrator in its sole discretion. The Fair Market Value as determined in this paragraph shall be rounded down to the next lower whole cent if the foregoing calculation results in fractional cents.

ISO means an option intended to qualify as an incentive stock option under Code Section 422.

Non-Employee Director means a member of the Board of Directors who is not an employee of the Company or any Affiliate.

Non-Qualified Option means an option that is not intended to qualify as an ISO.

Option means an ISO or Non-Qualified Option granted under the Plan.

Participant means an Employee, Non-Employee Director, consultant or advisor of the Company or an Affiliate to whom one or more Stock Rights are granted under the Plan. As used herein, "Participant" shall include "Participant's Survivors" and a Participant's permitted transferees where the context requires.

Participant's Survivors means a deceased Participant's legal representatives and/or any person or persons who acquires the Participant's rights to a Stock Right by will or by the laws of descent and distribution.

Plan means this Vertex Pharmaceuticals Incorporated Amended and Restated 2006 Stock and Option Plan, as amended from time to time.

Shares means shares of the Common Stock as to which Stock Rights have been or may be granted under the Plan or any shares of capital stock into which the Shares are changed or for which they are exchanged within the provisions of Section 3 of the Plan. The Shares subject to Stock Rights granted under the Plan may be authorized and unissued shares or shares held by the Company in its treasury, or both.

Stock Agreement means an agreement between the Company and a Participant delivered pursuant to the Plan with respect to a Stock Right, in such form as the Administrator shall approve.

Stock-Based Award means a grant by the Company under the Plan of an equity award or equity-based award that is not an Option or Stock Grant.

Stock Grant means a grant by the Company of Shares under the Plan.

Stock Right means a right to Shares or the value of Shares of the Company granted pursuant to the Plan as an ISO, a Non-Qualified Option, a Stock Grant or a Stock-Based Award.

2. PURPOSES OF THE PLAN

The Plan is intended to encourage ownership of Shares by Employees, Non-Employee Directors and certain consultants and advisors to the Company in order to attract such persons, to induce them to work for the benefit of the Company or of an Affiliate and to provide additional incentive for them to promote the success of the Company or of an Affiliate. The Plan provides for the granting of Stock Rights to Employees, Non-Employee Directors, consultants and advisors of the Company.

3. SHARES SUBJECT TO THE PLAN

The number of Shares subject to this Plan as to which Stock Rights may be granted from time to time shall be 13,902,380 or the equivalent of such number of Shares after the Administrator, in its sole discretion, has interpreted the effect of any stock split, stock dividend, combination, recapitalization or similar transaction in accordance with Section 17 of this Plan. The number of Shares subject to this Plan shall be reduced, share for share, by the number of shares underlying Stock Rights, if any, that are granted under the Company's 2007 New Hire Stock and Option Plan after March 17, 2008.

If an Option granted hereunder ceases to be outstanding, in whole or in part (other than by exercise), or if the Company shall reacquire (at no more than its original issuance price) any Shares issued pursuant to a Stock Grant, or if any Stock Right expires or is forfeited, cancelled or otherwise terminated or results in any Shares not being issued, the unissued Shares that were subject to such Stock Right shall again be available for issuance from time to time pursuant to this Plan; provided that, the following Shares may not again be made available for issuance as Awards under the Plan: (i) Shares that are not issued or delivered as a result of the net settlement of an outstanding Stock-Based Award or Option and (ii) Shares that the Company acquires from a Participant for a price that is more than the original issuance price of the Share, including any Share acquired by the Company to fund employee payroll tax withholding obligations on a Stock Grant or Shares applied to payment of the exercise price for an Option.

After May 14, 2008, the number of Shares that may be subject to or delivered pursuant to any form of Stock Right other than an Option shall not exceed 20% of the aggregate of (A) the number of Shares available as to which Stock Rights may be granted under this Plan on May 15, 2008 (taking in account the Shares added on such date, but which amount does not include those 536,625 Shares as to which the Company granted Options on February 7, 2008, subject to obtaining subsequent stockholder approval of such Options) and (B) any Shares that again become available for issuance on or after May 15, 2008 pursuant to the preceding paragraph.

