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 JUNE 30, 2007

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)

(617) 444-6100

(Registrant's telephone number, including area code)

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

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

Large Accelerated Filer x Accelerated Filer o Non-Accelerated Filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES o NO 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	**131,763,683**
Class	Outstanding at August 6, 2007

FORM 10-Q

FOR THE QUARTER ENDED JUNE 30, 2007

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

"Vertex" is a registered trademark of Vertex. "Agenerase," "Lexiva" and "Telzir" are registered trademarks of GlaxoSmithKline plc. Other brands, names and trademarks contained in this Quarterly Report on Form 10-Q are the property of their respective owners.

Part I. Financial Information

Item 1. Condensed Consolidated Financial Statements

Vertex Pharmaceuticals Incorporated

Condensed Consolidated Balance Sheets

(Unaudited)

(In thousands, except share and per share amounts)

	June 30, 2007	December 31, 2006
Assets		
Current assets:		
Cash and cash equivalents	$ 168,718	$ 213,171
Marketable securities, available for sale	424,249	491,455
Accounts receivable	37,189	62,923
Prepaid expenses	7,501	3,857
Total current assets	637,657	771,406
Marketable securities, available for sale	24,264	57,126
Restricted cash	30,258	30,258
Property and equipment, net	67,771	61,535
Other assets	1,120	1,254
Total assets	$ 761,070	$ 921,579
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 17,754	$ 15,368
Accrued expenses and other current liabilities	85,289	91,359
Accrued interest	597	1,905
Deferred revenues, current portion	24,436	33,889
Accrued restructuring expense, current portion	5,251	4,735
Convertible subordinated notes (due September 2007)	42,102	42,102
Convertible senior subordinated notes	—	59,648
Collaborator development loan (due May 2008), current portion	19,997	—
Other obligations	7,476	2,008
Total current liabilities	202,902	251,014
Accrued restructuring expense, excluding current portion	31,063	28,338
Collaborator development loan (due May 2008), excluding current portion	—	19,997
Deferred revenues, excluding current portion	112,520	116,295
Total liabilities	346,485	415,644
Commitments and contingencies:		
Stockholders' equity:		
Preferred stock, $0.01 par value; 1,000,000 shares authorized; none issued and outstanding at June 30, 2007 and December 31, 2006	—	—
Common stock, $0.01 par value; 200,000,000 shares authorized; 131,324,089 and 126,121,473 shares issued and outstanding at June 30, 2007 and December 31, 2006, respectively	1,297	1,244
Additional paid-in capital	1,808,853	1,702,128
Accumulated other comprehensive loss	(595)	(962)
Accumulated deficit	(1,394,970)	(1,196,475)
Total stockholders' equity	414,585	505,935
Total liabilities and stockholders' equity	$ 761,070	$ 921,579

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

Vertex Pharmaceuticals Incorporated

Condensed Consolidated Statements of Operations

(Unaudited)

(In thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006

Revenues:				
Royalties	$ 10,967	$ 9,005	$ 20,763	$ 18,184
Collaborative and other research and development revenues	27,229	20,721	86,243	50,629
Total revenues	38,196	29,726	107,006	68,813
Costs and expenses:				
Royalty payments	3,401	2,885	6,670	5,880
Research and development expenses	136,187	91,250	268,765	166,452
Sales, general and administrative expenses	23,322	14,370	39,859	27,249
Restructuring expense	906	443	5,961	1,210
Total costs and expenses	163,816	108,948	321,255	200,791
Loss from operations	(125,620)	(79,222)	(214,249)	(131,978)
Interest income	8,423	3,921	17,545	7,901
Interest expense	(570)	(2,357)	(1,791)	(4,714)
Loss before cumulative effect of a change in accounting principle	$ (117,767)	$ (77,658)	$ (198,495)	$ (128,791)
Cumulative effect of a change in accounting principle—SFAS 123(R)*	—	—	—	1,046
Net loss	$ (117,767)	$ (77,658)	$ (198,495)	$ (127,745)
Basic and diluted loss per common share before cumulative effect of a change in accounting principle	$ (0.91)	$ (0.72)	$ (1.56)	$ (1.19)
Basic and diluted cumulative effect of a change in accounting principle per common share	—	—	—	0.01
Basic and diluted net loss per common share	$ (0.91)	$ (0.72)	$ (1.56)	$ (1.18)
Basic and diluted weighted-average number of common shares outstanding	129,269	108,523	127,527	107,985

* In 2006, the Company adopted Financial Accounting Standards Board Statement No. 123(R), “Share-Based Payment,” using a modified prospective method. See Note 3, “Stock-based Compensation,” for further details.

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

Vertex Pharmaceuticals Incorporated

Condensed Consolidated Statements of Cash Flows

(Unaudited)

(In thousands)

	Six Months Ended June 30,	
	2007	2006
Cash flows from operating activities:		
Net loss	$ (198,495)	$ (127,745)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	13,173	13,059
Stock-based compensation expense	33,777	19,772
Other non-cash based compensation expense	2,391	1,793
Cumulative effect of a change in accounting principle	—	(1,046)
Realized loss on marketable securities	219	—
Loss on disposal of property and equipment	—	2
Changes in operating assets and liabilities:		
Accounts receivable	25,734	1,927
Prepaid expenses	(3,644)	(3,277)
Accounts payable	2,386	2,067
Accrued expenses and other liabilities	(600)	1,591
Accrued restructuring	3,241	(6,704)
Accrued interest	(1,097)	1
Deferred revenues	(13,228)	(21,130)
Net cash used in operating activities	(136,143)	(119,690)
Cash flows from investing activities:		
Purchase of marketable securities	(317,156)	(93,370)
Sales and maturities of marketable securities	417,330	163,292
Expenditures for property and equipment	(19,287)	(18,232)
Investments and other assets	(717)	(572)
Net cash provided by investing activities	80,170	51,118
Cash flows from financing activities:		
Issuances of common stock from employee benefit plans, net	11,533	31,927
Debt exchange costs	(53)	(218)
Net cash provided by financing activities	11,480	31,709
Effect of changes in exchange rates on cash	40	248

Net decrease in cash and cash equivalents	(44,453)	(36,615)
Cash and cash equivalents—beginning of period	213,171	78,045
Cash and cash equivalents—end of period	$ 168,718	$ 41,430
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 2,767	$ 4,445

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

Vertex Pharmaceuticals Incorporated

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Basis of Presentation

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

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

Certain information and footnote disclosures normally included in the Company's annual financial statements have been condensed or omitted. The interim financial statements, in the opinion of management, reflect all normal recurring adjustments (including accruals) necessary for a fair presentation of the financial position and results of operations for the interim periods ended June 30, 2007 and 2006.

The results of operations for the interim periods are not necessarily indicative of the results of operations to be expected for the fiscal year, although the Company expects to incur a substantial loss for the year ending December 31, 2007. These interim financial statements should be read in conjunction with the audited financial statements for the year ended December 31, 2006, which are contained in the Company's 2006 Annual Report on Form 10-K that was filed with the Securities and Exchange Commission on March 1, 2007.

