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

# FORM 10-Q

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

**FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2013**

**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** | **04-3039129** |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| **130 Waverly Street, Cambridge, Massachusetts** | **02139-4242** |
| (Address of principal executive offices) | (Zip Code) |

Registrant's telephone number, including area code **(617) 341-6100**

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

Indicate by check mark whether the registrant 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 x 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 definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

| Large accelerated filer x | Accelerated filer o | Non-accelerated filer o | Smaller reporting company o |
|---|---|---|---|

(Do not check if a smaller reporting company)

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

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** | **221,400,864** |
|---|---|
| Class | Outstanding at April 26, 2013 |

**VERTEX PHARMACEUTICALS INCORPORATED**
**FORM 10-Q**
**FOR THE QUARTER ENDED MARCH 31, 2013**

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"We," "us," "Vertex" and the "Company" 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 Statements of Operations**

**(unaudited)**

**(in thousands, except per share amounts)**

| | Three Months Ended March 31, | |
|---|---|---|
| | **2013** | **2012** |
| Revenues: | | |
| Product revenues, net | $ 267,381 | $ 375,375 |
| Royalty revenues | 43,573 | 38,981 |
| Collaborative revenues | 17,414 | 24,381 |
| Total revenues | 328,368 | 438,737 |
| Costs and expenses: | | |
| Cost of product revenues | 30,955 | 25,918 |
| Royalty expenses | 11,788 | 13,293 |
| Research and development expenses | 218,095 | 196,371 |
| Sales, general and administrative expenses | 92,879 | 111,146 |
| Restructuring expense | 39 | 360 |
| Intangible asset impairment charge (Note I) | 412,900 | — |
| Total costs and expenses | 766,656 | 347,088 |
| Income (loss) from operations | (438,288) | 91,649 |
| Other income (expense), net | (4,652) | (3,741) |
| Income (loss) before provision for (benefit from) income taxes | (442,940) | 87,908 |
| Provision for (benefit from) income taxes | (130,313) | 32 |
| Net income (loss) | (312,627) | 87,876 |
| Net loss (income) attributable to noncontrolling interest (Alios) | 4,611 | 3,714 |
| Net income (loss) attributable to Vertex | $ (308,016) | $ 91,590 |
| Net income (loss) per share attributable to Vertex common shareholders: | | |
| Basic | $ (1.43) | $ 0.44 |
| Diluted | $ (1.43) | $ 0.43 |
| Shares used in per share calculations: | | |
| Basic | 215,421 | 208,018 |
| Diluted | 215,421 | 219,264 |

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

**VERTEX PHARMACEUTICALS INCORPORATED**

**Condensed Consolidated Statements of Comprehensive Income (Loss)**

**(unaudited)**

**(in thousands)**

| | Three Months Ended March 31, | |
|---|---|---|
| | **2013** | **2012** |
| Net income (loss) | $ (312,627) | $ 87,876 |
| Changes in other comprehensive income (loss): | | |
| Unrealized holding gains (losses) on marketable securities, net of tax | 11 | 150 |
| Foreign currency translation adjustment | (610) | 275 |
| Total changes in other comprehensive income (loss) | (599) | 425 |
| Comprehensive income (loss) | (313,226) | 88,301 |
| Comprehensive loss (income) attributable to noncontrolling interest (Alios) | 4,611 | 3,714 |
| Comprehensive income (loss) attributable to Vertex | $ (308,615) | $ 92,015 |

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

**VERTEX PHARMACEUTICALS INCORPORATED**
**Condensed Consolidated Balance Sheets**
**(unaudited)**
**(in thousands, except share and per share amounts)**

| | March 31, 2013(1) | December 31, 2012(1) |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 379,099 | $ 489,407 |
| Marketable securities, available for sale | 860,255 | 831,808 |
| Restricted cash and cash equivalents (Alios) | 63,008 | 69,983 |
| Accounts receivable, net | 194,054 | 143,250 |
| Inventories | 21,532 | 30,464 |
| Prepaid expenses and other current assets | 47,835 | 24,673 |
| Total current assets | 1,565,783 | 1,589,585 |
| Restricted cash | 31,934 | 31,934 |
| Property and equipment, net | 504,232 | 433,609 |
| Intangible assets | 250,600 | 663,500 |
| Goodwill | 30,992 | 30,992 |
| Other assets | 8,693 | 9,668 |
| Total assets | $ 2,392,234 | $ 2,759,288 |
| **Liabilities and Shareholders' Equity** | | |
| Current liabilities: | | |
| Accounts payable | $ 59,627 | $ 101,292 |
| Accrued expenses | 274,061 | 264,884 |
| Deferred revenues, current portion | 35,533 | 27,566 |
| Accrued restructuring expense, current portion | 4,911 | 4,758 |
| Capital lease obligations, current portion | 8,302 | 13,707 |
| Other liabilities, current portion | 25,205 | 20,417 |
| Total current liabilities | 407,639 | 432,624 |
| Deferred revenues, excluding current portion | 90,297 | 96,242 |
| Accrued restructuring expense, excluding current portion | 17,548 | 18,570 |
| Capital lease obligations, excluding current portion | 14,755 | 15,170 |
| Convertible senior subordinated notes (due 2015) | 400,000 | 400,000 |
| Deferred tax liability | 151,664 | 280,367 |
| Construction financing lease obligation | 316,821 | 268,031 |
| Other liabilities, excluding current portion | 16,678 | 13,902 |
| Total liabilities | 1,415,402 | 1,524,906 |
| Commitments and contingencies | | |
| Redeemable noncontrolling interest (Alios) | 38,872 | 38,530 |
| Shareholders' equity: | | |
| Preferred stock, $0.01 par value; 1,000,000 shares authorized; none issued and outstanding at March 31, 2013 and December 31, 2012 | — | — |
| Common stock, $0.01 par value; 300,000,000 shares authorized at March 31, 2013 and December 31, 2012; 218,651,704 and 217,286,868 shares issued and outstanding at March 31, 2013 and December 31, 2012, respectively | 2,160 | 2,149 |
| Additional paid-in capital | 4,574,987 | 4,519,448 |
| Accumulated other comprehensive loss | (1,149) | (550) |
| Accumulated deficit | (3,829,883) | (3,521,867) |
| Total Vertex shareholders' equity | 746,115 | 999,180 |
| Noncontrolling interest (Alios) | 191,845 | 196,672 |
| Total shareholders' equity | 937,960 | 1,195,852 |
| Total liabilities and shareholders' equity | $ 2,392,234 | $ 2,759,288 |

(1) Amounts include the assets and liabilities of Vertex's variable interest entity ("VIE"), Alios BioPharma, Inc. ("Alios"). Vertex's interests and obligations with respect to the VIE's assets and liabilities are limited to those accorded to Vertex in its agreement with Alios. See Note C, "Collaborative Arrangements," to these condensed consolidated financial statements for amounts.

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

## VERTEX PHARMACEUTICALS INCORPORATED

## Condensed Consolidated Statements of Shareholders' Equity and Noncontrolling Interest

## (unaudited)

## (in thousands)

| | Common Stock | | Additional Paid-in Capital | Accumulated Other Comprehensive Income (Loss) | Accumulated Deficit | Total Vertex Shareholders' Equity | Noncontrolling Interest (Alios) | Total Shareholders' Equity | Redeemable Noncontrolling Interest (Alios) |
|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | | | | | | | |
| Balance, December 31, 2011 | 209,304 | $ 2,072 | $ 4,200,659 | $ (1,053) | $ (3,414,835) | $ 786,843 | $ 141,633 | $ 928,476 | $ 37,036 |
| Unrealized holding gains (losses) on marketable securities, net of tax | | | | 150 | | 150 | | 150 | |
| Foreign currency translation adjustment | | | | 275 | | 275 | | 275 | |
| Net income (loss) | | | | | 91,590 | 91,590 | (3,714) | 87,876 | |
| Issuances of common stock: | | | | | | | | | |
| Benefit plans | 1,559 | 15 | 23,521 | | | 23,536 | 63 | 23,599 | |
| Stock-based compensation expense | | | 27,877 | | | 27,877 | 61 | 27,938 | |
| Tax benefit from equity compensation | | | 227 | | | 227 | — | 227 | |
| Change in liquidation value of noncontrolling interest | | | | | | | (460) | (460) | 460 |
| Balance, March 31, 2012 | 210,863 | $ 2,087 | $ 4,252,284 | $ (628) | $ (3,323,245) | $ 930,498 | $ 137,583 | $ 1,068,081 | $ 37,496 |
| | | | | | | | | | |
| Balance, December 31, 2012 | 217,287 | $ 2,149 | $ 4,519,448 | $ (550) | $ (3,521,867) | $ 999,180 | $ 196,672 | $ 1,195,852 | $ 38,530 |
| Unrealized holding gains (losses) on marketable securities, net of tax | | | | 11 | | 11 | | 11 | |
| Foreign currency translation adjustment | | | | (610) | | (610) | | (610) | |
| Net income (loss) | | | | | (308,016) | (308,016) | (4,611) | (312,627) | |
| Issuances of common stock: | | | | | | | | | |
| Benefit plans | 1,365 | 11 | 24,088 | | | 24,099 | 3 | 24,102 | |
| Stock-based compensation expense | | | 31,451 | | | 31,451 | 123 | 31,574 | |
| Change in liquidation value of noncontrolling interest | | | | | | | (342) | (342) | 342 |
| Balance, March 31, 2013 | 218,652 | $ 2,160 | $ 4,574,987 | $ (1,149) | $ (3,829,883) | $ 746,115 | $ 191,845 | $ 937,960 | $ 38,872 |

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)**

| | Three Months Ended March 31, | |
|---|---|---|
| | **2013** | **2012** |
| Cash flows from operating activities: | | |
| Net income (loss) | $ (312,627) | $ 87,876 |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization expense | 10,691 | 8,560 |
| Stock-based compensation expense | 31,275 | 27,688 |
| Other non-cash based compensation expense | 2,432 | 2,292 |
| Intangible asset impairment charge | 412,900 | — |
| Deferred income taxes | (128,703) | (2,281) |
| Loss on disposal of property and equipment | 23 | — |
| Other non-cash items, net | (998) | 18 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable, net | (48,834) | (49,093) |
| Inventories | 9,231 | (16,915) |
| Prepaid expenses and other current assets | (24,986) | (20,541) |
| Accounts payable | (40,571) | (1,400) |
| Accrued expenses and other liabilities | 23,236 | (15,769) |
| Excess tax benefit from share-based payment arrangements | — | (227) |
| Accrued restructuring expense | (869) | (840) |
| Deferred revenues | 2,022 | (16,452) |
| Net cash provided by (used in) operating activities | (65,778) | 2,916 |
| Cash flows from investing activities: | | |
| Purchases of marketable securities | (458,971) | (403,179) |
| Sales and maturities of marketable securities | 430,535 | 183,987 |
| Expenditures for property and equipment | (16,607) | (6,155) |
| Decrease (increase) in restricted cash and cash equivalents (Alios) | 6,975 | (6,139) |
| Decrease (increase) in other assets | 472 | (216) |
| Net cash used in investing activities | (37,596) | (231,702) |
| Cash flows from financing activities: | | |
| Excess tax benefit from share-based payment arrangements | — | 227 |
| Issuances of common stock from employee benefit plans | 21,670 | 21,298 |
| Payments on capital lease obligations | (10,096) | — |
| Payments on construction financing lease obligation | (17,709) | — |
| Net cash provided by (used in) financing activities | (6,135) | 21,525 |
| Effect of changes in exchange rates on cash | (799) | (136) |
| Net decrease in cash and cash equivalents | (110,308) | (207,397) |
| Cash and cash equivalents—beginning of period | 489,407 | 475,320 |
| Cash and cash equivalents—end of period | $ 379,099 | $ 267,923 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid for income taxes | $ 1,541 | $ — |
| Capitalization of construction in-process related to construction financing lease obligation | $ 66,052 | $ 38,229 |

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

**VERTEX PHARMACEUTICALS INCORPORATED**

**Notes to Condensed Consolidated Financial Statements**

**(unaudited)**

## A. Basis of Presentation and Accounting Policies

*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 (i) the Company, (ii) its wholly-owned subsidiaries and (iii) Alios BioPharma, Inc. (“Alios”), a collaborator that is a variable interest entity (a “VIE”) for which the Company is deemed under applicable accounting guidance to be the primary beneficiary. All material intercompany balances and transactions have been eliminated. The Company operates in one segment, pharmaceuticals.

Certain information and footnote disclosures normally included in the Company's annual financial statements have been condensed or omitted. These 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 March 31, 2013 and 2012.

The results of operations for the interim periods are not necessarily indicative of the results of operations to be expected for the full fiscal year. These interim financial statements should be read in conjunction with the audited financial statements for the year ended December 31, 2012, which are contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2012 that was filed with the Securities and Exchange Commission (the "SEC") on March 1, 2013 (the "2012 Annual Report on Form 10-K").