4. ADMINISTRATION OF THE PLAN

The Administrator shall administer the Plan. Subject to the provisions of the Plan, the Administrator is authorized to:

a. Interpret the provisions of the Plan and of any Stock Right or Stock Agreement and to make all rules and determinations that it deems necessary or advisable for the administration of the Plan;

b. Determine which Employees, Non-Employee Directors, consultants and advisors of the Company and its Affiliates shall be granted Stock Rights;

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c. Determine the number of Shares and exercise price for which a Stock Right shall be granted;

d. Specify the terms and conditions upon which a Stock Right or Stock Rights may be granted;

e. In its discretion, accelerate:

(i) the date of exercise of any installment of any Option; provided that the Administrator shall not, without the consent of the Option holder accelerate the exercise date of any installment of any Option granted to any Employee as an ISO (and not previously converted into a Non-Qualified Option pursuant to Section 20) if such acceleration would violate the annual vesting limitation contained in Section 422(d) of the Code, as described in Section 6.2.3; or

(ii) the date or dates of vesting of Shares, or lapsing of Company repurchase rights with respect to any Shares, under any Stock Rights; and

f. In its discretion, extend the exercise date for any Option;

provided, however, that all such interpretations, rules, determinations, terms and conditions shall be made and prescribed in the context of preserving the tax status under Code Section 422 of those Options which are designated as ISOs (unless the holder of any such Option otherwise agrees). Subject to the foregoing, the interpretation and construction by the Administrator of any provisions of the Plan or of any Stock Right granted under it shall be final, unless otherwise determined by the Board of Directors, if the Administrator is other than the Board of Directors.

The Administrator may employ attorneys, consultants, accountants or other persons, and the Administrator, the Company and its officers and directors shall be entitled to rely upon the advice, opinions or valuations of such persons. All actions taken and all interpretations and determinations made by the Administrator in good faith shall be final and binding upon the Company, all Participants, and all other interested persons. No member or agent of the Administrator shall be personally liable for any action, determination, or interpretation made in good faith with respect to this Plan or grants hereunder. Each member of the Administrator shall be indemnified and held harmless by the Company against any cost or expense (including counsel fees) reasonably incurred by him or her or any liability (including any sum paid in settlement of a claim with the approval of the Company) arising out of any act or omission to act in connection with this Plan unless arising out of such member's own fraud or bad faith. Such indemnification shall be in addition to any rights of indemnification the members of the Administrator may have as directors or otherwise under the by-laws of the Company, or any agreement, vote of stockholders or disinterested directors, or otherwise.

5. ELIGIBILITY FOR PARTICIPATION

The Administrator shall, in its sole discretion, name the Participants in the Plan, provided, however, that each Participant must be a Employee, Non-Employee Director, consultant or advisor of the Company or of an Affiliate at the time a Stock Right is granted. Notwithstanding the foregoing, the Administrator may authorize the grant of a Stock Right to a person not then an Employee, Non-Employee Director, consultant or advisor of the Company or of an Affiliate; *provided*, *however*, that the actual grant of such Stock Right shall be conditioned upon such person becoming eligible to become a Participant at or prior to the time of execution of the Stock Agreement evidencing such Stock Right. ISOs may be granted only to Employees. The granting of any Stock Right to any individual shall neither entitle that individual to, nor disqualify him or her from, participation in other grants of Stock Rights.

6. TERMS AND CONDITIONS OF OPTIONS

6.1 *General.* Each Option shall be set forth in writing in a Stock Agreement, duly executed by the Company and, to the extent required by law or requested by the Company, by the Participant. The Administrator may provide that Options be granted subject to such terms and conditions, consistent with the terms and conditions specifically required under this Plan, as the Administrator may deem appropriate including, without limitation, subsequent approval by the stockholders of the Company of this Plan or any amendments thereto. Each Stock Agreement shall state the option price (per share) of the Shares covered by each Option, the number of Shares to which it pertains, the date or dates on which it first is exercisable and the date after which it may no longer be exercised (subject to Sections 11, 12 and 13 of this Plan). Option rights may accrue or become exercisable in installments over a period of time, or upon the achievement of certain conditions or the attainment of stated goals or events. The Option Price per share of Shares covered by an Option (including both ISOs and Non-Qualified Options) shall not be less than one hundred percent (100%) of the Fair Market Value per share of the Common Stock on the date of grant.