2. Accounting Policies

Basic and Diluted Net Loss per Common Share

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

	At June 30,	
	2007	2006
Stock options	15,197	14,617
Weighted-average exercise price, per share	$ 27.76	$ 25.30
Convertible notes	456	8,354
Weighted-average conversion price, per share	$ 92.26	$ 19.16
Unvested restricted shares	1,624	1,739

Stock-based Compensation Expense

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

Research and Development Expenses

All research and development expenses, including amounts funded by research collaborations, are expensed as incurred. Research and development expenses are comprised of costs incurred in performing research and development activities, including salary and benefits; stock-based compensation expense; laboratory supplies and other direct expenses; contractual services, including clinical trial costs and pharmaceutical development costs; commercial supply investment in telaprevir; and infrastructure costs, including facilities costs and depreciation. Due to telaprevir's stage of development, costs related to the Company's investment in its commercial supply of telaprevir are included in research and development expenses.

The Company's collaborators have funded portions of the Company's research and development programs related to specific drug candidates and research targets, including in 2007 and/or 2006, telaprevir, VX-702, VX-770, kinases and certain cystic fibrosis research targets.

The following tables detail the research and development expenses incurred by the Company for collaborator-sponsored and Company-sponsored programs (collaborator-sponsored programs are those in which a collaborator has funded any portion of the related program expenses, such as the telaprevir program) for the three and six months ended June 30, 2007 and 2006 (in thousands):

	For the Three Months Ended June 30, 2007			For the Three Months Ended June 30, 2006		
	Research	Development	Total	Research	Development	Total
Collaborator-sponsored	$ 4,977	$ 63,371	$ 68,348	$ 9,612	$ 41,652	$ 51,264
Company-sponsored	37,655	30,184	67,839	26,809	13,177	39,986
Total	$ 42,632	$ 93,555	$ 136,187	$ 36,421	$ 54,829	$ 91,250

	For the Six Months Ended June 30, 2007			For the Six Months Ended June 30, 2006		
	Research	Development	Total	Research	Development	Total
Collaborator-sponsored	$ 10,635	$ 139,224	$ 149,859	$ 29,153	$ 70,830	$ 99,983
Company-sponsored	71,979	46,927	118,906	43,540	22,929	66,469
Total	$ 82,614	$ 186,151	$ 268,765	$ 72,693	$ 93,759	$ 166,452

Restructuring Expense

The Company records costs and liabilities associated with exit and disposal activities, as defined in FASB Statement No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS 146"), at fair value in the period the liability is incurred. In periods subsequent to initial measurement, changes to the liability are measured using the credit-adjusted risk-free discount rate applied in the initial period. In the three and six months ended June 30, 2007 and 2006, the Company recorded costs and liabilities for exit and disposal activities related to a restructuring plan in accordance

with SFAS 146. The liability is evaluated and adjusted as appropriate on at least a quarterly basis for changes in circumstances. Please refer to Note 6, "Restructuring Expense," for further information.

Revenue Recognition

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

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

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

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

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

- In those circumstances where collection of a substantive milestone payment is reasonably assured, the Company has remaining obligations to perform under the collaboration arrangement and the Company has sufficient evidence of fair value for its remaining obligations, management considers the milestone payment and the remaining obligations to be separate units of accounting. In these circumstances, the Company uses the residual method under EITF 00-21 to allocate revenue among the milestones and the remaining obligations.
- In those circumstances where collection of a substantive milestone payment is reasonably assured, the Company has remaining obligations to perform under the collaboration arrangement and the Company does not have sufficient evidence of fair value for its remaining obligations, management considers the milestone payment and the remaining obligations under the contract as a single unit of accounting. In those circumstances where the collaboration does not require specific deliverables at specific times or at the end of the contract term, but rather the Company's obligations are satisfied over a period of time, substantive milestone payments are recognized over the period of performance. This typically results in a portion of the milestone payment being recognized as revenue on the date the milestone is achieved equal to the applicable percentage of the performance period that has elapsed as of the date the milestone is achieved, with the balance being deferred and recognized over the remaining period of performance.

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

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

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

3. Stock-based Compensation

At June 30, 2007, the Company had four stock-based employee compensation plans: the 1991 Stock Option Plan, the 1994 Stock and Option Plan, the 1996 Stock and Option Plan and the 2006 Stock and Option Plan (collectively, the "Stock and Option Plans"), and one Employee Stock Purchase Plan (the "ESPP"). In connection with the Stock and Option Plans, the Company issues stock options and restricted stock awards with service conditions, which are generally the vesting periods of the awards. The Company also issues to certain members of senior management restricted stock awards that vest upon the earlier of the satisfaction of a market condition or a service condition ("PARS").

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

For PARS awards, a portion of the fair value of the common stock on the date of grant is recognized ratably over a derived service period that is equal to the estimated time to satisfy the market condition. The portion of the fair value of the common stock that is recognized over the derived service period is based on the estimated probability that the award will vest as a result of the market condition. For the PARS awards granted in 2006 and 2007, the derived service period relating to each market condition was shorter than the four year service-based vesting period of the PARS. The difference between the fair value of the common stock on the date of grant and the value recognized over the derived service period is recognized ratably over the four year service-based vesting period of the PARS. The stock-based compensation expense recognized over each of the derived service periods and the four year service periods includes an estimate of awards that will be forfeited prior to the end of the derived service periods or the four year service periods, respectively.

Prior to adoption of SFAS 123(R), Vertex recorded the impact of forfeitures of restricted stock as they occurred. In connection with the adoption of SFAS 123(R) during the six months ended June 30, 2006, Vertex recorded a $1.0 million benefit from the cumulative effect of changing from recording forfeitures related to restricted stock awards as they occurred to estimating forfeitures during the service period.

The effect of recording stock-based compensation expense for the three and six months ended June 30, 2007 and 2006 was as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Stock-based compensation expense by type of award:				
Stock options	$ 13,079	$ 9,804	$ 21,386	$ 15,402
Restricted shares	7,688	1,412	11,028	3,139
ESPP	690	431	1,363	1,231
Total stock-based compensation expense	$ 21,457	$ 11,647	$ 33,777	$ 19,772
Effect of stock-based compensation expense by line item:				
Research and development expenses	$ 17,638	$ 9,755	$ 27,940	$ 16,161
Sales, general and administrative expenses	3,819	1,892	5,837	3,611
Total stock-based compensation expense	$ 21,457	$ 11,647	$ 33,777	$ 19,772
Cumulative effect of a change in accounting principle—SFAS 123(R)	—	—	—	(1,046)
Net stock-based compensation expense included in net loss	$ 21,457	$ 11,647	$ 33,777	$ 18,726

Stock Options

All stock options granted during the three and six months ended June 30, 2007 and 2006 were granted with exercise prices equal to the fair market value of the Company's common stock on the date of grant. The options granted during the three and six months ended June 30, 2007 had a weighted-average grant date fair value, measured on the grant date, of $16.21 and $19.32, respectively, and the options granted during the three and six months ended June 30, 2006 had a weighted-average grant date fair value, measured on the grant date, of $19.83 and $20.01, respectively.

In accordance with SFAS 123(R), the Company recorded stock-based compensation expense related to stock options of $13.1 million and $21.4 million, respectively, for the three and six months ended June 30, 2007, and $9.8 million and $15.4 million, respectively, for the three and six months ended June 30, 2006. The stock-based compensation expense related to stock options for the three and six months ended June 30, 2007 included $1.9 million related to stock options accelerated in connection with an officer's severance arrangement. As of June 30, 2007, there was $65.7 million of total unrecognized compensation expense, net of estimated forfeitures, related to unvested options granted under the Company's Stock and Option Plans. The Company expects to recognize that expense over a weighted-average period of 2.63 years.