*Use of Estimates and Summary of Significant Accounting Policies*

The preparation of condensed consolidated financial statements in accordance with GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements, and the amounts of revenues and expenses during the reported periods. Significant estimates in these condensed consolidated financial statements have been made in connection with the calculation of revenues, inventories, research and development expenses, stock-based compensation expense, restructuring expense, the fair value of intangible assets, noncontrolling interest (Alios) and the income tax provision. The Company bases its estimates on historical experience and various other assumptions, including in certain circumstances future projections, that management believes to be reasonable under the circumstances. Actual results could differ from those estimates. Changes in estimates are reflected in reported results in the period in which they become known.

The Company's significant accounting policies are described in Note A, "Nature of Business and Accounting Policies," in the 2012 Annual Report on Form 10-K.

*Recent Accounting Pronouncements*

For a discussion of recent accounting pronouncements please refer to Note A, "Nature of Business and Accounting Policies—Recent Accounting Pronouncements," in the 2012 Annual Report on Form 10-K. The Company did not adopt any new accounting pronouncements during the three months ended March 31, 2013 that had a material effect on the Company's condensed consolidated financial statements.

## B. Product Revenues, Net

The Company sells its products principally to a limited number of major and selected regional wholesalers and specialty pharmacy providers in North America that subsequently resell the products to patients and health care providers, as well as government-owned and supported customers in Europe (collectively, its “Customers”). The Company recognizes net revenues from product sales upon delivery as long as (i) there is persuasive evidence that an arrangement exists between the Company and the Customer, (ii) collectibility is reasonably assured and (iii) the price is fixed or determinable.

**VERTEX PHARMACEUTICALS INCORPORATED**

**Notes to Condensed Consolidated Financial Statements (Continued)**

**(unaudited)**

The Company has written contracts with its Customers and delivery occurs when a Customer receives a shipment of a product. The Company evaluates the creditworthiness of each of its Customers to determine whether revenues can be recognized upon delivery, subject to satisfaction of the other requirements, or whether recognition is required to be delayed until receipt of payment. In order to conclude that the price is fixed or determinable, the Company must be able to (i) calculate its gross product revenues from sales to Customers and (ii) reasonably estimate its net product revenues. The Company calculates gross product revenues based on the price that the Company charges its Customers. The Company estimates its net product revenues by deducting from its gross product revenues (a) trade allowances, such as invoice discounts for prompt payment and customer fees, (b) estimated government and private payor rebates, chargebacks and discounts, (c) estimated reserves for expected product returns and (d) estimated costs of incentives offered to certain indirect customers, including patients.

The following table summarizes activity in each of the product revenue allowance and reserve categories for the three months ended March 31, 2013:

| | Trade Allowances | Rebates, Chargebacks and Discounts | Product Returns | Other Incentives | Total |
|---|---|---|---|---|---|
| | | | (in thousands) | | |
| Balance at December 31, 2012 | $ 5,416 | $ 63,560 | $ 2,852 | $ 3,565 | $ 75,393 |
| Provision related to current period sales | 11,226 | 52,334 | 872 | 3,720 | 68,152 |
| Adjustments related to prior period sales | 107 | 1,644 | 8,209 | (138) | 9,822 |
| Credits/payments made | (11,728) | (51,132) | (1,009) | (3,883) | (67,752) |
| Balance at March 31, 2013 | $ 5,021 | $ 66,406 | $ 10,924 | $ 3,264 | $ 85,615 |

## C. Collaborative Arrangements

*Janssen Pharmaceutica, N.V.*

In 2006, the Company entered into a collaboration agreement with Janssen Pharmaceutica, N.V. ("Janssen") for the development, manufacture and commercialization of telaprevir, which Janssen began marketing under the brand name INCIVO in certain of its territories in September 2011. Under the collaboration agreement, Janssen 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 specified countries in Asia, for Janssen) and has exclusive rights to commercialize telaprevir in its territories including Europe, South America, the Middle East, Africa and Australia.

Janssen pays the Company a tiered royalty averaging in the mid-20% range as a percentage of net sales of INCIVO in Janssen's territories. Janssen is required under the agreement to use diligent efforts to maximize net sales of INCIVO in its territories through its commercial marketing, pricing and contracting strategies. Janssen is responsible for certain third-party royalties on net sales of INCIVO in its territories.

Janssen made a $165.0 million up-front license payment to the Company in 2006. The up-front license payment is being amortized over the Company's estimated period of performance under the collaboration agreement. As of March 31, 2013, there were $40.4 million in deferred revenues related to this up-front license payment that the Company expects to recognize over the remaining estimated period of performance.

Under the collaboration agreement, Janssen agreed to make contingent milestone payments for successful development, approval and launch of telaprevir as a product in its territories. At the inception of the agreement, the Company determined that all of these contingent milestones were substantive and would result in revenues in the period in which the milestone was achieved. The Company has earned $350.0 million of these contingent milestone payments and does not expect to receive any further milestone payments under this agreement.

Under the Janssen collaboration agreement, each party incurs internal and external reimbursable expenses related to the telaprevir development program and is reimbursed by the other party for 50% of these expenses. The Company recognizes

**VERTEX PHARMACEUTICALS INCORPORATED**

**Notes to Condensed Consolidated Financial Statements (Continued)**

**(unaudited)**

the full amount of the reimbursable costs it incurs as research and development expenses on its condensed consolidated statements of operations. The Company recognizes the amounts that Janssen is obligated to pay the Company with respect to reimbursable expenses, net of reimbursable expenses incurred by Janssen, as collaborative revenues. In the three months ended March 31, 2013 and 2012, Janssen incurred more reimbursable costs than the Company, and the net amounts payable by the Company to reimburse Janssen were recorded as a reduction of collaborative revenues.

Each of the parties is responsible for drug supply in its territories. During the three months ended March 31, 2013 and 2012, the Company provided Janssen certain services through the Company's third-party manufacturing network for telaprevir. Reimbursements from Janssen for these manufacturing services were recorded as collaborative revenues.

Janssen may terminate the collaboration agreement upon the later of (i) one year's advance notice and (ii) such period as may be required to assign and transfer to the Company specified filings and approvals. The agreement also may be terminated by either party for a material breach by the other, subject to notice and cure provisions. Unless earlier terminated, the agreement will continue in effect until the expiration of Janssen's royalty obligations, which expire on a country-by-country basis on the later of (a) the last-to-expire patent covering INCIVO or (b) ten years after the first commercial sale in the country. In the European Union, the Company has a patent covering the composition-of-matter of INCIVO that expires in 2026.

During the three months ended March 31, 2013 and 2012, the Company recognized the following revenues attributable to the Janssen collaboration:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2013 | 2012 |
| | (in thousands) | |
| Royalty revenues | $ 39,044 | $ 32,884 |
| Collaborative revenues: | | |
| Amortized portion of up-front payment | $ 3,107 | $ 3,107 |
| Net reimbursement (payment) for telaprevir development costs | (27) | (1,139) |
| Reimbursement for manufacturing services | 10,299 | 4,449 |
| Total collaborative revenues attributable to the Janssen collaboration | $ 13,379 | $ 6,417 |
| Total revenues attributable to the Janssen collaboration | $ 52,423 | $ 39,301 |

*Mitsubishi Tanabe Pharma Corporation*

The Company has a collaboration agreement (the "MTPC Agreement") with Mitsubishi Tanabe Pharma Corporation ("Mitsubishi Tanabe") pursuant to which Mitsubishi Tanabe has a fully-paid license to manufacture and commercialize TELAVIC (the brand name under which Mitsubishi Tanabe is marketing telaprevir) in Japan and other specified countries in Asia.

The parties entered into the MTPC Agreement in 2004 and amended it in 2009. Pursuant to the MTPC Agreement, Mitsubishi Tanabe provided financial and other support for the development and commercialization of telaprevir, made a $105.0 million payment in connection with the 2009 amendment of the collaboration agreement and made a $65.0 million commercial milestone payment recognized as collaborative revenues in 2011. There are no further payments under this collaboration agreement. Mitsubishi Tanabe is responsible for its own development and manufacturing costs in its territory.

Mitsubishi Tanabe may terminate the MTPC Agreement at any time without cause upon 60 days' prior written notice to the Company. The MTPC Agreement also may be terminated by either party for a material breach by the other, subject to notice and cure provisions. Unless earlier terminated, the MTPC Agreement will continue in effect until the expiration of the last-to-expire patent covering telaprevir in Mitsubishi Tanabe's territories. In Japan, the Company has a patent covering the composition-of-matter of telaprevir that expires in 2021.

**VERTEX PHARMACEUTICALS INCORPORATED**

**Notes to Condensed Consolidated Financial Statements (Continued)**

**(unaudited)**

The $105.0 million payment that the Company received in 2009 in connection with the amendment to the MTPC Agreement was a nonrefundable, up-front license fee, and revenues related to the 2009 payment were recognized on a straight-line basis over the period of performance of the Company's obligations under the amended agreement. The final deferred revenues related to the 2009 up-front license payment were recognized in April 2012. In connection with the amendment to the MTPC Agreement, the Company supplied manufacturing services to Mitsubishi Tanabe, until April 2012, through the Company's third-party manufacturing network for telaprevir.

The Company recognized no collaborative revenues attributable to the Mitsubishi Tanabe collaboration in the first quarter of 2013 and $14.0 million in collaborative revenues attributable to the Mitsubishi Tanabe collaboration in the first quarter of 2012.

*Cystic Fibrosis Foundation Therapeutics Incorporated*

In April 2011, the Company entered into an amendment (the "April 2011 Amendment") to its existing collaboration agreement with Cystic Fibrosis Foundation Therapeutics Incorporated ("CFFT") pursuant to which CFFT agreed to provide financial support for (i) development activities for VX-661, a corrector compound discovered under the collaboration, and (ii) additional research and development activities directed at discovering new corrector compounds.

The Company entered into the original collaboration agreement with CFFT in 2004 and amended it several times prior to 2011 to, among other things, provide partial funding for its cystic fibrosis drug discovery and development efforts. In 2006, the Company received a $1.5 million milestone payment from CFFT. There are no additional milestones payable by CFFT to the Company pursuant to the collaboration agreement, as amended. Under the April 2011 Amendment, CFFT agreed to provide the Company with up to $75.0 million in funding over approximately five years for corrector-compound research and development activities. The Company retains the right to develop and commercialize KALYDECO (ivacaftor), VX-809, VX-661 and any other compounds discovered during the course of the research collaboration with CFFT. The Company recognized collaborative revenues from this collaboration of $3.6 million and $3.9 million in the three months ended March 31, 2013 and 2012, respectively.

In the original agreement, as amended prior to the April 2011 Amendment, the Company agreed to pay CFFT tiered royalties calculated as a percentage, ranging from single digits to sub-teens, of annual net sales of any approved drugs discovered during the research term that ended in 2008, including KALYDECO, VX-809 and VX-661. The April 2011 Amendment provides for a tiered royalty in the same range on net sales of corrector compounds discovered during the research term that began in 2011. In each of the third quarter of 2012 and first quarter of 2013, CFFT earned a commercial milestone payment of $9.3 million from the Company upon achievement of certain sales levels for KALYDECO. These milestones were reflected in the Company's cost of product revenues. There are no additional commercial milestone payments payable by the Company to CFFT related to sales levels for KALYDECO. The Company also is obligated to make up to two one-time commercial milestone payments to CFFT upon achievement of certain sales levels for corrector compounds such as VX-809 or VX-661.

The Company began marketing KALYDECO in the United States in the first quarter of 2012 and began marketing KALYDECO in certain countries in the European Union in the third quarter of 2012. The Company has royalty obligations to CFFT for each compound commercialized pursuant to this collaboration until the expiration of patents covering that compound. The Company has patents in the United States and European Union covering the composition-of-matter of ivacaftor that expire in 2027 and 2025, respectively, subject to potential patent life extensions. CFFT may terminate its funding obligations under the collaboration, as amended, in certain circumstances, in which case there will be a proportional adjustment to the royalty rates and commercial milestone payments for certain corrector compounds. The collaboration also may be terminated by either party for a material breach by the other, subject to notice and cure provisions.

**VERTEX PHARMACEUTICALS INCORPORATED**

**Notes to Condensed Consolidated Financial Statements (Continued)**

**(unaudited)**

*Alios BioPharma, Inc.*

License and Collaboration Agreement

In June 2011, the Company entered into a license and collaboration agreement (the "Alios Agreement") with Alios, a privately-held biotechnology company. The Company and Alios are collaborating on the research, development and commercialization of an HCV nucleotide analogue discovered by Alios, ALS-2200 (now formulated as VX-135), which is designed to act on the HCV polymerase.

Under the terms of the Alios Agreement, the Company received exclusive worldwide rights to ALS-2200 (VX-135) and ALS-2158, a second HCV nucleotide analogue discovered by Alios that was only developed pursuant to the Alios Agreement through the third quarter of 2012. The Company has the option to select additional compounds discovered in the research program. Upon entering into the Alios Agreement, the Company paid Alios a $60.0 million up-front payment. As of March 31, 2013, Alios had earned an aggregate of $60.0 million in development milestone payments pursuant to the Alios Agreement, including a $25.0 million milestone payment in 2012. The Alios Agreement provides for development milestone payments to Alios of up to an additional $312.5 million if VX-135 is approved and commercialized. The Alios Agreement also provides for additional development milestone payments to Alios if a second HCV nucleotide analogue is approved and commercialized. In addition, Alios is eligible to receive commercial milestone payments of up to $750.0 million, as well as tiered royalties on net sales of approved drugs.