6.2 *ISOs.* Each Option intended to be an ISO shall be issued only to Employees. In addition to the minimum standards set forth in Section 6.1, ISOs shall be subject to the following terms and conditions, with such additional restrictions or changes as the Administrator determines are appropriate but not in conflict with Code Section 422 and relevant regulations and rulings of the Internal Revenue Service:

6.2.1 *ISO Option Price.* In addition to the limitation set forth in Section 6.1, the Option price per share of the Shares covered by each ISO granted to a Participant who owns, directly or by reason of the applicable attribution rules in Code Section 424(d), more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or an Affiliate shall not be less than one hundred ten percent (110%) of the Fair Market Value on the date of grant.

6.2.2 *Term of ISO.* Each ISO shall expire not more than ten (10) years from the date of grant; provided, however, that an ISO granted to a Participant who owns, directly or by reason of the applicable attribution rules in Code Section 424(d), more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or an Affiliate shall expire not more than five (5) years from the date of grant.

6.2.3 *Annual Limit on Incentive Stock Options.* To the extent required for "incentive stock option" treatment under Section 422 of the Code, the aggregate Fair Market Value (determined as of the time of grant) of the Shares with respect to which ISOs granted under this Plan and any other plan of the Company or its Affiliate become exercisable for the first time by a Participant during any calendar year shall not exceed the aggregate threshold for ISOs established by the Code ($100,000 as of March 22, 2006). To the extent that any Option exceeds this limit, it shall constitute a Non-Qualified Option.

6.3 *Non-Employee Directors' Options.* Each Non-Employee Director, upon first being elected or appointed to the Board of Directors, shall be granted a Non-Qualified Option to purchase that number of Shares as shall be established for such Option grants from time to time by the Board of Directors. Each such Option shall (i) have an exercise price equal to the Fair Market Value (per share) on the date of grant of the Option, (ii) have a term of ten (10) years, and (ii) shall become cumulatively exercisable in sixteen (16) equal quarterly installments, upon completion of each full quarter of service on the Board of Directors after the date of grant. In addition, on June 1 of each year, each Non-Employee Director shall be granted a Non-Qualified Option to purchase that number of Shares as shall be established for such Option grants from time to time by the Board of Directors. Each such Option shall (i) have an exercise price equal to the Fair Market Value (per share) on the date of grant of such Option, (ii) have a term of ten (10) years, and (iii) be exercisable in full immediately on the date of grant. Any director entitled to receive an Option grant under this Section may elect to decline the Option. If a Non-Employee Director ceases to be any of an Employee, Non-Employee Director, consultant or advisor of the Company, Options granted under this Section 6.3 shall remain exercisable to the extent such Options are exercisable on the date of such termination of service, for their full term, and the provisions of Sections 11 and 13 below shall not apply to any such Options.

6.4 *Limitation on Number of Options Granted.* Notwithstanding anything in this Plan to the contrary, no Participant shall be granted an aggregate of Options and/or Stock-Based Awards under this Plan in any calendar year for more than an aggregate of 600,000 Shares (subject to adjustment pursuant to Section 17 to the extent consistent with Section 162(m) of the Code).

7. TERMS AND CONDITIONS OF STOCK GRANTS

Each Stock Grant shall be set forth in a Stock Agreement, duly executed by the Company and, to the extent required by law or requested by the Company, by the Participant. The Stock Agreement shall be in the form approved by the Administrator, with such changes and modifications to such form as the Administrator, in its discretion, shall approve with respect to any particular Participant or Participants. The Stock Agreement shall contain terms and conditions that the Administrator determines to be appropriate and in the best interest of the Company; provided, however, that the purchase price per share of the Shares covered by each Stock Grant shall not be less than the par value per Share. Each Stock Agreement shall state the number of Shares to which the Stock Grant pertains and the terms of any right of the Company to reacquire the Shares subject to the Stock Grant, including the time and events upon which such rights shall accrue and the purchase price therefor, and any restrictions on the transferability of such Shares.