Restricted Stock

The Company recorded stock-based compensation expense related to restricted stock of $7.7 million and $11.0 million, respectively, for the three and six months ended June 30, 2007, and $1.4 million and $3.1 million, respectively, for the three and six months ended June 30, 2006. The stock-based compensation expense related to restricted stock for the three and six months ended June 30, 2007 included $1.4 million related to accelerated vesting of restricted stock awards in connection with an officer's severance arrangement.

As of June 30, 2007, there was $27.2 million of total unrecognized stock-based compensation expense, net of estimated forfeitures, related to unvested restricted stock granted under the Company's Stock and Option Plans. The Company expects to recognize that expense over a weighted-average period of 2.44 years.

Employee Stock Purchase Plan

The stock-based compensation expense related to the ESPP was $0.7 million and $1.4 million, respectively, for the three and six months ended June 30, 2007, and $0.4 million and $1.2 million, respectively, for the three and six months ended June 30, 2006. As of June 30, 2007, there was $1.9 million of total unrecognized compensation expense, net of estimated forfeitures, related to ESPP shares. The Company expects to recognize that expense during 2007 and 2008.

During the three and six months ended June 30, 2007 and 2006, the Company issued 139,000 shares at an average price paid of $25.80 per share, and 221,000 shares at an average price paid of $13.20 per share, respectively, to employees under the ESPP.

4. Comprehensive Loss

For the three and six months ended June 30, 2007 and 2006, comprehensive loss was as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Net loss	$ (117,767)	$ (77,658)	$ (198,495)	$ (127,745)
Changes in other comprehensive loss:				
Unrealized holding gains (losses) on marketable securities	(173)	(2,849)	327	10,877
Foreign currency translation adjustment	84	206	40	248
Total change in other comprehensive loss	(89)	(2,643)	367	11,125
Total comprehensive loss	$ (117,856)	$ (80,301)	$ (198,128)	$ (116,620)

5. Income Taxes

The Company adopted FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109” (“FIN 48”) on January 1, 2007. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements in accordance with FASB Statement No. 109, “Accounting for Income Taxes.” FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

At the adoption date and as of June 30, 2007, the Company had no material unrecognized tax benefits and no adjustments to liabilities or operations were required under FIN 48. The Company’s practice was and continues to be to recognize interest and penalty expenses related to uncertain tax positions in income tax expense, which were zero at the adoption date and for the three and six months ended June 30, 2007. Tax years 2003 through 2006 and 2002 through 2006 are subject to examination by the federal and state taxing authorities, respectively. There are no income tax examinations currently in process.

6. Restructuring Expense

In June 2003, Vertex adopted a plan to restructure its operations to coincide with its increasing internal emphasis on advancing drug candidates through clinical development to commercialization. The restructuring was designed to re-balance the Company’s relative investments in research and development to better support the Company’s long-term strategy. The restructuring plan included a workforce reduction, write-offs of certain assets and a decision not to occupy approximately 290,000 square feet of specialized laboratory and office space in Cambridge, Massachusetts under lease to Vertex (the “Kendall Square Lease”). The Kendall Square Lease commenced in January 2003 and has a 15-year term. In the

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

The Company continues to estimate the restructuring expense in accordance with SFAS 146. The restructuring expenses incurred in 2006 and 2007 relate only to the portion of the building that the Company is not occupying and currently does not intend to occupy for its operations. The remaining lease obligations, which are associated with the portion of the Kendall Square Facility that the Company occupies and uses for its operations, are recorded as rental expense in the period incurred.

In estimating the expense and liability under its Kendall Square Lease obligation, the Company estimated (i) the costs to be incurred to satisfy rental and build-out commitments under the lease (including operating costs), (ii) the lead-time necessary to sublease the space, (iii) the projected sublease rental rates, and (iv) the anticipated durations of subleases. The Company validates its estimates and assumptions through consultations with independent third parties having relevant expertise. 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, until the termination of the Kendall Square Lease, and will make whatever modifications management believes necessary, based on the Company’s best judgment, to reflect any changed circumstances. The Company’s estimates have changed in the past, and may change in the future, resulting in additional adjustments to the estimate of liability, and the effect of any such adjustments could be material. Because the Company’s estimate of the liability includes the application of a discount rate to reflect the time-value of money, the estimate of the liability will increase each quarter simply as a result of the passage of time. Changes to the Company’s estimate of the liability are recorded as additional restructuring expense/(credit).

For the three months ended June 30, 2007, the Company recorded net restructuring expense of $0.9 million, which was primarily the result of the imputed interest cost relating to the restructuring liability. The activity related to the restructuring liability for the three months ended June 30, 2007 was as follows (in thousands):

	Liability as of March 31, 2007	Cash payments in second quarter of 2007	Cash received from subleases in second quarter of 2007	Charge in second quarter of 2007	Liability as of June 30, 2007
Lease restructuring liability	$ 36,508	$ (3,269)	$ 2,169	$ 906	$ 36,314

For the six months ended June 30, 2007, the Company recorded net restructuring expense of $6.0 million, which was primarily the result of revising certain key estimates and assumptions about building operating costs, for the remaining period of the lease commitment, as well as the imputed interest cost relating to the restructuring liability. The activity related to the restructuring liability for the six months ended June 30, 2007 was as follows (in thousands):

	Liability as of December 31, 2006	Cash payments in the first half of 2007	Cash received from subleases in the first half of 2007	Charge in the first half of 2007	Liability as of June 30, 2007
Lease restructuring liability	$ 33,073	$ (6,466)	$ 3,746	$ 5,961	$ 36,314

For the three months ended June 30, 2006, the Company recorded net restructuring expense of $0.4 million, which was primarily attributable to the imputed interest cost relating to the restructuring liability. The activity related to the restructuring liability for the three months ended June 30, 2006 was as follows (in thousands):

	Liability as of March 31, 2006	Cash payments in the second quarter of 2006	Cash received from subleases in the second quarter of 2006	Charge in second quarter of 2006	Liability as of June 30, 2006
Lease restructuring liability	$ 41,719	$ (7,904)	$ 2,020	$ 443	$ 36,278

For the six months ended June 30, 2006, the Company recorded net restructuring expense of $1.2 million, which was primarily attributable to the imputed interest cost relating to the restructuring liability. The activity related to the restructuring liability for the six months ended June 30, 2006 was as follows (in thousands):

	Liability as of December 31, 2005	Cash payments in the first half of 2006	Cash received from subleases in the first half of 2006	Charge in the first half of 2006	Liability as of June 30, 2006
Lease restructuring liability	$ 42,982	$ (11,884)	$ 3,970	$ 1,210	$ 36,278

7. Altus Investment

Altus Pharmaceuticals, Inc. (“Altus”) completed its initial public offering in January 2006. As a result of investments Vertex had made in Altus while Altus was a private company, Vertex owned 817,749 shares of Altus common stock, and warrants to purchase 1,962,494 shares of Altus common stock (the “Altus Warrants”). In addition, the Company, as of the completion of the offering, held 450,000 shares of redeemable preferred stock, which are not convertible into common stock and which are redeemable for $10.00 per share plus accrued dividends at Vertex’s option on or after December 31, 2010, or by Altus at any time. Dividends have been accruing at an annual rate of $0.50 per share since the redeemable preferred stock was issued in 1999. Pursuant to a lock-up agreement, the Company was restricted from trading Altus securities for a period of six months following the initial public offering.

As a result of Altus’ public offering, Altus common stock was classified as an available-for-sale investment and recorded at fair value, based on quoted market prices. Unrealized gains and losses on the Altus common stock were included as a component of accumulated other comprehensive loss, which is a separate component of stockholders’ equity, until such gains and losses were realized.