Alios and the Company began clinical development of ALS-2200 (VX-135) in December 2011. The Company is responsible for all costs related to development, commercialization and manufacturing of compounds licensed to the Company pursuant to the Alios Agreement, provided funding to Alios to conduct the Phase 1 clinical trials associated with the Alios Agreement and is providing funding for a research program directed to the discovery of additional HCV nucleotide analogues that act on the HCV polymerase.

The Company may terminate the Alios Agreement (i) upon 30 days' notice to Alios if the Company ceases development after VX-135 has experienced a technical failure and/or (ii) upon 60 days' notice to Alios at any time after the Company completes specified Phase 2a clinical trials. The Alios Agreement also may be terminated by either party for a material breach by the other, and by Alios for the Company's inactivity or if the Company challenges certain Alios patents, in each case subject to notice and cure provisions. Unless earlier terminated, the Alios Agreement will continue in effect until the expiration of the Company's royalty obligations, which expire on a country-by-country basis on the later of (a) the date the last-to-expire patent covering a licensed product expires or (b) ten years after the first commercial sale in the country.

Alios is continuing to operate as a separate entity, is engaged in other programs directed at developing novel drugs that are not covered by the Alios Agreement and maintains ownership of the underlying patent rights that are licensed to the Company pursuant to the Alios Agreement. Under applicable accounting guidance, the Company has determined that Alios is a VIE, that Alios is a business and that the Company is Alios' primary beneficiary. The Company based these determinations on, among other factors, the significance to Alios of the licensed compounds and on the Company's power, through the joint steering committee for the licensed compounds established under the Alios Agreement, to direct the activities that most significantly affect the economic performance of Alios.

Accordingly, the Company consolidated Alios' statements of operations and balance sheet with the Company's consolidated financial statements beginning on June 13, 2011. However, the Company's interests in Alios are limited to those accorded to the Company in the Alios Agreement. In particular, the Company did not acquire any equity interest in Alios, any interest in Alios' cash and cash equivalents or any control over Alios' activities that do not relate to the Alios Agreement. Alios does not have any rights to the Company's assets except as provided in the Alios Agreement.

Noncontrolling Interest (Alios)

The Company records noncontrolling interest (Alios) on two lines on its condensed consolidated balance sheets. The noncontrolling interest (Alios) is reflected on two separate lines because Alios has both common shareholders and preferred shareholders that are entitled to redemption rights in certain circumstances. The Company records net loss (income)

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**Notes to Condensed Consolidated Financial Statements (Continued)**

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attributable to noncontrolling interest (Alios) on its condensed consolidated statements of operations, reflecting Alios' net loss (income) for the reporting period, adjusted for changes in the fair value of contingent milestone and royalty payments, which is evaluated each reporting period. A summary of net loss (income) attributable to noncontrolling interest (Alios) for the three months ended March 31, 2013 and 2012, is as follows:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2013 | 2012 |
| | (in thousands) | |
| Loss (income) before provision for (benefit from) income taxes | $ 5,297 | $ 5,024 |
| Decrease (increase) in fair value of contingent milestone and royalty payments | 2,740 | 970 |
| Provision for (benefit from) income taxes | (3,426) | (2,280) |
| Net loss (income) attributable to noncontrolling interest (Alios) | $ 4,611 | $ 3,714 |

The Company uses present-value models to determine the estimated fair value of the contingent milestone and royalty payments, based on assumptions regarding the probability of achieving the relevant milestones, estimates regarding the time to develop drug candidates, estimates of future product sales and the appropriate discount rates. The Company bases its estimate of the probability of achieving the relevant milestones on industry data for similar assets and its own experience. The discount rates used in the valuation model represent a measure of credit risk and market risk associated with settling the liability. Significant judgment is used in determining the appropriateness of these assumptions at each reporting period. Changes in these assumptions could have a material effect on the fair value of the contingent milestone and royalty payments.

In the three months ended March 31, 2013 and 2012, the fair value of the contingent milestone payments and royalties payable by Vertex to Alios related to the HCV nucleotide analogue program decreased by $2.7 million and $1.0 million, respectively, which decreased net loss attributable to Vertex in the first quarter of 2013 and increased net income attributable to Vertex in the first quarter of 2012. If VX-135 continues to advance in clinical development, the Company expects it will record increases in the fair value of the contingent milestone and royalty payments in future periods. Changes in the fair value of these contingent milestone and royalty payments, and the effects of these changes on net income (loss) attributable to Vertex, may be material in future periods.

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Alios Balance Sheet Information

The following table summarizes items related to Alios included in the Company's condensed consolidated balance sheets:

| | As of March 31, 2013 | As of December 31, 2012 |
|---|---|---|
| | (in thousands) | |
| Restricted cash and cash equivalents (Alios) | $ 63,008 | $ 69,983 |
| Prepaid expenses and other current assets | 3,776 | 672 |
| Property and equipment, net | 1,623 | 1,728 |
| Intangible assets | 250,600 | 250,600 |
| Goodwill | 4,890 | 4,890 |
| Other assets | 990 | 861 |
| Accounts payable | 1,975 | 1,054 |
| Accrued expenses | 5,019 | 6,099 |
| Deferred tax liability | 151,664 | 152,781 |
| Other liabilities, excluding current portion | 648 | 1,625 |
| Redeemable noncontrolling interest (Alios) | 38,872 | 38,530 |
| Noncontrolling interest (Alios) | 191,845 | 196,672 |

The Company has recorded Alios' cash and cash equivalents as restricted cash and cash equivalents (Alios) because (i) the Company does not have any interest in or control over Alios' cash and cash equivalents and (ii) the Alios Agreement does not provide for these assets to be used for the development of the assets that the Company licensed from Alios pursuant to the Alios Agreement. Assets recorded as a result of consolidating Alios' financial condition into the Company's condensed consolidated balance sheets do not represent additional assets that could be used to satisfy claims against the Company's general assets.

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## D. Net Income (Loss) Per Share Attributable to Vertex Common Shareholders

The following table sets forth the computation of basic and diluted net income (loss) attributable to Vertex per common share in conformity with the two-class method for the three months ended March 31, 2013 and 2012:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2013 | 2012 |
| | (in thousands, except per share amounts) | |
| *Basic net income (loss) attributable to Vertex per common share calculation:* | | |
| Net income (loss) attributable to Vertex common shareholders | $ (308,016) | $ 91,590 |
| Less: Undistributed earnings allocated to participating securities | — | (906) |
| Net income (loss) attributable to Vertex common shareholders—basic | $ (308,016) | $ 90,684 |
| Basic weighted-average common shares outstanding | 215,421 | 208,018 |
| Basic net income (loss) attributable to Vertex per common share | $ (1.43) | $ 0.44 |
| *Diluted net income (loss) attributable to Vertex per common share calculation:* | | |
| Net income (loss) attributable to Vertex common shareholders | $ (308,016) | $ 91,590 |
| Less: Undistributed earnings allocated to participating securities | — | (860) |
| Plus: Interest expense and amortization of deferred issuance costs related to convertible senior subordinated notes | — | 3,749 |
| Net income (loss) attributable to Vertex common shareholders—diluted | $ (308,016) | $ 94,479 |
| Weighted-average shares used to compute basic net income (loss) per common share | 215,421 | 208,018 |
| Effect of potentially dilutive securities: | | |
| Convertible senior subordinated notes | — | 8,891 |
| Stock options | — | 2,289 |
| Other | — | 66 |
| Weighted-average shares used to compute diluted net income (loss) per common share | 215,421 | 219,264 |
| Diluted net income (loss) attributable to Vertex per common share | $ (1.43) | $ 0.43 |

The Company did not include the securities described in the following table in the computation of the diluted net income (loss) attributable to Vertex per common share calculations because the effect would have been anti-dilutive during each such period:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2013 | 2012 |
| | (in thousands) | |
| Stock options | 21,848 | 13,768 |
| Convertible senior subordinated notes | 8,192 | — |
| Unvested restricted stock and restricted stock units | 2,682 | 16 |

## E. Fair Value Measurements

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

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**Notes to Condensed Consolidated Financial Statements (Continued)**

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participants would price assets and liabilities). The following fair value hierarchy is used to classify assets and liabilities based on the observable inputs and unobservable inputs used in order to value the 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 the credit quality standards outlined in the Company's investment policy. This policy also limits the amount of credit exposure to any one issue or type of instrument. As of March 31, 2013, the Company's investments were in a money market fund, short-term U.S. Treasury securities, short-term government-sponsored enterprise securities, corporate debt securities and commercial paper.

As of March 31, 2013, all of the Company's financial assets that were subject to fair value measurements were valued using observable inputs. The Company's financial assets valued based on Level 1 inputs consisted of a money market fund, U.S. Treasury securities and government-sponsored enterprise securities. The Company's financial assets valued based on Level 2 inputs consisted of corporate debt securities and commercial paper, which consist of investments in highly-rated investment-grade corporations. During the three months ended March 31, 2013 and 2012, the Company did not record an other-than-temporary impairment charge related to its financial assets. The Company's noncontrolling interest (Alios) includes the fair value of the contingent milestone and royalty payments, which is valued based on Level 3 inputs. Please refer to Note C, "Collaborative Arrangements," for further information.

The following table sets forth the Company's financial assets (excluding Alios' cash equivalents) subject to fair value measurements:

| | Fair Value Measurements as of March 31, 2013 | | | |
|---|---|---|---|---|
| | | Fair Value Hierarchy | | |
| | Total | Level 1 | Level 2 | Level 3 |
| | (in thousands) | | | |
| Financial assets carried at fair value: | | | | |
| Cash equivalents: | | | | |
| Money market funds | $ 201,831 | $ 201,831 | $ — | $ — |
| Government-sponsored enterprise securities | 38,588 | 38,588 | — | — |
| Marketable securities: | | | | |
| U.S. Treasury securities | 13,205 | 13,205 | — | — |
| Government-sponsored enterprise securities | 550,478 | 550,478 | — | — |
| Commercial paper | 216,942 | — | 216,942 | — |
| Corporate debt securities | 79,630 | — | 79,630 | — |
| Restricted cash | 31,934 | 31,934 | — | — |
| Total | $ 1,132,608 | $ 836,036 | $ 296,572 | $ — |

Alios' cash equivalents of $60.1 million as of March 31, 2013 consisted of money market funds, which were valued based on Level 1 inputs.

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As of March 31, 2013, the Company had $400.0 million in aggregate principal amount of 3.35% convertible senior subordinated notes due 2015 (the "2015 Notes") on its condensed consolidated balance sheet. As of March 31, 2013, these 2015 Notes had a fair value of approximately $483 million based on Level 2 inputs.

## F. Marketable Securities

A summary of the Company's cash, cash equivalents and marketable securities is shown below:

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| | | (in thousands) | | |
| **As of March 31, 2013** | | | | |
| Cash and cash equivalents: | | | | |
| Cash and money market funds | $ 340,511 | $ — | $ — | $ 340,511 |
| Government-sponsored enterprise securities | 38,584 | 4 | — | 38,588 |
| Total cash and cash equivalents | $ 379,095 | $ 4 | $ — | $ 379,099 |
| Marketable securities: | | | | |
| U.S. Treasury securities (due within 1 year) | $ 13,204 | $ 1 | $ — | $ 13,205 |
| Government-sponsored enterprise securities (due within 1 year) | 550,418 | 72 | (12) | 550,478 |
| Commercial paper (due within 1 year) | 216,776 | 166 | — | 216,942 |
| Corporate debt securities (due within 1 year) | 59,666 | 3 | (19) | 59,650 |
| Corporate debt securities (due after 1 year through 5 years) | 19,988 | 1 | (9) | 19,980 |
| Total marketable securities | $ 860,052 | $ 243 | $ (40) | $ 860,255 |
| Total cash, cash equivalents and marketable securities | $ 1,239,147 | $ 247 | $ (40) | $ 1,239,354 |
| **As of December 31, 2012** | | | | |
| Cash and cash equivalents: | | | | |
| Cash and money market funds | $ 489,407 | $ — | $ — | $ 489,407 |
| Total cash and cash equivalents | $ 489,407 | $ — | $ — | $ 489,407 |
| Marketable securities: | | | | |
| U.S. Treasury securities (due within 1 year) | $ 111,350 | $ 2 | $ (2) | $ 111,350 |
| Government-sponsored enterprise securities (due within 1 year) | 440,181 | 49 | (5) | 440,225 |
| Commercial paper (due within 1 year) | 225,294 | 155 | — | 225,449 |
| Corporate debt securities (due within 1 year) | 15,429 | 1 | (1) | 15,429 |
| Corporate debt securities (due after 1 year through 5 years) | 39,358 | 10 | (13) | 39,355 |
| Total marketable securities | $ 831,612 | $ 217 | $ (21) | $ 831,808 |
| Total cash, cash equivalents and marketable securities | $ 1,321,019 | $ 217 | $ (21) | $ 1,321,215 |

Alios' $63.0 million and $70.0 million, respectively, of cash and money market funds as of March 31, 2013 and December 31, 2012, recorded on the Company's condensed consolidated balance sheets in "Restricted cash and cash equivalents (Alios)," are not included in the above table.