8. TERMS AND CONDITIONS OF OTHER STOCK-BASED AWARDS

The Administrator shall have the right to grant other Stock-Based Awards having such terms and conditions as the Administrator may determine, including, without limitation, the grant of Shares based upon certain conditions, the grant of securities convertible into Shares and the grant of stock appreciation rights, phantom stock awards or stock units. The principal terms of each Stock-Based Award shall be set forth in a Stock Agreement, duly executed by the Company and, to the extent required by law or requested by the Company, by the Participant. The Stock Agreement shall be in a form approved by the Administrator and shall contain terms and conditions that the Administrator determines to be appropriate.

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9. EXERCISE OF OPTIONS AND ISSUANCE OF SHARES

An Option (or any part or installment thereof) shall be exercised by giving written notice to the Company or its designee, together with provision for payment of the full purchase price in accordance with this Section for the Shares as to which the Option is being exercised, and upon compliance with any other condition(s) set forth in the Stock Agreement. Such notice shall be signed by the person exercising the Option, shall state the number of Shares with respect to which the Option is being exercised and shall contain any representation required by the Plan or the Stock Agreement.

Payment of the purchase price for the Shares as to which such Option is being exercised shall be made (a) in United States dollars in cash or by check acceptable to the Administrator, or (b) at the discretion of the Administrator, (i) through delivery of shares of Common Stock not subject to any

restriction under any plan and having a Fair Market Value equal as of the date of exercise to the cash exercise price of the Option, (ii) in accordance with a cashless exercise program established with a securities brokerage firm, and approved by the Company, (iii) by any other means (excluding, however, delivery of a promissory note of the Participant) that the Administrator determines to be consistent with the purpose of this Plan and applicable law, or (iv) by any combination of the foregoing. Notwithstanding the foregoing, the Administrator shall accept only such payment on exercise of an ISO as is permitted by Section 422 of the Code.

The Company shall then as soon as is reasonably practicable deliver the Shares as to which such Option was exercised to the Participant (or to the Participant's Survivors, as the case may be). It is expressly understood that the Company may delay the delivery of the Shares in order to comply with any law or regulation that requires the Company to take any action with respect to the Shares prior to their issuance. The Shares shall, upon delivery, be fully paid, non-assessable Shares.

10. ASSIGNABILITY AND TRANSFERABILITY OF STOCK RIGHTS

By its terms, a Stock Right granted to a Participant shall not be transferable by the Participant other than by will or by the laws of descent and distribution or pursuant to a qualified domestic relations order as defined by the Code or Title I of the Employee Retirement Income Security Act or the rules thereunder or as approved by the Administrator in its discretion and set forth in the applicable Stock Agreement, provided, however, that the Administrator shall not approve any transfer of a Stock Right for consideration. Except as provided in the preceding sentence or as otherwise permitted under a Stock Agreement, a Stock Right shall be exercisable, during the Participant's lifetime only by such Participant (or by his or her legal representative) and shall not be assigned, pledged or hypothecated in any way (whether by operation of law or otherwise) and shall not be subject to execution, attachment or similar process. Any attempted transfer, assignment, pledge, hypothecation or other disposition of any Stock Right or of any rights granted thereunder contrary to the provisions of this Plan, or the levy of any attachment or similar process upon a Stock Right, shall be null and void.

11. EFFECT ON STOCK RIGHTS OF TERMINATION OF SERVICE

11.1 Except as otherwise provided in the applicable Stock Agreement or as otherwise provided in Sections 12 or 13, if a Participant ceases to be an Employee, Non-Employee Director, consultant or advisor with the Company and its Affiliates (for any reason other than termination for "cause," or death) (a "Termination of Service") before the Participant has exercised all Stock Rights, the Participant may exercise any Stock Right granted to him or her to the extent that the Stock Right is exercisable on the date of such Termination of Service. Any such Stock Right must be exercised within three months after the date of the Participant's Termination of Service, unless otherwise provided in the applicable Stock Agreement, but in no event after the expiration of the term of the Stock Right.

11.2 The provisions of this Section, and not the provisions of Section 14, shall apply to a Participant who subsequently dies after the Termination of Service; provided, however, that in the case of a Participant's death within three (3) months after the Termination of Service, the Participant's Survivors may exercise the Stock Right within one (1) year after the date of the Participant's death, but in no event after the date of expiration of the term of the Stock Right.