In July 2006, after the trading restrictions had expired, the Company sold the 817,749 shares of Altus common stock for $11.7 million, resulting in a realized gain of $7.7 million. Upon expiration of the trading restrictions in July 2006, the Company began accounting for the Altus Warrants as derivative instruments under the FASB Statement No. 133, “Accounting for Derivative Instruments and Hedging Activities” (“SFAS 133”). In accordance with SFAS 133, in the third quarter of 2006, the Company recorded the Altus Warrants on its consolidated balance sheets at a fair market value of $19.1 million and recorded an unrealized gain on the fair market value of the Altus Warrants of $4.3 million. In the fourth quarter of 2006, the Company sold the Altus Warrants for approximately $18.3 million, resulting in a realized loss of

$0.7 million. As a result of the Company’s sales of Altus common stock and Altus Warrants, the Company recorded a net realized gain on a sale of investment of $11.2 million in 2006.

8. Convertible Subordinated Notes

At June 30, 2007 and December 31, 2006, the Company had $42.1 million in aggregate principal amount of 5% Convertible Subordinated Notes due in September 2007 (“2007 Notes”). The 2007 Notes are convertible, at the option of the holder, into common stock at a price equal to $92.26 per share, subject to adjustment under certain circumstances. The 2007 Notes bear interest at the rate of 5% per annum, and the Company is required to make semi-annual interest payments on the outstanding principal balance of the 2007 Notes on March 19 and September 19 of each year. The 2007 Notes are redeemable by the Company at any time at specific redemption prices if the closing price of the Company’s common stock exceeds 120% of the conversion price for at least 20 trading days within a period of 30 consecutive trading days.

At December 31, 2006, the Company had $59.6 million in aggregate principal amount of 5.75% Convertible Senior Subordinated Notes due in February 2011 (the “2011 Notes”) outstanding. In the first quarter of 2007, the Company called all of the 2011 Notes for redemption. In response and pursuant to the terms of the 2011 Notes, the holders of all the outstanding 2011 Notes converted, at a price equal to $14.94 per share, their $59.6 million in aggregate principal amount of 2011 Notes into 3,992,473 shares of the Company’s common stock. The following items related to the conversion were recorded as an offset to additional paid-in capital on the Company’s condensed consolidated balance sheets: accrued interest, remaining unamortized issuance costs of the converted notes and issuance costs of the common stock. As a result of the conversions, no 2011 Notes were outstanding as of June 30, 2007. The 2011 Notes bore interest at the rate of 5.75% per annum, and the Company was required to make semi-annual interest payments on the outstanding principal balance of the 2011 Notes on February 15 and August 15 of each year.

9. Significant Revenue Arrangements

Janssen Pharmaceutica, N.V.

In June 2006, the Company entered into a collaboration agreement with Janssen for the development, manufacture and commercialization of telaprevir, the Company’s investigative hepatitis C virus protease inhibitor. Under the agreement, Janssen has agreed to be responsible for 50% of the drug development costs incurred under the development program for the parties’ territories (North America for the Company, and the rest of the world, other than the Far East, for Janssen) and has exclusive rights to commercialize telaprevir in its territories including Europe, South America, the Middle East, Africa and Australia. Janssen made a $165 million up-front license payment to the Company in July 2006. The up-front license payment is being amortized over the Company’s estimated period of performance. Under the agreement, Janssen agreed to make additional contingent milestone payments, which could total up to $380 million if telaprevir is successfully developed, approved and launched. As of June 30, 2007, the Company had earned $30 million in contingent milestone payments under the agreement. The agreement also provides the Company with royalties on any sales of telaprevir in the Janssen territories, with a tiered royalty averaging in the mid-20% range, as a percentage of net sales in the Janssen territories, depending upon successful commercialization of telaprevir. Each of the parties will be responsible for drug supply in their respective territories. However, the agreement provides for the purchase by Janssen from the Company of materials required for Janssen’s manufacture of the active pharmaceutical ingredient. In addition, Janssen will be responsible for certain third-party royalties on net sales in its territories. Janssen may terminate the agreement without cause at any time upon six months’ notice to the Company.

During the three months ended June 30, 2007, the Company recognized $22.7 million in revenue under the Janssen agreement, which included an amortized portion of the $165.0 million upfront payment

and net funding of reimbursable drug development costs. During the six months ended June 30, 2007, the Company recognized $65.5 million in revenue under the Janssen agreement, which included an amortized portion of the $165.0 million upfront payment, net funding of reimbursable drug development costs and a $15.0 million milestone payment that was earned by the Company in the first quarter of 2007.

Merck & Co., Inc.

In June 2004, the Company entered into a global collaboration with Merck to develop and commercialize MK-0457 (VX-680), the Company’s lead Aurora kinase inhibitor, for the treatment of cancer, and to conduct research targeting the discovery of an additional Aurora kinase inhibitory compound or compounds to follow MK-0457 (VX-680). In 2005, Merck selected for development MK-6592 (VX-667), a second drug candidate covered by the collaboration agreement and in the first quarter of 2007, Merck selected for development VX-689, a third drug candidate covered by the collaboration. Under the agreement, Merck made two milestone payments totaling $19.5 million in 2005, three milestone payments totaling $36.3 million in 2006 and a milestone payment of $9.0 million in the first quarter of 2007. Merck is responsible for worldwide clinical development and commercialization of MK-0457 (VX-680) and follow-on candidates including MK-6592 (VX-667) and VX-689, and will pay the Company royalties on any product sales. Merck may terminate the agreement at any time without cause upon 90 days’ advance written notice, except that six months’ advance written notice is required for termination at any time when a product has marketing approval in a major market and the termination is not the result of a safety issue.

10. Guarantees

As permitted under Massachusetts law, Vertex’s Articles of Organization and Bylaws provide that the Company will indemnify certain of its officers and directors for certain claims asserted against them in connection with their service as an officer or director. The maximum potential amount of future payments that the Company could be required to make under these indemnification provisions is unlimited. However, the Company has purchased directors’ and officers’ liability insurance policies that could reduce its monetary exposure and enable it to recover a portion of any future amounts paid. No indemnification claims are currently outstanding, and the Company believes the estimated fair value of these indemnification arrangements is minimal.

Vertex customarily agrees in the ordinary course of its business to indemnification provisions in agreements with clinical trials investigators and sites in its drug development programs, in sponsored research agreements with academic and not-for-profit institutions, in various comparable agreements involving parties performing services for the Company in the ordinary course of business, and in its real estate leases. The Company also customarily agrees to certain indemnification provisions in its drug discovery and development collaboration agreements. With respect to the Company’s clinical trials and sponsored research agreements, these indemnification provisions typically apply to any claim asserted against the investigator or the investigator’s institution relating to personal injury or property damage, violations of law or certain breaches of the Company’s contractual obligations arising out of the research or clinical testing of the Company’s compounds or drug candidates. With respect to lease agreements, the indemnification provisions typically apply to claims asserted against the landlord relating to personal injury or property damage caused by the Company, to violations of law by the Company or to certain breaches of the Company’s contractual obligations. The indemnification provisions appearing in the Company’s collaboration agreements are similar, but in addition provide some limited indemnification for its collaborator in the event of third-party claims alleging infringement of intellectual property rights. In each of the cases above, the indemnification obligation generally survives the termination of the agreement for some extended period, although the obligation typically has the most relevance during the contract term and for a short period of time thereafter. The maximum potential amount of future payments that the Company could be required to make under these provisions is generally unlimited. The Company has

purchased insurance policies covering personal injury, property damage and general liability that reduce its exposure for indemnification and would enable it in many cases to recover a portion of any future amounts paid. The Company has never paid any material amounts to defend lawsuits or settle claims related to these indemnification provisions. Accordingly, the Company believes the estimated fair value of these indemnification arrangements is minimal.