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**Notes to Condensed Consolidated Financial Statements (Continued)**

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## G. Inventories

The following table sets forth the Company's inventories by product:

| | As of March 31, 2013 | As of December 31, 2012 |
|---|---|---|
| | (in thousands) | |
| INCIVEK | $ 12,754 | $ 22,792 |
| KALYDECO | 8,778 | 7,672 |
| Total | $ 21,532 | $ 30,464 |

The following table sets forth the Company’s inventories by type:

| | As of March 31, 2013 | As of December 31, 2012 |
|---|---|---|
| | (in thousands) | |
| Raw materials | $ 4,796 | $ 3,754 |
| Work-in-process | 2,930 | 11,317 |
| Finished goods | 13,806 | 15,393 |
| Total | $ 21,532 | $ 30,464 |

## H. Fan Pier Leases

In 2011, the Company entered into two leases, pursuant to which the Company agreed to lease approximately 1.1 million square feet of office and laboratory space in two buildings (the "Buildings") that the landlord is building at Fan Pier in Boston, Massachusetts (the “Fan Pier Leases”). The Company expects to commence lease payments in December 2013 and to make payments for the period ending 15 years from the commencement date. The Company has an option to extend the term of the Fan Pier Leases for an additional ten years.

Because the Company is involved in the construction project, including having responsibility to pay for a portion of the costs of finish work and structural elements of the Buildings, the Company is deemed for accounting purposes to be the owner of the Buildings during the construction period. Accordingly, the Company has recorded project construction costs incurred by the landlord as an asset and a related financing obligation in “Property and equipment, net” and “Construction financing lease obligation,” respectively, on the Company’s condensed consolidated balance sheets. The Company bifurcates its future lease payments pursuant to the Fan Pier Leases into (i) a portion that is allocated to the Buildings and (ii) a portion that is allocated to the land on which the Buildings are being constructed, which is recorded as rental expense. Although the Company will not begin making lease payments pursuant to the Fan Pier Leases until the commencement date, the portion of the lease obligations allocated to the land is treated for accounting purposes as an operating lease that commenced in 2011.

Property and equipment, net, included $356.9 million and $290.7 million as of March 31, 2013 and December 31, 2012, respectively, related to construction costs for the Buildings at Fan Pier in Boston, Massachusetts. The construction financing lease obligation related to the Buildings at Fan Pier was $316.8 million and $268.0 million as of March 31, 2013 and December 31, 2012, respectively. As of March 31, 2013 and December 31, 2012, the primary difference between the amounts recorded in property and equipment, net and the construction financing lease obligation represented the cost of finish work and structural elements of the Buildings that the Company was responsible for paying to date.

Once the landlord completes the construction of the Buildings, the Company will evaluate the Fan Pier Leases in order to determine whether or not the Fan Pier Leases meet the criteria for “sale-leaseback” treatment. If the Fan Pier Leases meet the “sale-leaseback” criteria, the Company will remove the asset and the related liability from its consolidated balance sheet and treat the Fan Pier Leases as either operating or capital leases based on the Company’s assessment of the accounting guidance. The Company expects that upon completion of construction of the Buildings the Fan Pier Leases will not meet the “sale-

leaseback" criteria. If the Fan Pier Leases do not meet "sale-leaseback" criteria, the Company will treat the Fan Pier Leases as a financing obligation and will depreciate the asset over its estimated useful life.

## I. Intangible Assets and Goodwill

*Intangible Assets*

As of December 31, 2012, the Company's intangible assets consisted of indefinite-lived in-process research and development assets of (i) $250.6 million related to its HCV nucleotide analogue program, which includes the HCV nucleotide analogue VX-135 and (ii) $412.9 million related to VX-222, which also was being developed for the treatment of HCV infection. The Company acquired VX-222 when it acquired ViroChem Pharma Inc. ("ViroChem") in March 2009.

The Company tests intangible assets for impairment on an annual basis as of October 1, and more frequently if indicators are present or changes in circumstance suggest that impairment may exist. In connection with each annual impairment assessment and any interim impairment assessment in which indicators of impairment have been identified, the Company compares the fair value of the asset as of the date of the assessment with the carrying value of the asset on the Company's condensed consolidated balance sheet.

In connection with its preparation of its financial statements for the three months ended March 31, 2013, the Company determined that there were indicators that the value of the VX-222 intangible asset had become impaired. This determination was based on (A) preliminary safety, tolerability and efficacy data from a Phase 2 clinical trial of VX-222, telaprevir and ribavirin, which was received in March 2013 and analyzed through April 2013 and (B) a review of the existing and emerging data regarding all-oral regimens for HCV infection being developed by the Company's competitors that appear to be generally well tolerated with high sustained viral response ("SVR") rates for treatment-naïve patients with genotype 1 HCV infection. After evaluating the data from this Phase 2 clinical trial, the Company determined that regimens containing VX-222 were unlikely to be competitive with the treatment regimens being developed by the Company's competitors. The Company evaluated the fair value of VX-222 from the perspective of a market participant and based on this analysis determined that the fair value of VX-222 was zero as of March 31, 2013. Accordingly, the Company recorded a $412.9 million impairment charge in three months ended March 31, 2013. The Company continues to monitor the development of competitive all-oral regimens and other direct antivirals and does not plan to initiate any new clinical trials of VX-222. In connection with this impairment charge, the Company recorded a credit of $127.6 million in its provision for income taxes. In the first quarter of 2013, the increase to the Company's net loss attributable to Vertex related to this impairment charge, net of the tax credit, was $285.3 million, and the net increase to the Company's net loss per share attributable to Vertex common shareholders was $1.32 per share.

No impairment has been found with respect to the HCV nucleotide analogue program since the acquisition date. However, the field of HCV infection treatment is highly competitive and characterized by rapid technological advances. Two of the Company's competitors have filed applications seeking approval for potentially competitive treatment regimens that include pegylated-interferon and ribavirin, and several of the Company's competitors are conducting Phase 3 clinical trials evaluating all-oral combinations of their drug candidates for the treatment of genotype 1 HCV infection. There can be no assurance that the Company will be able to successfully develop VX-135. If the fair value of the HCV nucleotide analogue program 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 VX-135, the Company would incur significant charges in the period in which the impairment occurs.

*Goodwill*

As of March 31, 2013 and December 31, 2012, goodwill of $31.0 million was recorded on the Company's condensed consolidated balance sheets. There was no change to goodwill recorded during the three months ended March 31, 2013 or 2012.

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## J. Convertible Senior Subordinated Notes

In September 2010, the Company completed an offering of $400.0 million in aggregate principal amount of 2015 Notes. This offering resulted in $391.6 million of net proceeds to the Company. The underwriting discount of $8.0 million and other expenses of $0.4 million were recorded as debt issuance costs and are included in other assets on the Company's condensed consolidated balance sheets. The 2015 Notes were issued pursuant to and are governed by the terms of an indenture (as supplemented, the "Indenture").

The 2015 Notes are convertible at any time, at the option of the holder, into common stock at a price equal to approximately $48.83 per share, or 20.4794 shares of common stock per $1,000 principal amount of the 2015 Notes, subject to adjustment. The 2015 Notes bear interest at the rate of 3.35% per annum, and the Company is required to make semi-annual interest payments on the outstanding principal balance of the 2015 Notes on April 1 and October 1 of each year. The 2015 Notes mature on October 1, 2015.

Prior to October 1, 2013, if the closing price of the Company's common stock has exceeded 130% of the then applicable conversion price for at least 20 trading days within a period of 30 consecutive trading days, the Company may redeem the 2015 Notes at its option, in whole or in part, at a redemption price equal to 100% of the principal amount of the 2015 Notes to be redeemed. If the Company elects to redeem the 2015 Notes prior to October 1, 2013, or the holder elects to convert the 2015 Notes into shares of the Company's common stock after receiving notice of such redemption, the Company will be obligated to make an additional payment, payable in cash or, subject to certain conditions, shares of the Company's common stock, so that the Company's total interest payments on the 2015 Notes being redeemed and such additional payment shall equal three years of interest. On or after October 1, 2013, the Company may redeem the 2015 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 2015 Notes upon the occurrence of certain fundamental changes of Vertex, as set forth in the Indenture, at 100% of the principal amount of the 2015 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 2015 Notes in connection with any such transaction by increasing the applicable conversion rate on such 2015 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 2015 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.

Based on the Company's evaluation of the 2015 Notes, the Company determined that the 2015 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 securities reporting obligations pursuant to the 2015 Notes. This embedded derivative required bifurcation because it 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 September 28, 2010, the issue date of the 2015 Notes, December 31, 2012 and March 31, 2013.

## K. Stock-based Compensation Expense

The Company issues stock options, restricted stock and restricted stock units with service conditions, which are generally the vesting periods of the awards. The Company also has issued, to certain members of senior management, restricted stock and restricted stock units that vest upon the earlier of the satisfaction of (i) a performance condition or (ii) a service condition, and stock options that vest upon the earlier of the satisfaction of (a) performance conditions or (b) a service condition. In addition, the Company issues shares pursuant to an employee stock purchase plan ("ESPP").

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The effect of stock-based compensation expense during the three months ended March 31, 2013 and 2012 was as follows:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2013 | 2012 |
| | (in thousands) | |
| Stock-based compensation expense by type of award: | | |
| Stock options | $ 19,674 | $ 18,222 |
| Restricted stock and restricted stock units | 9,378 | 7,286 |
| ESPP share issuances | 2,522 | 2,430 |
| Less stock-based compensation expense capitalized to inventories | (299) | (250) |
| Total stock-based compensation expense included in costs and expenses | $ 31,275 | $ 27,688 |
| | | |
| Stock-based compensation expense by line item: | | |
| Research and development expenses | $ 19,349 | $ 17,204 |
| Sales, general and administrative expenses | 11,926 | 10,484 |
| Total stock-based compensation expense included in costs and expenses | $ 31,275 | $ 27,688 |

The following table sets forth the Company's unrecognized stock-based compensation expense, net of estimated forfeitures, as of March 31, 2013 by type of award and the weighted-average period over which that expense is expected to be recognized:

| | As of March 31, 2013 | |
|---|---|---|
| | Unrecognized Expense, Net of Estimated Forfeitures | Weighted-average Recognition Period |
| | (in thousands) | (in years) |
| Type of award: | | |
| Stock options | $187,456 | 2.90 |
| Restricted stock and restricted stock units | 86,795 | 2.58 |
| ESPP share issuances | 3,091 | 0.49 |

The following table summarizes information about stock options outstanding and exercisable at March 31, 2013:

| | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| Range of Exercise Prices | Number Outstanding | Weighted-average Remaining Contractual Life | Weighted-average Exercise Price | Number Exercisable | Weighted-average Exercise Price |
| | (in thousands) | (in years) | (per share) | (in thousands) | (per share) |
| $ 9.07–$20.00 | 887 | 3.05 | $15.33 | 887 | $15.33 |
| $20.01–$30.00 | 1,394 | 6.13 | $29.32 | 1,052 | $29.14 |
| $30.01–$40.00 | 11,913 | 6.61 | $36.11 | 7,905 | $35.41 |
| $40.01–$50.00 | 5,333 | 9.53 | $46.34 | 341 | $47.41 |
| $50.01–$60.00 | 2,268 | 8.46 | $53.44 | 926 | $54.03 |
| $60.01–$64.30 | 53 | 8.92 | $63.31 | 11 | $63.23 |

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**(unaudited)**

**L. Sale of HIV Protease Inhibitor Royalty Stream**

In 2008, the Company sold to a third party its rights to receive royalty payments from GlaxoSmithKline plc, net of royalty amounts to be earned by and due to a third party, for a one-time cash payment of $160.0 million. These royalty payments relate to net sales of HIV protease inhibitors, which had been developed pursuant to a collaboration agreement between the Company and GlaxoSmithKline plc. As of March 31, 2013, the Company had $77.8 million in deferred revenues related to the one-time cash payment, which it is recognizing over the life of the collaboration agreement with GlaxoSmithKline plc based on the units-of-revenue method. In addition, the Company continues to recognize royalty revenues equal to the amount of the third-party subroyalty and an offsetting royalty expense for the third-party subroyalty payment.

**M. Income Taxes**

For the three months ended March 31, 2013, the Company recorded a benefit from income taxes of $130.3 million. This benefit from income taxes was due to a benefit of $126.9 million attributable to Vertex and a benefit from income taxes of $3.4 million attributable to noncontrolling interest (Alios). In the first quarter of 2013, the Company determined that the fair value of VX-222 was zero, which resulted in an impairment charge of $412.9 million. In connection with this impairment charge, in the first quarter of 2013 the Company wrote-off the associated deferred tax liability of $127.6 million as a benefit in its condensed consolidated statements of operations. Please refer to Note I, "Intangible Assets and Goodwill," for further information regarding the impairment charge.

For the three months ended March 31, 2012, the Company recorded a provision for income taxes attributable to Vertex of $2.3 million offset by a benefit from income taxes attributable to noncontrolling interest (Alios) of $2.3 million.

The Company has no liability for taxes payable by Alios. As such, the portion of the income tax provision (benefit) related to Alios has been allocated to noncontrolling interest (Alios). As of March 31, 2013 and December 31, 2012, Alios had a deferred tax liability of $151.7 million and $152.8 million reflected on the Company's condensed consolidated balance sheets, respectively.