11.3 Notwithstanding anything herein to the contrary, if subsequent to a Participant's Termination of Service, but prior to the exercise of a Stock Right, the Administrator determines that, either prior or subsequent to the Participant's Termination of Service, the Participant engaged in conduct which would constitute "cause" (as defined in Section 12), then such Participant shall forthwith cease to have any right to exercise any Stock Right. Stock Rights that consist of Shares issued under Stock Grants for which any restrictions on transfer or Company repurchase right shall have lapsed, shall be deemed for all purposes to have been "exercised."

11.4 Absence from work with the Company or an Affiliate because of temporary disability or a leave of absence for any purpose, shall not, during the period of any such absence in accordance with Company policies, be deemed, by virtue of such absence alone, a Termination of Service, except as the Administrator may otherwise expressly provide.

11.5 Except as required by law or as set forth in a Participant's Stock Agreement, Stock Rights granted under the Plan shall not be affected by any change of a Participant's status within or among the Company and any Affiliates, so long as the Participant continues to be an employee, director, consultant or advisor of the Company or any Affiliate.

12. EFFECT ON STOCK RIGHTS OF TERMINATION OF SERVICE FOR "CAUSE"

Except as otherwise provided in a Participant's Stock Agreement or as otherwise agreed in writing by the Administrator, if a Participant's service with the Company or an Affiliate is terminated for "cause," all outstanding and unexercised (vested or unvested) Stock Rights will immediately be forfeited as of the time the Participant is notified that his or her service is terminated for "cause." Stock Rights that consist of Shares issued under Stock Grants for which any restrictions on transfer or Company repurchase right shall have lapsed, shall be deemed for all purposes to have been "exercised." For purposes of this Plan, "cause" shall include (and is not limited to) dishonesty with respect to the Company and its Affiliates, insubordination, substantial malfeasance or non-feasance of duty, unauthorized disclosure of confidential information, breach by the Participant of any provision of any employment, consulting, advisory, nondisclosure, non-competition or similar agreement between the Participant and the Company, and conduct substantially prejudicial to the business of the Company or any Affiliate. The determination of the Administrator as to the existence of cause will be conclusive on the Participant and the Company. "Cause" is not limited to events that have occurred prior to a Participant's termination of service, nor is it necessary that the Administrator's finding of "cause" occur prior to termination of service. If the Administrator determines, subsequent to a Participant's termination of service but prior to the exercise of a Stock Right, that either prior or subsequent to the Participant's termination of service the Participant engaged in conduct which would constitute "cause," then the right to exercise any Stock Right shall be forfeited as set forth in this Section 12. Any definition in an agreement between a Participant and the Company or an Affiliate which contains a conflicting definition of "cause" for termination of service and which is in effect at the time of such termination of service shall supersede the definition in this Plan with respect to that Participant.

13. EFFECT ON STOCK RIGHTS OF DEATH WHILE AN EMPLOYEE, DIRECTOR, CONSULTANT OR ADVISOR

Except as otherwise provided in a Participant's Stock Agreement, in the event of death of a Participant while the Participant is an Employee, Non-Employee Director, consultant or advisor of the Company or of an Affiliate, any Stock Rights granted to such Participant may be exercised by the Participant's Survivors to the extent exercisable but not exercised on the date of death. Any such Stock Right must be exercised within one (1) year after the date of death of the Participant but in no event after the date of expiration of the term of the Stock Right, notwithstanding that the decedent might have been

able to exercise the Stock Right as to some or all of the Shares on a later date if he or she had not died and had continued to be an Employee, Non-Employee Director, consultant or advisor.

14. RIGHTS AS A STOCKHOLDER

No Participant to whom a Stock Right (other than a Stock Grant) has been granted shall have rights as a stockholder with respect to any Shares covered by such Stock Right, except after due exercise thereof and/or tender of the full purchase price for the Shares being purchased pursuant to such exercise. The provisions of this Section 14 shall not be applicable to Shares issued pursuant to Stock Grants, provided that the Participant shall have tendered the purchase price therefore, notwithstanding the existence of stock transfer restrictions on or a Company repurchase right with respect to such Shares.