On June 7, 2005 and September 14, 2006, the Company entered into Purchase Agreements with Merrill Lynch, Pierce, Fenner & Smith Incorporated, as the representative of the several underwriters named in such agreements, relating to the public offering and sale of shares of the Company's common stock. The Purchase Agreement relating to each offering requires the Company to indemnify the underwriters against any loss they may suffer by reason of the Company's breach of representations and warranties relating to that public offering, the Company's failure to perform certain covenants in those agreements, the inclusion of any untrue statement of material fact in the prospectus used in connection with that offering, the omission of any material fact needed to make those materials not misleading, and any actions taken by the Company or its representatives in connection with the offering. The representations, warranties and covenants in the Purchase Agreements are of a type customary in agreements of this sort. The Company believes the estimated fair value of these indemnification obligations is minimal.

11. Contingencies

The Company has certain contingent liabilities that arise in the ordinary course of its business activities. The Company accrues a reserve for contingent liabilities when it is probable that future expenditures will be made and such expenditures can be reasonably estimated. There were no contingent liabilities accrued at June 30, 2007 or December 31, 2006.

12. New Accounting Pronouncements

In June 2007, the FASB ratified the consensus reached by the Emerging Issues Task Force on EITF Issue No. 07-3, "Accounting for Nonrefundable Advance Payments for Goods or Services to Be Used in Future Research and Development Activities" ("EITF 07-3"). EITF 07-3 addresses the diversity that exists with respect to the accounting for the non-refundable portion of a payment made by a research and development entity for future research and development activities. Under this EITF, an entity would defer and capitalize non-refundable advance payments made for research and development activities until the related goods are delivered or the related services are performed. EITF 07-3 will be effective for the Company beginning on January 1, 2008. The Company is currently evaluating the effect of EITF 07-3 on its consolidated financial statements.

In February 2007, FASB issued Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115" ("SFAS 159"). SFAS 159 provides companies with an option to report selected financial assets and liabilities at fair value. Furthermore, SFAS 159 establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS 159 will be effective for the Company beginning on January 1, 2008. The Company is currently evaluating the effect of SFAS 159 on its consolidated financial statements.

In September 2006, FASB issued Statement No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 provides guidance for using fair value to measure assets and liabilities and requires additional disclosure about the use of fair value measures, the information used to measure fair value, and the effect fair-value measurements have on earnings. SFAS 157 does not require any new fair value measurements. SFAS 157 will be effective for the Company beginning on January 1, 2008. The Company is currently evaluating the effect of SFAS 157 on its consolidated financial statements.

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

Overview

We are in the business of discovering, developing and commercializing small molecule drugs for the treatment of serious diseases. We have built a drug discovery capability that integrates biology, chemistry, biophysics, automation and information technologies, with a goal of making the drug discovery process more efficient and productive. Our most advanced drug candidate, telaprevir, is being investigated for the treatment of hepatitis C virus, or HCV, infection in three major Phase 2b clinical trials. We are investing significant resources to expand our capabilities in clinical development, regulatory affairs, quality control and commercial operations and to build and manage a commercial supply chain in preparation for the Phase 3 development and the potential commercial launch of telaprevir. We have a number of other drug candidates, including candidates targeting rheumatoid arthritis, cystic fibrosis, bacterial infection, cancer and pain, that are being evaluated in preclinical studies or clinical trials either by us or in collaboration with other pharmaceutical companies. Our HIV protease inhibitor, fosamprenavir calcium, is being marketed by our collaborator GlaxoSmithKline plc as Lexiva in the United States and Telzir in Europe.

Our net loss for 2006 was $206.9 million, or $1.83 per basic and diluted common share, and our net loss for the six months ended June 30, 2007 was $198.5 million, or $1.56 per basic and diluted common share. We expect to incur substantial operating losses in the future. In 2007, we expect that our research and development expenses will be higher than those in 2006, as we continue to incur research and development costs related to telaprevir and our other drug candidates, establish a commercial supply chain and build telaprevir commercial inventory to support markets where we expect to launch telaprevir, if approved, and build our general drug development and commercialization capabilities.

Business Focus

We have elected to diversify our research and development activities across a relatively broad array of investment opportunities, due in part to the high risks associated with the biotechnology and pharmaceutical business. This diversification strategy requires more significant financial resources than would be required if we pursued a more limited approach. We are expending significant resources on development and commercialization of the drug candidates for which we currently have principal clinical development responsibility, in those markets where we have commercial rights. We rely on collaborators to develop and commercialize certain of our other drug candidates either worldwide or in the markets upon which we are not currently focused.

To date, we have relied on pharmaceutical company collaborators to develop and market our drug candidates that have advanced to late stage clinical trials or commercialization. Telaprevir is the first drug candidate for which we expect to perform all activities related to late stage development, drug supply, registration and commercialization in a major market. We have limited experience in Phase 3 clinical development, supply chain management, and pharmaceutical sales and marketing, and we are building those capabilities as we advance telaprevir through clinical development. Even though telaprevir is a

Phase 2b drug candidate, we are planning for and investing significant resources now in preparation for Phase 3 clinical trials, application for marketing approval, commercial supply and sales and marketing. Our engagement in these resource-intensive activities could make it more difficult for us to maintain our portfolio focus, and puts significant investment at risk if we do not obtain regulatory approval and successfully commercialize telaprevir in North America. While we attempt to stage our investments in each drug candidate to coincide to some degree with the occurrence of risk-reducing events associated with the development of that drug candidate, we may not be able through this approach to reduce significantly the overall financial risk associated with our drug development activities. There is no assurance that our development of telaprevir will lead successfully to regulatory approval, or that obtaining regulatory approval will lead to commercial success.

In the past, we have sought collaborator funding for a significant portion of our research activities, which required that we grant to those collaborators significant rights to develop and commercialize drug candidates generated by that research. In the future, we expect that we will fund a greater proportion of our research programs than in past years, using internal funds rather than collaborator funds. We believe that this strategy will ultimately allow us to retain greater development control of, and commercial rights with respect to, those proprietary drug candidates that may meet our strategic internal investment criteria as in effect from time to time.

Discovery and Development Process

Several compounds that have been discovered by our research organization are currently in clinical development. We have also commenced preclinical activities with several novel compounds currently emerging from our drug discovery programs, and expect to initiate clinical trials of one or more of these compounds by the end of 2007. Discovery and development of a new pharmaceutical product is a lengthy and resource-intensive process, which may take 10 to 15 years or more. Throughout this entire process, potential drug candidates are subjected to rigorous evaluation, driven in part by stringent regulatory considerations, designed to generate information concerning efficacy, proper dosage levels and a variety of other physical and chemical characteristics that are important in determining whether a drug candidate should be approved for marketing. The toxicity characteristics and profile of drug candidates at varying dose levels administered for varying periods of time also are monitored and evaluated during the nonclinical and clinical development process. Most chemical compounds that are investigated as potential drug candidates never progress into formal development, and most drug candidates that do advance into formal development never become commercial products. A drug candidate's failure to progress or advance may be the result of any one or more of a wide range of adverse experimental outcomes including, for example, the lack of sufficient efficacy against the disease target, the lack of acceptable absorption characteristics or other physical properties, difficulties in developing a cost-effective manufacturing or formulation method or the discovery of toxicities or side effects that are unacceptable for the disease indication being treated.