As of March 31, 2013 and December 31, 2012, the Company had no material unrecognized tax benefits and no adjustments to liabilities or operations were required. 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 as of March 31, 2013 and December 31, 2012.

The Company maintains a valuation allowance on its net operating losses and other deferred tax assets because of its extended history of annual losses. As of December 31, 2012, the Company had U.S. federal net operating loss carryforwards of approximately $2.6 billion and tax credits of $98.0 million, which may be used to offset future federal income tax liability. For state income tax purposes, the Company had net operating loss carryforwards of approximately $1.5 billion and tax credits of $60.3 million at December 31, 2012, which may be used to offset future state income tax liability. On a quarterly basis, the Company reassesses the valuation allowance for deferred income tax assets. In future periods, if management determines that it is more likely than not that the deferred tax asset will be realized, (i) the valuation allowance would be decreased, (ii) a portion or all of the deferred tax asset would be reflected on the Company’s consolidated balance sheet and (iii) the Company would record non-cash benefits in its consolidated statements of operations related to the reflection of the deferred tax asset on its consolidated balance sheet.

**VERTEX PHARMACEUTICALS INCORPORATED**

**Notes to Condensed Consolidated Financial Statements (Continued)**

**(unaudited)**

The Company files U.S. 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 originated before 2005. The Company is currently under examination by Revenue Quebec for the year ended March 11, 2009 and the year ended December 31, 2007. No adjustments have been reported. The Company is not under examination by any other jurisdictions for any tax year.

The Company currently intends to reinvest the total amount of its unremitted earnings, which have not been significant to date, in the local international jurisdiction or to repatriate the earnings only when tax-effective. As a result, the Company has not provided for U.S. federal income taxes on the unremitted earnings of its international subsidiaries. Upon repatriation of those earnings, in the form of dividends or otherwise, the Company would be subject to U.S. federal income taxes (subject to an adjustment for foreign tax credits) and withholding taxes payable to the various foreign countries. At March 31, 2013, foreign earnings, which were not significant, have been retained indefinitely by foreign subsidiary companies for reinvestment; therefore, no provision has been made for income taxes that would be payable upon the distribution of such earnings and it would not be practicable to determine the amount of the related unrecognized deferred income tax liability.

**N. Restructuring Liability**

In 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 liability relates to specialized laboratory and office space that is leased to the Company pursuant to a 15-year lease that terminates in 2018, and that the Company has not used since it adopted the plan to restructure its operations in 2003. This laboratory and office space currently is subleased to third parties.

In estimating the expense and liability under its lease obligations, 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, intends to continue such reviews until the termination of the applicable lease, and will make whatever modifications the Company believes necessary, based on the Company’s best judgment, to reflect any changed circumstances.

The activities related to the restructuring liability for the three months ended March 31, 2013 and 2012 were as follows:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2013 | 2012 |
| | (in thousands) | |
| Liability, beginning of the period | $ 23,328 | $ 26,313 |
| Cash payments | (3,573) | (3,686) |
| Cash received from subleases | 2,665 | 2,486 |
| Restructuring expense | 39 | 360 |
| Liability, end of the period | $ 22,459 | $ 25,473 |

**O. Legal Proceedings**

On September 6, 2012, a purported shareholder class action, *City of Bristol Pension Fund v. Vertex Pharmaceuticals Incorporated, et al.*, was filed in the United States District Court for the District of Massachusetts, naming the Company and certain of the Company's current and former officers and directors as defendants. The lawsuit alleges that the Company made material misrepresentations and/or omissions of material fact in the Company's disclosures during the period from May 7, 2012 through June 28, 2012, all in violation of Section 10(b) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 promulgated thereunder. By order dated December 12, 2012, the court appointed the City of Bristol lead plaintiff and appointed the City of Bristol's attorneys lead counsel. The plaintiffs filed an amended complaint on February 11, 2013. The

**VERTEX PHARMACEUTICALS INCORPORATED**

**Notes to Condensed Consolidated Financial Statements (Continued)**

**(unaudited)**

Company filed a motion to dismiss the complaint on April 12, 2013. The plaintiffs seek unspecified monetary damages on behalf of the putative class and an award of costs and expenses, including attorney's fees, as well as disgorgement of the proceeds from certain individual defendants' sales of the Company's common stock. The Company believes that this action is without merit and intends to defend it vigorously. As of March 31, 2013, the Company has not recorded any reserves for this purported class action.

**P. 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 material contingent liabilities accrued as of March 31, 2013 or December 31, 2012.

**Q. Guarantees**

As permitted under Massachusetts law, the Company’s Articles of Organization and By-laws provide that the Company will indemnify certain of its officers and directors for certain claims asserted against them in connection with their service as 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 currently are 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, sponsored research agreements with academic and not-for-profit institutions, various comparable agreements involving parties performing services for the Company, and 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 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 to those for the other agreements discussed above, 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 Company believes 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 all or 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.

The Company entered into an underwriting agreement with Merrill Lynch, Pierce, Fenner & Smith Incorporated dated September 23, 2010 (the “Underwriting Agreement”), relating to the public offering and sale of the 2015 Notes. The Underwriting Agreement requires the Company to indemnify the underwriter against any loss it may suffer by reason of the Company’s breach of any representation or warranty relating to the public offering, the Company’s failure to perform certain covenants in the Underwriting Agreement, the inclusion of any untrue statement of material fact in the prospectus used in connection with the 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, covenants and indemnification provisions in the Underwriting Agreement are of a type customary in agreements of this sort. The Company believes the estimated fair value of this indemnification arrangement is minimal.

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

### OVERVIEW

We are in the business of discovering, developing, manufacturing and commercializing small molecule drugs for patients with serious diseases. Over the last two years, we have obtained approval for, and initiated commercial sales of, our first two products: INCIVEK (telaprevir), which we market in the United States and Canada for the treatment of adults with genotype 1 hepatitis C virus, or HCV, infection; and KALYDECO (ivacaftor), which we market in the United States, Canada and Europe for the treatment of patients six years of age and older with cystic fibrosis, or CF, who have a specific genetic mutation that is referred to as the G551D mutation. We receive royalties from sales in Europe and other countries of telaprevir, where it is marketed as INCIVO, by our collaborator, Janssen Pharmaceutica, N.V.

We invest in scientific innovation to create transformative medicines for patients with serious diseases, with a focus on specialty markets. Our strategy is to make focused investments to invent and develop innovative drugs, while we continue to market INCIVEK and KALYDECO to eligible patients to generate revenues and maintain a strong financial position.

Our first quarter 2013 revenues included INCIVEK net product revenues of $205.6 million and KALYDECO net product revenues of $61.8 million. As of March 31, 2013, we had cash, cash equivalents and marketable securities of $1.2 billion. Our net product revenues from sales of INCIVEK declined over the course of 2012 and in the first quarter of 2013, and we expect this trend to continue due to reduced demand for current therapies for HCV infection, as new competitive therapies approach commercialization. We expect that KALYDECO net product revenues will increase in the second quarter of 2013 as compared to the first quarter of 2013 as we begin to receive reimbursement in additional European countries. In the future, we expect that our ability to increase net product revenues will be dependent upon increasing KALYDECO sales and introducing one or more of our drug candidates in late-stage development to the market.

We are focusing most of our drug development investment on the following key programs:

*Cystic Fibrosis* - Our goal is to develop treatment regimens that will provide benefits to as many patients with CF as possible and to maximize those benefits. We are conducting three Phase 3 label-expansion clinical trials and a proof-of-concept clinical trial of ivacaftor monotherapy in patients with certain mutations in their cystic fibrosis transmembrane conductance regulator, or *CFTR*, gene that were not studied in prior Phase 3 clinical trials. In the first quarter of 2013, we initiated an international pivotal Phase 3 development program to evaluate combinations of ivacaftor and our investigational CFTR corrector VX-809 for patients with the most prevalent genetic mutation that causes CF.

*HCV* - We are seeking to develop all-oral, interferon-free treatment regimens that are 12 weeks or less in duration with a goal of providing high viral cure rates and improved tolerability, in order to be commercially competitive in the HCV market of the future. We are conducting multiple Phase 2 clinical trials to evaluate all-oral combination treatment regimens that include our HCV nucleotide analogue VX-135 together with molecules that have potentially complementary mechanisms, such as ribavirin, or RBV, HCV protease inhibitors and HCV NS5A inhibitors.

*Autoimmune Diseases* - We are evaluating our JAK3 inhibitor, VX-509, in a fully-enrolled Phase 2 clinical trial. The primary endpoints of this clinical trial will be measured after 12 weeks of treatment, and we expect data from this analysis in the second half of 2013.

We may seek collaborators for some of our drug candidates in order to diversify risk, broaden or accelerate or otherwise benefit a development program in an effort to fully-realize the value of a drug candidate.

We plan to continue investing in our research programs and supporting scientific innovation in order to identify and develop transformative medicines. We believe that pursuing research in diverse areas allows us to balance the risks inherent in drug development and may provide the drug candidates that will form our pipeline in future years. We have later-stage research programs in the areas of CF, Huntington's disease, multiple sclerosis and cancer.

***CF***

KALYDECO (ivacaftor) is approved in the United States, Canada and the European Union for the treatment of patients with CF six years of age and older who have the G551D mutation on at least one allele of the *CFTR* gene. We are continuing our work in CF to identify and develop treatment regimens that will provide benefits to as many patients with CF as possible and to maximize those benefits. We have multiple ongoing clinical development programs to evaluate our CF treatment regimens, and our research group is working to identify additional corrector compounds that could be included in future dual- and/or triple-combination treatment regimens that have the potential to provide additional benefits to patients with CF.

*Ivacaftor (monotherapy)*

We are conducting three Phase 3 label-expansion clinical trials and a Phase 2 clinical trial of ivacaftor monotherapy:

- We have completed enrollment in a Phase 3 clinical trial evaluating ivacaftor in patients six years of age and older with CF with gating mutations other than the G551D mutation. We expect the first data from this clinical trial in the second half of 2013.
- We are continuing enrollment in a Phase 3 clinical trial evaluating ivacaftor in patients six years of age and older with CF with the R117H mutation in the *CFTR* gene on at least one allele.
- We are continuing enrollment in a Phase 3 clinical trial in which we are evaluating a pediatric formulation of ivacaftor as a treatment for children two to five years of age with gating mutations in the *CFTR* gene, including the G551D mutation.
- We are enrolling patients in a Phase 2 clinical trial in which we are evaluating ivacaftor in patients with CF who have clinical evidence of residual CFTR function.

If we are able to establish that these additional patient groups will benefit from ivacaftor monotherapy, there is the potential to increase the number of patients eligible for treatment with ivacaftor monotherapy to more than ten percent of patients worldwide with CF.

*VX-809 in Combination with Ivacaftor*

We are enrolling patients in an international pivotal Phase 3 clinical program to evaluate combinations of VX-809 and ivacaftor in patients with CF who have two copies of the F508del mutation in their *CFTR* gene (homozygous). We plan to conduct two 24-week Phase 3 clinical trials that are designed to support approval of the combination of VX-809 and ivacaftor for patients 12 years of age and older. Each Phase 3 clinical trial will enroll approximately 500 patients with CF who are homozygous for the F508del mutation, for a total of approximately 1,000 patients. The two clinical trials have the same design and together will be conducted at approximately 200 clinical trial sites in North America, Europe and Australia. We expect to obtain final safety and efficacy data from both Phase 3 clinical trials in 2014. If these trials are successful, we plan to submit a New Drug Application, or NDA, to the FDA in 2014 and a Marketing Authorization Application, or MAA, to the European Medicines Agency, or EMA. Almost half of the patients with CF worldwide are homozygous for the F508del mutation in their *CFTR* gene.

In addition to the two Phase 3 clinical trials, we plan to conduct an 8-week exploratory Phase 2 clinical trial of VX-809 in combination with ivacaftor in patients with CF who are 12 years of age and older and who have one copy of the F508del mutation in the *CFTR* gene. We also plan to conduct a Phase 2 clinical trial to evaluate VX-809 in combination with ivacaftor in children with CF six to eleven years of age who have two copies of the F508del mutation. If this Phase 2 clinical trial is successful, we plan to use the data from this clinical trial, along with data from the two Phase 3 clinical trials, for registration in the United States in patients six to eleven years of age, following registration in patients 12 years of age and older. Discussions with European regulatory agencies about plans for patients in this age group are ongoing.

***HCV***

Janssen and we market INCIVEK/INCIVO in direct competition with Merck & Co., Inc.'s VICTRELIS™ (boceprevir), another HCV protease inhibitor that was approved for sale in the United States and Europe in 2011. We expect that a number of new therapies for HCV infection will become available to patients over the next several years. The most advanced potentially competitive drug candidates are Gilead's sofosbuvir (GS-7977) and Janssen's simeprevir (TMC435). Gilead and Janssen have filed NDAs for sofosbuvir and simeprevir, respectively, and each of these drug candidates may be approved as treatments for genotype 1 HCV infection in combination with pegylated-interferon, or peg-IFN, and RBV, in late 2013 or 2014. The top-line results reported by Gilead and Janssen from Phase 3 clinical trials suggest that the safety and efficacy

profiles of sofosbuvir and simeprevir will position them, if approved, to potentially take a significant portion of the market for HCV therapies.