15. EMPLOYMENT OR OTHER RELATIONSHIP

Nothing in this Plan or any Stock Agreement shall be deemed to prevent the Company or an Affiliate from terminating the employment, consultancy or director status of a Participant, or to prevent a Participant from terminating his or her own employment, consultancy or director status or to give any Participant a right to be retained in employment or other service by the Company or any Affiliate for any period of time.

16. DISSOLUTION OR LIQUIDATION OF THE COMPANY

Upon the dissolution or liquidation of the Company (other than in connection with a transaction subject to the provisions of Section 17.2), all Stock Rights granted under this Plan which as of such date shall not have been exercised will

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terminate and become null and void; provided, however, that if the rights of a Participant or a Participant's Survivors have not otherwise terminated and expired, the Participant or Participant's Survivors will have the right immediately prior to such dissolution or liquidation to exercise any Stock Right to the extent that such Stock Right is exercisable as of the date immediately prior to such dissolution or liquidation. Upon the dissolution or liquidation of the Company, any outstanding Stock-Based Awards shall immediately terminate unless otherwise determined by the Administrator or specifically provided in the applicable Stock Agreement.

17. ADJUSTMENTS

Upon the occurrence of any of the following events, a Participant's rights with respect to any Stock Right granted to him or her hereunder that have not previously been exercised in full shall be adjusted as hereinafter provided, unless otherwise specifically provided in the Stock Agreement or in any employment agreement between a Participant and the Company or an Affiliate:

17.1 *Stock Dividends and Stock Splits.* If the shares of Common Stock shall be subdivided or combined into a greater or smaller number of shares or if the Company shall issue any shares of Common Stock as a stock dividend on its outstanding Common Stock, the number of shares of Common Stock subject to or deliverable upon the exercise of a Stock Right shall be appropriately increased or decreased, and appropriate adjustments shall be made in the purchase price per Share to reflect such event. The number of Shares subject to Options to be granted to Non-Employee Directors pursuant to Section 6.3 and the number of Shares subject to the limitation in Section 6.4 shall also be proportionately adjusted upon the occurrence of such events.

17.2 *Consolidations or Mergers.* In the event of a consolidation or merger in which the Company is not the surviving corporation or which results in the acquisition of substantially all the Company's outstanding stock by a single person or entity or by a group of persons and/or entities acting in concert, or in the event of the sale or transfer of substantially all the Company's assets (any of the foregoing, an "Acquisition"), all then outstanding Stock Rights (excluding any Shares subject to Stock Grants as to which all Company repurchase rights shall have lapsed) shall terminate unless assumed pursuant to clause (i) below; provided that either (i) the Administrator shall provide for the surviving or acquiring entity or an affiliate thereof to assume the outstanding Stock Rights or grant replacement stock rights in lieu thereof, any such replacement to be upon an equitable basis as determined by the Administrator, or (ii) if there is no such assumption or substitution, all outstanding Stock Rights shall become immediately and fully exercisable and all Company repurchase rights with respect to Stock Rights shall lapse, in each case immediately prior to the Acquisition, notwithstanding any restrictions or vesting conditions set forth therein.

17.3 *Recapitalization or Reorganization.* In the event of a recapitalization or reorganization of the Company (other than a transaction described in Section 17.2 above) pursuant to which securities of the Company or of another corporation are issued with respect to the outstanding shares of Common Stock, a Participant upon exercising a Stock Right shall be entitled to receive for the purchase price paid upon such exercise the securities he or she would have received if he or she had exercised such Stock Right prior to such recapitalization or reorganization.

17.4 *Adjustments to Stock Grants and Stock-Based Awards.* Upon the happening of any of the events described in Sections 17.1, 17.2 or 17.3, any outstanding Stock-Based Award and the Shares subject to any Stock Grant, vested or unvested, shall be appropriately adjusted to reflect the events described in such Sections. The Administrator shall determine the specific adjustments to be made under this Section 17.4.

17.5 *Modification of ISOs.* Notwithstanding the foregoing, any adjustments made pursuant to Section 17.1, 17.2 or 17.3 with respect to ISOs shall be made only after the Administrator determines whether such adjustments would constitute a "modification" of such ISOs (as that term is defined in Section 424(h) of the Code) or would cause any adverse tax consequences for the holders of such ISOs. If the Administrator determines that such adjustments made with respect to ISOs would constitute a modification of such ISOs, it may refrain from making such adjustments, unless the holder of an ISO specifically requests in writing that such adjustment be made and such writing indicates that the holder has full knowledge of the consequences of such "modification" on his or her income tax treatment with respect to the ISO.