Given the uncertainties of the research and development process, it is not possible to predict with confidence which, if any, of our current research and development efforts will result in a marketable pharmaceutical product. We monitor the results of our discovery research, our nonclinical studies and clinical trials and frequently evaluate our portfolio investments in light of new data and scientific, business and commercial insights with the objective of balancing risk and potential. This process can result in relatively abrupt changes in focus and priority as new information becomes available and we gain additional insights into ongoing programs and potential new programs.

Clinical Development Programs

We continue to conduct clinical trials of our lead drug candidates. Our development of telaprevir illustrates our focus on maintaining greater development control of our drug candidates. We are conducting three major Phase 2b clinical trials of telaprevir in genotype 1 HCV patients. PROVE 1 is ongoing in the United States and PROVE 2 is ongoing in the European Union, both in treatment-naïve patients. PROVE 3 is ongoing with patients in North America and the European Union who did not achieve a sustained viral response with previous interferon-based treatments. We have completed enrollment of patients in all three of the PROVE clinical trials, bringing the total number of patients enrolled in the PROVE clinical trials to over 1,000. More than 350 patients have completed 12 weeks of telaprevir-based dosing. We also anticipate that we will initiate in 2007 a clinical trial exploring the potential of twice-daily dosing of telaprevir in combination with pegylated interferon, or peg-IFN, and ribavirin, or RBV.

We have scheduled a meeting with the United States Food and Drug Administration to evaluate interim data from the PROVE 1 and PROVE 2 clinical trials. Depending on additional data from the PROVE program and the outcome of discussions with regulatory agencies, our objective is to initiate an international Phase 3 clinical trial for telaprevir in genotype 1 treatment-naïve patients in the fourth quarter of 2007. The registration strategy and the timing of a New Drug Application, or NDA, will be dependent on data from our clinical trials and discussions with regulatory authorities. Designing and coordinating large-scale clinical trials to determine the efficacy and safety of telaprevir and to support the submission of an NDA requires significant financial resources, along with extensive technical and regulatory expertise and infrastructure.

In the second quarter of 2007, we initiated a randomized, double-blind, placebo-controlled Phase 2a clinical trial of VX-770 to evaluate the safety, pharmacokinetics and biomarkers of cystic fibrosis transmembrane regulator activity in approximately 35 patients with cystic fibrosis with genotype G551D.

In the first quarter of 2007, we completed enrollment in our 12-week, 120-patient Phase 2a clinical trial to evaluate the safety, tolerability and anti-inflammatory effects of VX-702 dosed on a background of methotrexate in patients with rheumatoid arthritis. We expect to have data from this Phase 2a clinical trial in the third quarter of 2007. We also are conducting a Thorough QTc study on VX-702, which is a type of clinical trial required for all small molecule drug candidates prior to the initiation of Phase 3 clinical trials. Depending on the results from the Phase 2a clinical trial and Thorough QTc study, we will decide whether to initiate a larger Phase 2 clinical trial on a background of methotrexate.

Each of our programs requires a significant investment of financial and personnel resources, time and expertise by us and/or any program collaborators to realize its full clinical and commercial value. Development investment is subject to the considerable risk that any one or more of our drug candidates will not advance to product registration. Each drug candidate could fail to progress or advance due to a wide range of adverse experimental outcomes, placing our investment in the drug candidate at risk. While we attempt to stage our investments to mitigate these financial risks, drug discovery and development by its nature is a very risky undertaking and staging of investment is not always possible or desirable. We expect to continue to evaluate and prioritize investment in our clinical development programs based on the emergence of new clinical and nonclinical data in each program throughout 2007 and in subsequent years.

Interim Data from PROVE Clinical Trials

Interim PROVE 1 and PROVE 2 Safety Information

In clinical trials of telaprevir, including data available through July 23, 2007 from PROVE 1 and PROVE 2, the most common adverse events, regardless of treatment assignment, were fatigue, rash, headache and nausea. Gastrointestinal disorders, rash and anemia were more common in the telaprevir arms.

The rate of discontinuations due to adverse events through to 12 weeks in the combined PROVE 1 and PROVE 2 trials was approximately 11% in the arms including telaprevir, peg-IFN and RBV compared to 3% in the control arms. In the PROVE 1 clinical trial, the difference in the discontinuation rates between the telaprevir-containing arms and the control arm is due to a greater number of treatment discontinuations due to rash, gastrointestinal disorders and anemia in the telaprevir arms. The most common reason for treatment discontinuation in the telaprevir arms of the PROVE 1 clinical trial was rash (7 patients), and the median time to discontinuation in these patients was 64 days.

The collection of adverse event and discontinuation data is ongoing in the PROVE clinical program.

Interim On-Treatment Data

12-week Antiviral Analysis of PROVE 1

In April 2007, at the 42nd Annual Meeting of the European Association for the Study of the Liver (EASL), researchers presented interim antiviral activity and safety data from a planned interim analysis from the PROVE 1 clinical trial. A total of 250 patients were enrolled in PROVE 1 and received at least one dose of telaprevir or placebo in addition to peg-IFN and RBV in the clinical trial. A total of 175 patients received at least one dose of telaprevir in 1 of 3 arms, and 75 patients received at least one dose of placebo. At the time of the April 2007 interim analysis, all patients had either completed 12 weeks of treatment or discontinued treatment prior to the end of the twelfth week. Interim data from the PROVE 1 clinical trial measured at the end of 4 weeks and 12 weeks of treatment are detailed in the following table:

Interim HCV RNA Results for Patients Enrolled in the PROVE 1 Clinical Trial

Treatment Assignment	Patients with HCV RNA <30 IU/mL at end of 4 weeks of dosing DC=F*	Patients with HCV RNA <10 IU/mL at end of 4 weeks of dosing DC=F*	Patients with HCV RNA <10 IU/mL at end of 12 weeks of dosing, DC=F*	Patients with HCV RNA <10 IU/mL at end of 12 weeks of dosing (last on-treatment value carried forward)
Telaprevir in combination with peg-IFN and RBV (arms B, C and D)	153 of 175 (88%)	138 of 175 (79%)	123 of 175 (70%)	149 of 175 (85%)
Placebo in combination with peg-IFN and RBV (arm A)	12 of 75 (16%)	8 of 75 (11%)	29 of 75 (39%)	32 of 75 (43%)

* Intent-to-treat, discontinuation equals failure analysis. Patients who had HCV RNA <10 IU/mL at the time of discontinuation are counted as “failures,” but we plan to follow these patients, if available, post-discontinuation to determine if they achieve a sustained viral response.

PROVE 2 Preliminary Results

In June 2007, we reported that the preliminary data from the first planned interim analysis from the PROVE 2 clinical trial were consistent with 4-week and 12-week interim results reported for PROVE 1. Patients in the treatment arms that included telaprevir, peg-IFN and RBV had rates of undetectable HCV RNA at 4 and 12 weeks similar to those observed in PROVE 1. At 12 weeks, the treatment arm in PROVE 2 that did not include RBV was associated with antiviral activity that was lower compared to treatment arms that included RBV, telaprevir, and peg-IFN, but still substantially higher than that observed in the control arm.