We plan to compete in the HCV infection market as it shifts away from current treatment regimens, including our INCIVEK triple-combination therapy, to regimens that incorporate new drugs with improved safety, efficacy and/or tolerability, by pursuing development of all-oral regimens incorporating our HCV nucleotide analogue VX-135. A number of pharmaceutical companies are investigating combination regimens that incorporate one or more of an HCV protease inhibitor, an HCV nucleotide analogue, an HCV non-nucleotide polymerase inhibitor or an NS5A inhibitor. Clinical trials of these investigational combination regimens are being conducted in a wide variety of patient populations, including treatment-naïve and treatment-failure patients, and across all HCV genotypes, which respond differently to different combinations of molecules employing different mechanisms. In the future, we expect that the market for any specific HCV treatment regimen, including INCIVEK triple-combination therapy, could be affected by the introduction of new competitive drugs or drug combinations, sales from currently approved drugs, adverse information regarding the safety characteristics or efficacy of the regimen, significant new information regarding potential treatment regimens being evaluated in clinical trials and enrollment by patients in clinical trials being conducted by us or our competitors. While it is possible that a portion of patients with HCV infection would continue to benefit from treatment regimens that include peg-IFN, we expect that treatment regimens that include the administration of peg-IFN by injection will command a relatively small portion of the overall market.

We are evaluating potential all-oral treatment regimens in planned and ongoing Phase 2 clinical trials in order to determine which regimen or regimens appear likely to provide benefits to patients and to advance into Phase 3 clinical development. We are conducting two Phase 2 clinical trials of VX-135 in combination with RBV, one of which is fully-enrolled, and a drug-drug interaction clinical trial of VX-135 in combination with simeprevir. We also plan to conduct two clinical trials of VX-135 in combination with Bristol-Myers Squibb's NS5A inhibitor daclatasvir. We expect to obtain the first data from the all-oral clinical trials of VX-135 in the second half of 2013, including data from the initial clinical trial of VX-135 in combination with daclatasvir and from clinical trials of VX-135 in combination with RBV.

Some of our competitors' potential all-oral treatment regimens are more advanced, including all-oral treatment regimens that are being evaluated in Phase 3 clinical trials by Gilead and Abbvie, Inc. While the development and regulatory timelines for drug candidates for the treatment of HCV infection are subject to risk and uncertainty, we believe that (i) substantial additional clinical data regarding potential all-oral treatment regimens will become available in 2013 and (ii) it is possible that one or more all-oral treatment regimens for genotype 1 HCV infection could be commercially available as soon as late 2014. As a result, if we are successful in developing all-oral treatment regimens that include VX-135, independently or with a collaborator, it is likely that our all-oral treatment regimens would compete directly with one or more previously approved all-oral treatment regimens.

***Recent Developments***

*Results of Phase 2 Clinical Trial of VX-661*

In April 2013, we announced the data from a randomized, double-blind, placebo-controlled Phase 2 clinical trial of VX-661 alone and in combination with ivacaftor that enrolled 128 patients with CF who were 18 years of age and older with two copies of the F508del mutation. One group of patients was randomized to receive either VX-661 (10, 30, 100 and 150 mg dosed once daily), or placebo, alone for 28 days. A separate group of patients was randomized to receive the combination of VX-661 (10, 30, 100 and 150 mg dosed once daily) and ivacaftor (150 mg dosed twice daily), or placebo, for 28 days. The primary endpoints of the clinical trial were safety, tolerability and change in sweat chloride levels. Change in lung function (percent predicted forced expiratory volume in one second; $FEV_1$) was measured as a secondary endpoint.

There were statistically significant mean absolute decreases in sweat chloride levels, both within-group and versus placebo, across the combination and monotherapy groups. These changes were generally modest and were variable across the dose groups.

VX-661 was generally well-tolerated when dosed alone and in combination with ivacaftor. The most common adverse events were pulmonary in nature. Most adverse events were mild to moderate in severity and similar between the treatment and placebo groups, and the types and frequency of adverse events were similar between the treatment and placebo groups. The rate of serious adverse events was also similar between the treatment groups and those who received placebo.

We plan to conduct additional clinical trials of VX-661 to further evaluate its potential for late-stage development, pending discussions with regulatory authorities.

Lung Function Results for Combination Dosing

Mean absolute and relative improvements in lung function were observed in all the combination dosing groups (10, 30, 100 and 150 mg), both within group and versus placebo. The improvements in lung function were dose dependent, with the greatest improvements observed in the groups that received the highest doses of VX-661 in combination with ivacaftor. The result of statistical testing is often defined in terms of a "p-value," with $p<0.05$ generally considered to represent a statistically significant difference. Patients in the two highest combination dose groups (VX-661 100 mg or 150 mg in combination with ivacaftor 150 mg) showed statistically significant mean relative improvements in lung function, versus placebo, of 9.0 percent (p=0.01) and 7.5 percent (p=0.02), respectively, at Day 28. Improvements in $FEV_1$ were observed early in treatment, and the mean relative $FEV_1$ improvements, versus placebo, for the highest combination group (VX-661 150 mg in combination with ivacaftor 150 mg) were statistically significant at Days 14, 21 and 28. The mean relative $FEV_1$ across the combination dose groups returned toward baseline during the post-treatment 28-day washout period. Additional lung function results are provided in the table below:

| **Mean Changes in Lung Function** | **Mean Relative Change in Percent Predicted $FEV_1$ From Baseline** | | **Mean Absolute Change in Percent Predicted $FEV_1$ From Baseline** | |
|---|---|---|---|---|
| | **Day 0 - 28** | **28 Days Post-Treatment (Within-Group Mean)*** | **Day 0 - 28** | **28 Days Post-Treatment (Within-Group Mean)*** |
| **Placebo (n=23) (within group)** | 0.03 (NS) | 1.6 | -0.4 (NS) | 0.6 |
| | | | | |
| **Combination Treatment Arms** | ***vs. Placebo*** | | ***vs. Placebo*** | |
| VX-661 (10 mg) + ivacaftor (150 mg) (n=17) | 4.1 (NS) | 1.7 | 2.3 (NS) | 0.8 |
| VX-661 (30 mg) + ivacaftor (150 mg) (n=17) | 5.4 (NS) | 1.2 | 3.4 (NS) | 0.5 |
| VX-661 (100 mg) + ivacaftor (150 mg) (n=15) | 9.0 (p=0.01) | 1.7 | 4.8 (p=0.01) | 0.5 |
| VX-661 (150 mg) + ivacaftor (150 mg) (n=16) | 7.5 (p=0.02) | 1.4 | 4.5 (p=0.01) | 0.7 |

NS = Not Statistically Significant

* The statistical analysis plan (SAP) for this clinical trial did not include statistical comparisons for the 28-day washout period

In the dose group that evaluated 100 mg of VX-661 in combination with ivacaftor, 66.7 percent (10/15) of patients had a 5 percent or greater relative improvement (within subject) in lung function at Day 28. In the dose group that evaluated 150 mg of VX-661 in combination with ivacaftor, 56.3 percent (9/16) of patients had a 5 percent or greater relative improvement (within subject) in lung function at Day 28. 21.7 percent (5/23) of patients who received placebo had a 5 percent or greater relative improvement (within subject) in lung function at Day 28.

Results for VX-661 Monotherapy Dosing

Mean absolute and relative increases in lung function were observed in all of the VX-661 monotherapy dosing groups (10, 30, 100 and 150 mg), both within group and versus placebo, at Day 28. These increases were variable, not dose dependent and not statistically significant in any of the monotherapy dosing groups.

| **Mean Changes in Lung Function** | **Mean Relative Change in Percent Predicted $FEV_1$ From Baseline** | **Mean Absolute Change in Percent Predicted $FEV_1$ from Baseline** |
|---|---|---|
| | **Day 0 - 28** | **Day 0 - 28** |
| **Placebo (n=23) (within group)** | 0.03 (NS) | -0.4 (NS) |
| | | |
| **Monotherapy Treatment Arms** | ***vs. Placebo*** | ***vs. Placebo*** |
| VX-661 (10 mg) (n=7) | 4.5 (NS) | 3.6 (NS) |
| VX-661 (30 mg) (n=8) | 0.1 (NS) | 0.5 (NS) |
| VX-661 (100 mg) (n=8) | 3.1 (NS) | 1.9 (NS) |
| VX-661 (150 mg) (n=9) | 4.2 (NS) | 2.7 (NS) |

NS = Not Statistically Significant

VX-983

In addition to VX-809 and VX-661, we have advanced VX-983, a third CFTR corrector compound, into clinical development. We are evaluating VX-983 in a Phase 1 multiple-ascending-dose clinical trial in healthy volunteers. In the second half of 2013, we plan to initiate a clinical trial to evaluate VX-983 in combination with ivacaftor over 28 days in patients with CF who have two copies of the F508del *CFTR* mutation.

*Bristol-Myers Squibb Agreement*

In April 2013, we entered into a non-exclusive agreement with Bristol-Myers Squibb Company, or BMS, to conduct Phase 2 clinical trials of once-daily all-oral treatment regimens containing VX-135 and BMS's NS5A inhibitor daclatasvir for the treatment of HCV infection. Pursuant to the agreement, we plan to conduct two Phase 2 clinical trials to evaluate VX-135 in combination with daclatasvir. We plan to initiate the first clinical trial in the second quarter of 2013 in treatment-naïve patients with genotype 1 HCV infection. We plan to begin the subsequent clinical trial in treatment-naïve patients infected with genotype 1, 2 or 3 HCV infection, including those with cirrhosis, in the second half of 2013, pending data from the initial clinical trial. We also plan to conduct co-formulation activities to evaluate the potential for development of a once-daily fixed-dose combination regimen. No further clinical development activities are covered by this agreement beyond the Phase 2 clinical trials.

*VX-787 - Phase 2 Clinical Trial*

In March 2013, we announced results from a randomized, double-blind, placebo-controlled Phase 2 clinical trial that enrolled and dosed 104 healthy people (72 in the VX-787 arms; 32 in the placebo arm) ages 18 to 45 who volunteered to be experimentally exposed to an attenuated form of live H3N2 influenza A virus. In this clinical trial, we evaluated four dosing regimens of VX-787 given once daily for five days beginning 24 hours after infection with the influenza virus. The clinical trial met its primary endpoint, and patients treated with VX-787 had a statistically significant decrease in the amount of virus in nasal secretions (viral shedding) over the seven-day dosing period as compared to patients who received placebo. Patients in the highest VX-787 dose group experienced influenza-like symptoms for a median of 1.9 days, compared to 3.7 days in the placebo group. In addition, 93 percent of patients in this dose group showed no clinical symptoms of influenza after three days of treatment, compared to 41 percent of patients in the placebo group. In this clinical trial, VX-787 was generally well-tolerated, and all patients completed treatment. There were no serious adverse events or adverse events that led to discontinuation of treatment. Overall, the most frequently reported class of adverse events in the VX-787 and placebo arms were those typically associated with influenza-like illness. We plan to explore collaborative opportunities to support further development of VX-787.

*Intangible Asset Impairment Charge*

In the first quarter of 2013, we recorded a $412.9 million intangible asset impairment charge based on a determination that the fair value of our indefinite-lived in-process research and development asset related to VX-222 had decreased to zero. In connection with this impairment charge, we recorded a credit of $127.6 million in our provision for income taxes, and the net effect of this impairment charge was an increase in the net loss attributable to Vertex of $285.3 million. We do not plan to initiate any new clinical trials of VX-222.

***Regulatory Compliance***

Our marketing of pharmaceutical products, which began in 2011, is subject to extensive and complex laws and regulations. We have a corporate compliance program designed to actively identify, prevent and mitigate risk through the implementation of compliance policies and systems and the promotion of a culture of compliance. Among other laws, regulations and standards, we are subject to various U.S. federal and state and comparable foreign laws pertaining to health care fraud and abuse, including anti-kickback and false claims statutes, and laws prohibiting the promotion of drugs for unapproved, or off-label, uses. Anti-kickback laws make it illegal for a prescription drug manufacturer to solicit, offer, receive or pay any remuneration in exchange for, or to induce, the referral of business, including the purchase or prescription of a particular drug. False claims laws prohibit anyone from presenting for payment to third-party payors, including Medicare and Medicaid, claims for reimbursed drugs or services that are false or fraudulent, claims for items or services not provided as claimed or claims for medically unnecessary items or services. We expect to continue to devote substantial resources to maintain, administer and expand these compliance programs globally.