18. ISSUANCES OF SECURITIES

Except as expressly provided herein, no issuance (including for this purpose the delivery of shares held in treasury) by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of Shares subject to Stock Rights. Except as

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expressly provided herein, no adjustments shall be made for dividends paid in cash or in property (including without limitation, securities) of the Company.

19. FRACTIONAL SHARES

No fractional share shall be issued under the Plan and the person exercising any Stock Right shall receive from the Company cash in lieu of any such fractional share equal to the Fair Market Value thereof.

20. CONVERSION OF ISOs INTO NON-QUALIFIED OPTIONS: TERMINATION OF ISOs

Any Options granted under this Plan that do not meet the requirements of the Code for ISOs shall automatically be deemed to be Non-Qualified Options without further action on the part of the Administrator. The Administrator, at the written request of any Participant, may in its discretion take such actions as may be necessary to convert such Participant's ISOs (or any portion thereof) that have not been exercised on the date of conversion into Non-Qualified Options at any time prior to the expiration of such ISOs, regardless of whether the Participant is an employee of the Company or an Affiliate at the time of such conversion. At the time of such conversion, the Administrator (with the consent of the Participant) may impose such conditions on the exercise of the resulting Non-Qualified Options as the Administrator in its discretion may determine, provided that such conditions shall not be inconsistent with this Plan. Nothing in the Plan shall be deemed to give any Participant the right to have such Participant's ISOs converted into Non-Qualified Options, and no such conversion shall occur until and unless the Administrator takes appropriate action. The Administrator, with the consent of the Participant, may also terminate any portion of any ISO that has not been exercised at the time of such termination.

21. WITHHOLDING

If any federal, state, or local income taxes, employment taxes, Federal Insurance Contributions Act ("FICA") withholdings or other amounts are required by applicable law or governmental regulation to be withheld from the Participant's salary, wages or other remuneration in connection with the exercise of a Stock Right, the lapsing of a Company repurchase right or a Disqualifying Disposition (as defined in Section 22), the Company may withhold from the Participant's compensation, if any, or may require that the Participant advance in cash to the Company, or to any Affiliate of the Company which employs or employed the Participant, the amount of such withholdings unless a different withholding arrangement, including the use of shares of the Company's Common Stock, is authorized by the Administrator (and permitted by law). For purposes hereof, the Fair Market Value of any shares withheld for purposes of payroll withholding shall be determined in the manner provided in Section 1 above, as of the most recent practicable date prior to the date of exercise. If the Fair Market Value of the shares withheld is less than the amount of payroll withholdings required, the Participant may be required to advance the difference in cash to the Company or the Affiliate employer. The Administrator in its discretion may condition the exercise of an Option for less than the then Fair Market Value on the Participant's payment of such additional withholding. In no event shall shares be withheld from any award in satisfaction of tax withholding requirements in an amount that exceeds the statutory minimum amount of tax withholding required.

22. NOTICE TO COMPANY OF DISQUALIFYING DISPOSITION

Each Employee who receives an ISO must agree to notify the Company in writing immediately after the Employee makes a "Disqualifying Disposition" of any Shares acquired pursuant to the exercise of an ISO. A Disqualifying Disposition is any disposition (as defined in Section 424(c) of the Code) of such Shares before the later of (a) two years from the date the Employee was granted the ISO, or (b) one year after the date the Employee acquired Shares by exercising the ISO. If the Employee has died before such Shares are sold, the notice provisions of this Section 22 shall not apply.

23. EFFECTIVE DATE; TERMINATION OF THE PLAN

This Plan shall be effective on March 29, 2006, the date of its adoption by the Board of Directors, subject to approval by the shareholders of the Company. The Plan will terminate on March 28, 2016. The Plan also may be terminated at an earlier date by vote of the Board of Directors. Termination of this Plan will not affect any Stock Rights granted or Stock Agreements executed prior to the effective date of such termination.