Viral Breakthrough Analysis of PROVE 1

A low rate of viral breakthrough during therapy was observed in PROVE 1 based on the planned interim analysis of 12-week results. Viral breakthrough was observed in 12 out of 175 patients receiving telaprevir in PROVE 1, or 7%. All but one of the instances of viral breakthrough occurred during the first 4 weeks of treatment. We consider viral breakthrough to have occurred if the patient’s plasma HCV RNA increases while the patient is receiving telaprevir in either of two circumstances. A patient who achieves undetectable levels—less than 10 IU/mL—is considered to have experienced viral breakthrough if the viral levels increase to more than 100 IU/mL during therapy. For patients who do not achieve undetectable levels of plasma HCV RNA, the patient is considered to have experienced viral breakthrough if the patient’s plasma HCV RNA increases by more than 10-fold from its lowest value during therapy. We believe viral breakthrough indicates that a therapy is no longer inhibiting viral replication.

Interim Post-Treatment Analysis

Analysis of PROVE 1 Patients Who Completed Treatment in 12 Weeks (Arm D)

Seventeen patients received at least one dose of telaprevir in “Arm D” of the PROVE 1 clinical trial. According to the clinical trial protocol, patients in Arm D, who were receiving telaprevir in combination with peg-IFN and RBV, were eligible to stop all treatment at week 12 if they met on-treatment criteria, including the achievement of rapid viral response, or RVR, which was defined as HCV RNA of less than 10 IU/mL at week 4, and maintenance of HCV RNA of less than 10 IU/mL at week 10 of treatment. Nine of 17 patients met these criteria and stopped all therapy at 12 weeks, and six of these nine patients continued to have HCV RNA of less than 10 IU/mL at week 20 of post-treatment follow-up. Of the remaining eight patients enrolled in Arm D, four discontinued due to adverse events prior to week 12, and four did not achieve RVR.

Relapse Rate Analysis of PROVE 1 Patients Who Completed Treatment in 24 Weeks

In July 2007, we reported preliminary data from a planned interim analysis of the PROVE 1 clinical trial that involved patients treated with telaprevir plus peg-IFN and RBV for 12 weeks, followed by 12 weeks of treatment with peg-IFN and RBV alone. The interim analysis included end-of-treatment as well as 12-week post-treatment data from all patients who completed the 24-week course of therapy in this arm of the PROVE 1 clinical trial. Of the patients who completed 24 weeks of therapy and had undetectable HCV RNA—less than 10 IU/mL—at the end of treatment, less than 10% had relapsed during the 12 weeks after completion of therapy.

Expected Additional Interim Clinical Results

We expect to report additional interim data from the PROVE 1 trial at the 47th Annual Interscience Conference on Antimicrobial Agents and Chemotherapy (ICAAC) in September and from the PROVE 1 and PROVE 2 clinical trials at the 58th Annual Meeting of the American Association for the Study of Liver Diseases (AASLD) in November.

Financing Strategy

At June 30, 2007, we had $617.2 million of cash, cash equivalents and marketable securities and $42.1 million in principal amount of 5% Convertible Subordinated Notes due September 2007, which we refer to as the 2007 Notes. We currently intend to repay the outstanding 2007 Notes in September 2007 using our existing cash, cash equivalents and marketable securities. In the first quarter of 2007, $59.6 million in principal amount of 5.75% Convertible Senior Subordinated Notes due in February 2011, which we refer to as the 2011 Notes, were converted by the holders into our common stock.

Because we have incurred losses from our inception and expect to incur losses for the foreseeable future, we are dependent in large part on our continued ability to raise significant funding to finance operations and to meet our long-term contractual commitments and obligations. In the past, we have secured funds principally through capital market transactions, strategic collaborative agreements, proceeds from the disposition of assets, investment income and the issuance of stock under our employee benefit programs. In order to fund our research, development and manufacturing activities, particularly for later stage drug candidates, we expect to continue to pursue a general financing strategy that may lead us to undertake one or more additional capital transactions, which may or may not be similar to transactions in which we have engaged in the past. We cannot be sure that any such financing opportunities will be available on acceptable terms, if at all.

Collaborations

Collaborations have been and will continue to be an important component of our business strategy. Our pipeline includes several drug candidates that are being developed by our collaborators, including:

- Drug candidates that are being investigated by Merck for oncology indications under our Aurora kinase collaboration, including MK-0457 (VX-680) which is currently being evaluated in a 270-patient Phase 2 clinical trial in patients with treatment-resistant chronic myelogenous leukemia, or CML, and Philadelphia chromosome-positive acute lymphocytic leukemia, or PH+ ALL, containing the T315I BCR-ABL mutation.
- A back-up pre-clinical subtype-selective sodium channel modulator drug candidate for the treatment of pain, that was selected in mid-2007 by GlaxoSmithKline for further investigation after GlaxoSmithKline discontinued preclinical development of VX-409.
- AVN-944 (VX-944), a drug candidate for the treatment of advanced hematological malignancies, such as leukemia, lymphoma or myeloma, being investigated by our collaborator Avalon Pharmaceuticals.

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, or GAAP. 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 they become known. We base our estimates on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from our estimates if past experience or other assumptions do not turn out to be substantially accurate.

We believe that our application of the accounting policies for revenue recognition, research and development expenses, restructuring expense, and stock-based compensation expense, all of which are important to our financial condition and results of operations, require significant judgments and estimates on the part of management. Our accounting policies, including the ones discussed below, are more fully described in Note B, “Accounting Policies,” to our consolidated financial statements included in our Annual Report on Form 10-K, which we filed with the Securities and Exchange Commission on March 1, 2007.

Revenue Recognition

We recognize revenues in accordance with the SEC’s Staff Accounting Bulletin No. 101, “Revenue Recognition in Financial Statements” (“SAB 101”), as amended by SEC Staff Accounting Bulletin No. 104, “Revenue Recognition” (“SAB 104”), and for revenue arrangements entered into after June 30, 2003, Emerging Issues Task Force Issue No. 00-21, “Revenue Arrangements with Multiple Deliverables” (“EITF 00-21”).

Our revenues are generated primarily through collaborative research, development, manufacture and commercialization agreements. The terms of these agreements typically include payment to us of one or more of the following: non-refundable, up-front license fees; research and development funding; milestone payments and royalties on product sales.

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

We recognize revenues from non-refundable, up-front license fees on a straight-line basis over the contracted or estimated period of performance, which is typically the research or development term. Changes to our estimated or contracted period of performance are accounted for prospectively beginning in the period they become known. Research and development funding is recognized as earned, ratably over the period of effort.

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

- In those circumstances where collection of a substantive milestone payment is reasonably assured, we have remaining obligations to perform under the collaboration arrangement and we have sufficient evidence of fair value for our remaining obligations, we consider the milestone payment and the remaining obligations to be separate units of accounting. In these circumstances, we use the residual method under EITF 00-21 to allocate revenue among the milestones and the remaining obligations.
- In those circumstances where collection of a substantive milestone payment is reasonably assured, we have remaining obligations to perform under the collaboration arrangement, and we do not have sufficient evidence of fair value for our remaining obligations, we consider the milestone payment and the remaining obligations under the contract as a single unit of accounting. In those circumstances where the collaboration does not require specific deliverables at specific times or at the end of the contract term, but rather our obligations are satisfied over a period of time, substantive milestone payments are recognized over the period of performance. This typically results in a portion of the milestone payment being recognized as revenue on the date the milestone is achieved equal to the applicable percentage of the performance period that has elapsed as of the date the milestone is achieved, with the balance being deferred and recognized over the remaining period of performance.