## RESULTS OF OPERATIONS

| | Three Months Ended March 31, | | Increase/ (Decrease) | Increase/ (Decrease) |
|---|---|---|---|---|
| | 2013 | 2012 | $ | % |
| | (in thousands) | | | |
| Revenues | $ 328,368 | $ 438,737 | $ (110,369) | (25)% |
| Operating costs and expenses | 766,656 | 347,088 | 419,568 | 121 % |
| Other items, net | 125,661 | (3,773) | n/a | n/a |
| Net loss (income) attributable to noncontrolling interest (Alios) | 4,611 | 3,714 | 897 | 24 % |
| Net income (loss) attributable to Vertex | $ (308,016) | $ 91,590 | n/a | n/a |

***Net Income (Loss) Attributable to Vertex***

Net loss attributable to Vertex was $(308.0) million in the first quarter of 2013 compared to net income attributable to Vertex of $91.6 million in the first quarter of 2012. The net loss attributable to Vertex in the first quarter of 2013 was primarily attributable to an impairment charge of $412.9 million in the first quarter of 2013, which was included in operating costs and expenses. Partially offsetting this impairment charge was a benefit from income taxes of $127.6 million, which is included in other items, net. The net effect of the impairment charge and the benefit from income taxes was to increase net loss attributable to Vertex in the first quarter of 2013 by $285.3 million. Our decreased revenues in the first quarter of 2013 as compared to the first quarter of 2012 were due to decreased INCIVEK net product revenues partially offset by increased KALYDECO net product revenues and increased INCIVO royalties. Our operating costs and expenses, excluding the impairment charge incurred in 2013, increased in 2013 as compared to 2012, principally due to increased research and development expenses partially offset by decreased sales, general and administrative expenses.

Our operating costs and expenses in the three months ended March 31, 2013 and 2012 included $31.3 million and $27.7 million, respectively, of stock-based compensation expense.

***Net Income (Loss) Attributable to Vertex per Diluted Share***

Net loss attributable to Vertex was $(1.43) per diluted share in the first quarter of 2013 as compared to net income attributable to Vertex of $0.43 per diluted share in the first quarter of 2012. In the first quarter of 2013, the increase to the net loss attributable to Vertex related to the $412.9 million impairment charge, net of the $127.6 million benefit from income taxes, was $285.3 million, and net increase to the Company's net loss per share attributable to Vertex common shareholders was $1.32 per share.

***Revenues***

| | Three Months Ended March 31, | | Increase/(Decrease) | Increase/(Decrease) |
|---|---|---|---|---|
| | 2013 | 2012 | $ | % |
| | (in thousands) | | | |
| Product revenues, net | $ 267,381 | $ 375,375 | $ (107,994) | (29)% |
| Royalty revenues | 43,573 | 38,981 | 4,592 | 12 % |
| Collaborative revenues | 17,414 | 24,381 | (6,967) | (29)% |
| Total revenues | $ 328,368 | $ 438,737 | $ (110,369) | (25)% |

**Product Revenues, Net**

| | Three Months Ended March 31, | |
|---|---|---|
| | 2013 | 2012 |
| | (in thousands) | |
| INCIVEK | $ 205,554 | $ 356,927 |
| KALYDECO | 61,827 | 18,448 |
| Total product revenues, net | $ 267,381 | $ 375,375 |

Our total net product revenues decreased in the first quarter of 2013 as compared to the first quarter of 2012 due to decreased INCIVEK net product revenues in the first quarter of 2013 as compared to the first quarter of 2012, partially offset by increased KALYDECO net product revenues in the first quarter of 2013 as compared to the first quarter of 2012. In 2013, we expect that total product revenues will be lower than in 2012 due to expected decreases in INCIVEK net product revenues partially offset by expected increases in KALYDECO net product revenues.

INCIVEK net product revenues have been declining on a quarterly basis since reaching a peak in the fourth quarter of 2011. The declines in INCIVEK net product revenues have been principally due to decreasing numbers of patients with genotype 1 HCV infection who are choosing to start treatment with available treatment options. We believe these decreases are the result of a combination of factors, including safety and efficacy data that have been reported by our competitors regarding treatment regimens for HCV infection that may become commercially available over the next several years.

We began recognizing net product revenues from sales of KALYDECO in the first quarter of 2012, and KALYDECO net product revenues have increased on a quarterly basis since its approval. KALYDECO net product revenues were $61.8 million in the first quarter of 2013, including $12.3 million of net product revenues from countries in Europe. We expect further increases in KALYDECO net product revenues in 2013 due to expected increases in net product revenues from international markets.

**Royalty Revenues**

Our royalty revenues increased by $4.6 million from $39.0 million in the first quarter of 2012 to $43.6 million in the first quarter of 2013 due to increased royalty revenues from sales of INCIVO by Janssen. Mitsubishi Tanabe's license to market telaprevir in Japan is fully paid.

We recognized royalty revenues related to sales by GlaxoSmithKline of an HIV protease inhibitor that was discovered and developed pursuant to a collaboration with GlaxoSmithKline of $4.5 million and $6.1 million in the first quarter of 2013 and the first quarter of 2012, respectively. We sold our rights to these HIV royalties in 2008 for a one-time cash payment of $160.0 million.

**Collaborative Revenues**

| | Three Months Ended March 31, | |
|---|---|---|
| | 2013 | 2012 |
| | (in thousands) | |
| Janssen | $ 13,379 | $ 6,417 |
| Mitsubishi Tanabe | — | 14,034 |
| CFFT | 3,559 | 3,930 |
| Other | 476 | — |
| Total collaborative revenues | $ 17,414 | $ 24,381 |

Our collaborative revenues from Janssen relate to the amortization of an up-front payment we received in 2006, net reimbursements (payments) for telaprevir development costs and reimbursements for manufacturing services. We do not expect to earn any future milestone payments pursuant to this collaboration agreement with Janssen.

In the first quarter of 2012, we recognized $9.6 million in collaborative revenues related to a one-time payment that we received from Mitsubishi Tanabe in 2009 and revenues related to manufacturing services we provided to Mitsubishi Tanabe

through our third-party manufacturing network. We did not recognize any collaborative revenues from Mitsubishi Tanabe in the first quarter of 2013 and do not expect to recognize any future collaborative revenues pursuant to our collaboration agreement with Mitsubishi Tanabe.

***Operating Costs and Expenses***

| | Three Months Ended March 31, | | Increase/ (Decrease) | Increase/ (Decrease) |
|---|---|---|---|---|
| | 2013 | 2012 | $ | % |
| | (in thousands) | | | |
| Cost of product revenues | $ 30,955 | $ 25,918 | $ 5,037 | 19 % |
| Royalty expenses | 11,788 | 13,293 | (1,505) | (11)% |
| Research and development expenses | 218,095 | 196,371 | 21,724 | 11 % |
| Sales, general and administrative expenses | 92,879 | 111,146 | (18,267) | (16)% |
| Restructuring expense | 39 | 360 | (321) | (89)% |
| Intangible asset impairment charge | 412,900 | — | 412,900 | n/a |
| Total costs and expenses | $ 766,656 | $ 347,088 | $ 419,568 | 121 % |

**Cost of Product Revenues**

Our cost of product revenues includes the cost of producing inventories that corresponded to product revenues for the reporting period, plus the third-party royalties payable on our net sales of INCIVEK and KALYDECO. Cost of product revenues increased by $5.0 million in the first quarter of 2013 as compared to the first quarter of 2012. This increase in cost of product revenues was due to a $9.3 million commercial milestone payment payable under our agreement with CFFT that was recognized in the first quarter of 2013 for which there was no comparable commercial milestone payment in the first quarter of 2012. There are no additional commercial milestone payments due on sales of KALYDECO under our collaboration agreement with CFFT.

**Royalty Expenses**

Royalty expenses include third-party royalties payable upon net sales of telaprevir by our collaborators and royalty expenses related to a subroyalty payable to a third party on net sales of an HIV protease inhibitor sold by GlaxoSmithKline. Royalty expenses in the first quarter of 2013 decreased by $1.5 million, or 11%, compared to the first quarter of 2012.

**Research and Development Expenses**

| | Three Months Ended March 31, | | Increase/ (Decrease) | Increase/ (Decrease) |
|---|---|---|---|---|
| | 2013 | 2012 | $ | % |
| | (in thousands) | | | |
| Research expenses | $ 61,343 | $ 60,993 | $ 350 | 1% |
| Development expenses | 156,752 | 135,378 | 21,374 | 16% |
| Total research and development expenses | $ 218,095 | $ 196,371 | $ 21,724 | 11% |

Our research and development expenses include internal and external costs incurred for research and development of our drugs and drug candidates. We do not assign our internal costs, such as salary and benefits, stock-based compensation expense, laboratory supplies and other direct expenses and infrastructure costs, to individual drugs or drug candidates, because the employees within our research and development groups typically are 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 program. All research and development costs for our drugs and drug candidates are expensed as incurred.

To date, we have incurred in excess of $5.7 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 and the disease indication being targeted. 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 activities. 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.

In recent years, costs related to our HCV and CF programs have represented the largest portion of our development costs. Any estimates regarding development and regulatory timelines for our drug candidates are highly subjective and subject to change. In the first quarter of 2013, we initiated a pivotal Phase 3 clinical program to evaluate VX-809 in combination with ivacaftor. We expect to obtain final safety and efficacy data from two Phase 3 clinical trials in this program in 2014. If these clinical trials are successful, we plan to submit an NDA to the FDA in 2014. We cannot make a meaningful estimate when, if ever, our other clinical development programs will generate revenues and cash flows.

*Research Expenses*

| | Three Months Ended March 31, | | Increase/ (Decrease) | Increase/ (Decrease) |
|---|---|---|---|---|
| | 2013 | 2012 | $ | % |
| | (in thousands) | | | |
| Research Expenses: | | | | |
| Salary and benefits | $ 21,660 | $ 19,815 | $ 1,845 | 9 % |
| Stock-based compensation expense | 6,826 | 6,236 | 590 | 9 % |
| Laboratory supplies and other direct expenses | 10,650 | 11,913 | (1,263) | (11)% |
| Contractual services | 5,647 | 5,560 | 87 | 2 % |
| Infrastructure costs | 16,560 | 17,469 | (909) | (5)% |
| Total research expenses | $ 61,343 | $ 60,993 | $ 350 | 1 % |

We have maintained a substantial investment in research activities resulting in a 1% increase in research expenses in the first quarter of 2013 as compared to the first quarter of 2012. We expect to continue to invest in our research programs with a focus on identifying drug candidates for specialty markets.

*Development Expenses*

| | Three Months Ended March 31, | | Increase/ (Decrease) | Increase/ (Decrease) |
|---|---|---|---|---|
| | 2013 | 2012 | $ | % |
| | (in thousands) | | | |
| Development Expenses: | | | | |
| Salary and benefits | $ 43,147 | $ 34,105 | $ 9,042 | 27% |
| Stock-based compensation expense | 12,523 | 10,968 | 1,555 | 14% |
| Laboratory supplies and other direct expenses | 10,964 | 9,561 | 1,403 | 15% |
| Contractual services | 54,540 | 47,089 | 7,451 | 16% |
| Drug supply costs | 9,600 | 8,022 | 1,578 | 20% |
| Infrastructure costs | 25,978 | 25,633 | 345 | 1% |
| Total development expenses | $ 156,752 | $ 135,378 | $ 21,374 | 16% |

Our development expenses increased by $21.4 million, or 16%, in the first quarter of 2013 as compared to the first quarter of 2012, principally due to increased salary and benefits and contractual services expenses. We expect our development expenses to increase in 2013 as compared to 2012 due to ongoing and planned clinical trials in the areas of CF, HCV infection and autoimmune diseases.

**Sales, General and Administrative Expenses**

| | Three Months Ended March 31, | | Increase/ (Decrease) | Increase/ (Decrease) |
|---|---|---|---|---|
| | 2013 | 2012 | $ | % |
| | (in thousands) | | | |
| Sales, general and administrative expenses | $ 92,879 | $ 111,146 | $ (18,267) | (16)% |

Sales, general and administrative expenses decreased in the first quarter of 2013 compared to the first quarter of 2012 by 16%, primarily due to decreased INCIVEK and KALYDECO marketing expenses in the United States, partially offset by increased KALYDECO marketing expenses in international markets.

**Restructuring Expense**

Our restructuring expense relates to remaining lease obligations for space that we do not occupy following restructuring activities in 2003. As of March 31, 2013, our accrued restructuring liability was $22.5 million. In the first quarters of 2013 and 2012, we recorded restructuring expense of $39 thousand and $0.4 million, respectively. In the first quarters of 2013 and 2012, we made cash payments of $3.6 million and $3.7 million, respectively, against the accrued expense and received $2.7 million and $2.5 million, respectively, in sublease rental payments. During the remainder of 2013, we expect to make additional cash payments of $11.6 million against the accrued expense and to receive $8.0 million in sublease rental payments.

**Intangible Asset Impairment Charge**

In the first quarter of 2013, we evaluated for impairment VX-222, an HCV polymerase inhibitor that we acquired through our acquisition of ViroChem Pharma Inc. in 2009. We evaluated the fair value of VX-222 from the perspective of a market participant and, based on our analysis, determined that the fair value of VX-222 was zero as of March 31, 2013. Accordingly, we recorded a $412.9 million impairment charge in the first quarter of 2013. In connection with this impairment charge, we recorded a credit of $127.6 million in our provision for income taxes, resulting in a net effect on net loss attributable to Vertex related to this impairment charge of $285.3 million in the first quarter of 2013.