24. AMENDMENT OF THE PLAN; AMENDMENT OF STOCK RIGHTS

The Plan may be amended by the stockholders of the Company by affirmative vote of a majority of the votes cast at a meeting of the stockholders at which a quorum is present. The Plan also may be amended by the Board of Directors or the

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Administrator, including, without limitation, to the extent necessary to qualify any or all outstanding Stock Rights granted under the Plan or Stock Rights to be granted under the Plan for favorable federal income tax treatment (including deferral of taxation upon exercise) as may be afforded incentive stock options under Section 422 of the Code, and to the extent necessary to qualify the shares issuable upon exercise of any outstanding Stock Rights granted, or Stock Rights to be granted, under the Plan for listing on any national securities exchange or quotation in any national automated quotation system of securities dealers. Any amendment approved by the Administrator that the Administrator determines is of a scope that requires stockholder approval shall be subject to stockholder approval. No modification or amendment of the Plan shall adversely affect a Participant's rights under a Stock Right previously granted to the Participant, without such Participant's consent.

In its discretion, the Administrator may amend any term or condition of any outstanding Stock Right, provided: (i) such term or condition is not prohibited by the Plan; (ii) if the amendment is adverse to the Participant, such amendment shall be made only with the consent of the Participant or the Participant's Survivors, as the case may be; and (iii) any such amendment of any ISO shall be made only after the Administrator determines whether such amendment would constitute a "modification" of any Stock Right which is an ISO (as that term is defined in Section 424(h) of the Code) or would cause any adverse tax consequences for the holder of such ISO (in which case, the Participant's or Participant's Survivors' consent to such amendment shall be required). Notwithstanding the foregoing, the Administrator shall not have the authority to reduce the exercise price of any Option after the date of grant, except for adjustments permitted under Section 17 of this Plan.

25. GOVERNING LAW

This Plan shall be construed and enforced in accordance with the law of The Commonwealth of Massachusetts.

AMENDMENT NO. 1
TO THE
AMENDED AND RESTATED
VERTEX PHARMACEUTICALS INCORPORATED
2006 STOCK AND OPTION PLAN

Effective February 5, 2009, the Amended and Restated Vertex Pharmaceuticals Incorporated 2006 Stock and Option Plan (the "*Plan*") is hereby amended as follows:

Section 6.4 of the Plan is deleted in its entirety and the following is substituted therefor:

6.4 *Limitation on Number of Shares Granted.* Notwithstanding anything in this Plan to the contrary, no Participant shall be granted an aggregate of Options and/or Stock-Based Awards under this Plan in any calendar year for more than an aggregate of 700,000 Shares (subject to adjustment pursuant to Section 17 to the extent consistent with Section 162(m) of the Code).

AMENDMENT NO. 2
TO THE
AMENDED AND RESTATED
VERTEX PHARMACEUTICALS INCORPORATED
2006 STOCK AND OPTION PLAN

Effective May 14, 2009, the Amended and Restated Vertex Pharmaceuticals Incorporated 2006 Stock and Option Plan (the "*Plan*") is hereby amended as follows:

The first paragraph of Section 3 of the Plan is deleted in its entirety and the following is substituted therefor:

The number of Shares subject to this Plan as to which Stock Rights may be granted from time to time shall be 21,602,380 or the equivalent of such number of Shares after the Administrator, in its sole discretion, has interpreted the effect of any stock split, stock dividend, combination, recapitalization or similar transaction in accordance with Section 17 of this Plan.

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Exhibit 31.1

CERTIFICATION

I, Matthew W. Emmens, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q 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 and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 10, 2009

/s/ MATTHEW W. EMMENS

Matthew W. Emmens
Chief Executive Officer
(principal executive officer)

QuickLinks

Exhibit 31.2

CERTIFICATION

I, Ian F. Smith, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q 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 and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 10, 2009

/s/ IAN F. SMITH

Ian F. Smith
Executive Vice President and Chief Financial Officer
(principal financial officer)

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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, 2009 (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 operations of the Company.

Dated: August 10, 2009

/s/ MATTHEW W. EMMENS

Matthew W. Emmens
Chief Executive Officer
(principal executive officer)

Dated: August 10, 2009

/s/ IAN F. SMITH

Ian F. Smith
Executive Vice President and Chief Financial Officer
(principal financial officer)

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