***Other Items, net***

**Other income (expense), net**

Other income (expense), net was $(4.7) million in the first quarter of 2013 compared to $(3.7) million in the first quarter of 2012. In the first quarters of 2013 and 2012, other income (expense), net consisted of interest income of $0.5 million and $0.4 million, respectively, interest expense of $(4.0) million and $(4.1) million, respectively, and realized foreign exchange gain (loss) of $(1.2) million in the first quarter of 2013.

**Income Taxes**

In the first quarter of 2013, we recorded a benefit from income taxes of $130.3 million. This benefit from income taxes was due to a benefit of $126.9 million attributable to Vertex and a benefit from income taxes of $3.4 million attributable to noncontrolling interest (Alios). In the first quarter of 2013, we determined that the fair value of VX-222 was zero, which resulted in an impairment charge of $412.9 million. In connection with this impairment charge, in the first quarter of 2013 we wrote-off the associated deferred tax liability of $127.6 million as a benefit in our condensed consolidated statements of operations.

In the first quarter of 2012, we recorded a provision for income taxes attributable to Vertex of $2.3 million due to state income taxes, which was offset by a benefit from income taxes attributable to noncontrolling interest (Alios) of $2.3 million.

**Noncontrolling Interest (Alios)**

The net loss (income) attributable to noncontrolling interest (Alios) recorded on our condensed consolidated statements of operations reflects Alios' net loss (income) for the reporting period, adjusted for any changes during the reporting period in the fair value of the contingent milestone and royalty payments payable by us to Alios.

A summary of net loss (income) attributable to noncontrolling interest (Alios) in the first quarters of 2013 and 2012 is as follows:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2013 | 2012 |
| | (in thousands) | |
| Loss (income) before provision for (benefit from) income taxes | $ 5,297 | $ 5,024 |
| Decrease (increase) in fair value of contingent milestone and royalty payments | 2,740 | 970 |
| Provision for (benefit from) income taxes | (3,426) | (2,280) |
| Net loss (income) attributable to noncontrolling interest (Alios) | $ 4,611 | $ 3,714 |

In the first quarters of 2013 and 2012, the fair value of contingent milestone payments and royalties payable by us to Alios decreased by $2.7 million and $1.0 million, respectively.

Since June 2011, the fair value of the contingent milestone and royalty payments payable by us to Alios has increased by $182.2 million as a result of the advances in the clinical development program for VX-135. Increases in the fair value of the contingent milestone payments and royalties payable by us to Alios result in a decrease in net income attributable to Vertex (or an increase in net loss attributable to Vertex) on a dollar-for-dollar basis. If VX-135 continues to advance in clinical development, we expect to record additional increases in the fair value of these contingent milestone and royalty payments. Changes in the fair value of these contingent milestone and royalty payments and the effects of these changes on net income (loss) attributable to Vertex (i) were not material in the first quarters of 2013 and 2012, but (ii) were material in each of the years ended December 31, 2012 and 2011 and may be material in future periods.

## LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2013, we had cash, cash equivalents and marketable securities, excluding Alios' cash and cash equivalents, of $1.2 billion, which was a decrease of $81.9 million from $1.3 billion as of December 31, 2012. This decrease was due to cash expenditures we made related to, among other things, research and development expenses, sales, general and administrative expenses, as well as $44.4 million for capital expenditures for property and equipment, partially offset by cash receipts from product sales and royalties and $21.7 million in cash we received from issuances of common stock pursuant to employee benefit plans.

### *Sources of Liquidity*

We intend to rely on cash flows from product sales as our primary source of liquidity and cash flows from royalties as a secondary source of liquidity. We also generate proceeds from the issuance of common stock under our employee benefit plans. Other possible sources of liquidity include commercial debt, 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, software and equipment leases, strategic sales of assets or businesses and financial transactions.

### *Future Capital Requirements*

We are incurring substantial expenses to commercialize INCIVEK and KALYDECO, while at the same time continuing focused investment in our research and development programs. We may require capital to repay the $400.0 million in aggregate principal amount of 2015 Notes that mature on October 1, 2015. The 2015 Notes bear interest at the rate of 3.35% per annum, and we are required to make semi-annual interest payments on the outstanding principal balance of the 2015 Notes on April 1 and October 1 of each year. The 2015 Notes are convertible, at the option of the holder, into our common stock at a price equal to approximately $48.83 per share, subject to adjustment. If, prior to October 1, 2013, the closing price of our common stock exceeds 130% of the applicable redemption price (which is currently equal to approximately $63.47) for at least 20 trading days within a period of 30 consecutive trading days, we may redeem the 2015 Notes at our option, which would likely cause the holders of the 2015 Notes to convert their 2015 Notes into shares of our common stock. If the closing price of our common stock continues to exceed $63.47, we currently intend to redeem the 2015 Notes. The 2015 Notes can be called by us at any time on or after October 1, 2013. In addition, we have substantial lease obligations that will continue through 2028.

We expect that cash flows from INCIVEK/INCIVO and KALYDECO together with our current cash, cash equivalents and marketable securities will be sufficient to fund our operations for at least the next twelve months. The adequacy of our available funds to meet our future operating and capital requirements will depend on many factors, including the amounts of future revenues generated by INCIVEK/INCIVO and KALYDECO, and the number, breadth, cost and prospects of our research and development programs.

***Financing Strategy***

Although we do not have any plans to do so in the near term, we may raise additional capital through public offerings or private placements of our securities, securing new collaborative agreements or other methods of financing. As part of our strategy for managing our capital structure, we have from time to time adjusted the amount and maturity of our debt obligations through new issues, privately negotiated transactions and market purchases, depending on market conditions and our perceived needs at the time. We expect to continue 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. We will continue to manage our capital structure and to consider all financing opportunities, whenever they may occur, that could strengthen our long-term liquidity profile. Any capital transaction related to our outstanding debt obligations may or may not be similar to transactions in which we have engaged in the past. There can be no assurance that any such financing opportunities will be available on acceptable terms, if at all.

**CONTRACTUAL COMMITMENTS AND OBLIGATIONS**

Our commitments and obligations were reported in our Annual Report on Form 10-K for the year ended December 31, 2012, which was filed with the Securities and Exchange Commission, or SEC, on March 1, 2013. There have been no material changes from the contractual commitments and obligations previously disclosed in that Annual Report on Form 10-K.

**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 condensed 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 the change occurs. 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. During the three months ended March 31, 2013, there were no material changes to our critical accounting policies as reported in our Annual Report on Form 10-K for the year ended December 31, 2012, which was filed with the SEC on March 1, 2013.

**RECENT ACCOUNTING PRONOUNCEMENTS**

Refer to Note A, "Basis of Presentation and Accounting Policies," in the accompanying notes to the condensed consolidated financial statements for a discussion of recent accounting pronouncements. There were no new accounting pronouncements adopted during the three months ended March 31, 2013 that had a material effect on our 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 U.S. government and its agencies, investment grade corporate bonds and commercial paper, and money market funds. These investments are denominated in U.S. dollars. All of our interest-bearing securities are subject to interest rate risk and could decline in value if interest rates fluctuate. Substantially all of our investment portfolio consists of marketable securities with active secondary or resale markets to help ensure portfolio liquidity, and we have implemented guidelines limiting the term-to-maturity of 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.

***Foreign Exchange Market Risk***

As a result of our foreign operations, we face exposure to movements in foreign currency exchange rates, primarily the Euro, Swiss Franc, British Pound and Canadian Dollar against the U.S. dollar. The current exposures arise primarily from cash, accounts receivable, intercompany receivables, payables and inventories, and calculations of royalties receivable from net sales denominated in foreign currencies. Both positive and negative affects to our net revenues from international product sales from movements in foreign currency exchange rates are partially mitigated by the natural, opposite affect that foreign currency exchange rates have on our international operating expenses.

We are considering a foreign currency management program with the objective of reducing the volatility of exchange rate fluctuations on our operating results and to increase the visibility of the foreign exchange impact on forecasted revenues.

**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 March 31, 2013 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 three months ended March 31, 2013 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**PART II. Other Information**

**Item 1. Legal Proceedings**

On September 6, 2012, a purported shareholder class action, *City of Bristol Pension Fund v. Vertex Pharmaceuticals Incorporated, et al.*, was filed in the United States District Court for the District of Massachusetts, naming us and certain of our current and former officers and directors as defendants. The lawsuit alleges that we made material misrepresentations and/or omissions of material fact in our public disclosures during the period from May 7, 2012 through June 28, 2012, all in violation of Section 10(b) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 promulgated thereunder. By order dated December 12, 2012, the court appointed the City of Bristol lead plaintiff and appointed the City of Bristol's attorneys lead counsel. The plaintiffs filed an amended complaint on February 11, 2013. We filed a motion to dismiss the complaint on April 12, 2013. The plaintiffs seek unspecified monetary damages on behalf of the putative class and an award of costs and expenses, including attorney's fees, as well as disgorgement of the proceeds from certain individual defendants' sales of our common stock. We believe that this action is without merit and intend to defend it vigorously.

**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, 2012, which was filed with the SEC on March 1, 2013. There have been no material changes from the risk factors previously disclosed in that Annual Report on Form 10-K.

***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:

- expectations regarding the amount of, timing of and trends with respect to our revenues, costs and expenses and other gains and losses, including those related to net product revenues from sales of INCIVEK and KALYDECO and royalty revenues from net sales of INCIVO and to the intangible assets associated with the Alios collaboration;
- our expectations regarding clinical trials, development timelines and regulatory authority filings and submissions for telaprevir, ivacaftor, VX-135, VX-509, VX-661, VX-787, VX-809 and VX-983;
- our expectations regarding the timing of data from our clinical trials of ivacaftor monotherapy and VX-809 in combination with ivacaftor, the possibility of using that data to support regulatory submissions and the timing of those potential submissions;
- our ability to successfully market INCIVEK and/or KALYDECO or any of our other drug candidates if we obtain regulatory approval;
- our expectations regarding the timing and structure of clinical trials of our drugs and drug candidates, including telaprevir, ivacaftor, VX-135, VX-509, VX-661, VX-787, VX-809 and VX-983, and the expected timing of our receipt of data from our ongoing and planned clinical trials;
- the data that will be generated by ongoing and planned clinical trials and the ability to use that data to support regulatory filings;
- 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;
- the focus of our drug development efforts and our financial and management resources and our plan to continue investing in our research and development programs and our strategy to develop our drug candidates, alone or with third party-collaborators;
- the establishment, development and maintenance of collaborative relationships;
- our current intent to call our outstanding 2015 Notes for redemption and our expectation that the holders of the 2015 Notes would convert their 2015 Notes into shares of our common stock if we call the 2015 Notes for redemption;
- potential business development activities;
- 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 the possibility of raising additional capital.

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 or by known or unknown risks and uncertainties. Many factors mentioned 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, 2012, which was filed with the SEC on March 1, 2013. These are factors and uncertainties that we think could cause our actual results to differ materially from expected results. Other factors and uncertainties besides those listed there could also adversely affect us.

Without limiting the foregoing, the words “believes,” “anticipates,” “plans,” “intends,” “expects” and similar expressions are intended to identify forward-looking statements. There are a number of factors and uncertainties that could cause actual events or results to differ materially from those indicated by such forward-looking statements, many of which are beyond our control. 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 March 31, 2013:

| 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 the Plans or Programs |
|---|---|---|---|---|
| Jan. 1, 2013 to Jan. 31, 2013 | 23,823 | $ 0.01 | — | — |
| Feb. 1, 2013 to Feb. 28, 2013 | 23,164 | $ 0.01 | — | — |
| Mar. 1, 2013 to Mar. 31, 2013 | 43,848 | $ 0.01 | — | — |

The repurchases were made under the terms of our Amended and Restated 2006 Stock and Option Plan. Under this plan, we award shares of restricted stock to our employees that typically are subject to a lapsing right of repurchase by us. We may exercise this right of repurchase if 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 Amended and Restated 2006 Stock and Option Plan and are available for future awards under the terms of that plan.

## Item 6. Exhibits

| Exhibit Number | Exhibit Description |
|---|---|
| 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 of the Chief Executive Officer and the Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS | XBRL Instance |
| 101.SCH | XBRL Taxonomy Extension Schema |
| 101.CAL | XBRL Taxonomy Extension Calculation |
| 101.LAB | XBRL Taxonomy Extension Labels |
| 101.PRE | XBRL Taxonomy Extension Presentation |
| 101.DEF | XBRL Taxonomy Extension Definition |

**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.

**Vertex Pharmaceuticals Incorporated**

May 8, 2013 By: /s/ Ian F. Smith

Ian F. Smith

*Executive Vice President and Chief Financial Officer*
*(principal financial officer and*
*duly authorized officer)*

**Exhibit 31.1**

**CERTIFICATION**

I, Jeffrey M. Leiden, 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.

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Date: May 8, 2013

/s/ Jeffrey M. Leiden

Jeffrey M. Leiden
Chief Executive Officer and President

**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.

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Date: May 8, 2013

/s/ Ian F. Smith

Ian F. Smith
Executive Vice President and Chief Financial Officer

**Exhibit 32.1**

**SECTION 906 CEO/CFO 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) 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 March 31, 2013 (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.

Date: May 8, 2013

/s/ Jeffrey M. Leiden

Jeffrey M. Leiden
Chief Executive Officer and President

Date: May 8, 2013

/s/ Ian F. Smith

Ian F. Smith
Executive Vice President and Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.