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

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

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

Research and Development Expenses

All research and development expenses, including amounts funded by research and development collaborations, are expensed as incurred. Research and development expenses are comprised of costs incurred in performing research and development activities, including salary and benefits; stock-based compensation expense; laboratory supplies and other direct expenses; contractual services, including clinical trial and pharmaceutical development costs; expenses associated with our commercial supply investment in telaprevir (which are considered research and development expenses due to telaprevir's stage of development); and infrastructure costs, including facilities costs and depreciation. When third-party service providers' billing terms do not coincide with our period-end, we are required to make estimates of the costs, including clinical trial costs, contract services and investment in commercial supply, incurred in a given accounting period and record accruals at period-end. We base our estimates on our knowledge of the research and development programs, services performed for the period, past history for related activities and the expected duration of the third-party service contract, where applicable.

Restructuring Expense

We record liabilities associated with restructuring activities based on estimates of fair value in the period the liabilities are incurred, in accordance with Financial Accounting Standards Board Statement No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS 146"). The liability for accrued restructuring expense of $36.3 million at June 30, 2007 is related to that portion of our facility in Kendall Square, Cambridge, Massachusetts that we are not occupying and do not intend to occupy. This liability is calculated by applying our best estimate of our net ongoing obligation. As prescribed by SFAS 146, we use a probability-weighted discounted cash-flow analysis to calculate the amount of this liability. The probability-weighted discounted cash-flow analysis is based on management's assumptions and estimates of our ongoing lease obligations, including contractual rental commitments, build-out commitments and building operating costs, and estimates of income from subleases, based on the term and timing of such subleases. We discount the estimated cash flows using a discount rate of approximately 10%. These cash flow estimates are reviewed and may be adjusted in subsequent periods. Adjustments are based, among other things, on management's assessment of changes in factors underlying the estimates. Because our estimate of the liability includes the application of a discount rate to reflect the time-value of money, the estimate will increase simply as a result of the passage of time, even if all other factors remain unchanged.

Our estimates of our restructuring liability have changed in the past, and it is possible that our assumptions and estimates will change in the future, resulting in additional adjustments to the amount of the estimated liability. The effect of any such adjustments could be material. For example, we currently have two subleases for portions of the Kendall Square facility with remaining terms of four and five years, respectively, and we have made certain estimates and assumptions relating to future sublease terms following the expiration of the current subleases. Market variability may require adjustments to those assumptions in the future. We will review our assumptions and judgments related to the lease restructuring on at least a quarterly basis until the Kendall Square lease is terminated or expires, and make whatever modifications we believe are necessary, based on our best judgment, to reflect any changed circumstances.

Stock-based Compensation Expense

We account for stock-based compensation in accordance with Statement of Financial Accounting Standards Board No. 123(R), "Share-Based Payment" ("SFAS 123(R)"). SFAS 123(R) requires us to measure compensation expense of stock-based compensation at the grant date, based on the fair value of the award, including estimated forfeitures, and to recognize that expense ratably over the employee's service period. Prior to January 1, 2006, we accounted for stock-based compensation to

employees in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), and related interpretations. We also followed the disclosure requirements of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123").

Under SFAS 123(R), we determine the fair value of awarded stock options and shares issued under the employee stock purchase plan using the Black-Scholes valuation model. The Black-Scholes valuation model requires us to make certain assumptions and estimates concerning our stock price volatility, the rate of return of risk-free investments, the expected term of the awards, and our anticipated dividends. In determining the amount of expense to be recorded, we also are required to exercise judgment to estimate forfeiture rates for awards, based on the probability that employees will complete the required service period. If actual forfeitures differ significantly from our estimates, our results could be materially affected.

Results of Operations

Three Months Ended June 30, 2007 Compared with Three Months Ended June 30, 2006

Our net loss for the three months ended June 30, 2007 was $117.8 million, or $0.91 per basic and diluted common share, compared to a net loss of $77.7 million, or $0.72 per basic and diluted common share for the three months ended June 30, 2006. Included in the net loss for the quarter ended June 30, 2007 is stock-based compensation expense of $21.5 million and restructuring expense of $0.9 million. Included in the net loss for the quarter ended June 30, 2006 is stock-based compensation expense of $11.6 million and restructuring expense of $0.4 million.

Our net loss for the three months ended June 30, 2007 increased by $40.1 million as compared to the three months ended June 30, 2006, and our revenues and expenses changed significantly period to period. The increased net loss was principally the result of increased development investment as we advanced our product candidates. Our research and development expenses increased by $44.9 million from the second quarter of 2006 to the second quarter of 2007. Overall, our total costs and expenses increased by $54.9 million from the second quarter of 2006 to the second quarter of 2007. These increased costs and expenses were partially offset by the $8.5 million increase in revenues in the second quarter of 2007 compared to the second quarter of 2006. Our net loss per basic and diluted common share increased for the three months ended June 30, 2007 compared with the same period in 2006 as a result of the increased net loss partially offset by an increase in the basic and diluted weighted-average number of common shares outstanding from 108.5 million shares to 129.3 million shares.

Revenues

Total revenues increased to $38.2 million for the three months ended June 30, 2007 compared to $29.7 million in the three months ended June 30, 2006. In the second quarter of 2007, revenues were comprised of $11.0 million in royalties and $27.2 million in collaborative and other research and development revenues, as compared with $9.0 million in royalties and $20.7 million in collaborative and other research and development revenues in the second quarter of 2006.

Royalty revenues increased by $2.0 million, or 22%, from the three months ended June 30, 2006 to the three months ended June 30, 2007. Royalties consist of Lexiva/Telzir (fosamprenavir calcium) royalty revenues and a small amount of Agenerase (amprenavir) royalty revenues. Royalty revenues are based on actual and estimated worldwide net sales of Lexiva/Telzir and Agenerase. The increase in royalty revenues was due to the increase in Lexiva/Telzir sales.

Collaborative and other research and development revenues increased $6.5 million, or 31%, in the second quarter of 2007 compared to the second quarter of 2006. The table presented below is a summary of revenues from collaborative arrangements for the three months ended June 30, 2007 and 2006:

	Three Months Ended June 30,	
	2007	2006
	(In thousands)	
Collaborative and other research and development revenues:		
Janssen	$ 22,717	$ —
Merck	—	9,145
Other	4,512	11,576
Total collaborative and other research and development revenues	$ 27,229	$ 20,721

In June 2006, we entered into a new major collaboration agreement with Janssen, which did not result in any revenue during the second quarter of 2006 and resulted in $22.7 million of revenues in the second quarter of 2007, including:

- an amortized portion of the $165.0 million up-front payment; and
- net payments from Janssen relating to telaprevir development costs.

During the second half of 2007, we expect to continue to recognize an amortized portion of the $165.0 million up-front payment and net payments from Janssen to fund a portion of the telaprevir development costs and may potentially recognize additional milestone payments. We expect that our total revenues from Janssen for 2007 will be significantly higher than during 2006 as a result of the recognition over a full year of an amortized portion of the up-front payment made to us by Janssen in 2006, a full year of telaprevir development reimbursement under our collaboration agreement with Janssen and potentially additional milestone payments.

We recognized no revenue from Merck in the second quarter of 2007 compared to $9.1 million in revenues from Merck in the second quarter of 2006. The Merck revenues in the second quarter of 2006 related to milestone payments and funding for the research program with Merck, which was completed during 2006.

Revenues from other collaborations decreased in the second quarter of 2007 as compared to the second quarter of 2006 primarily as the result of the expiration during the second quarter of 2006 of the research collaboration with Novartis Pharma AG, together with the corresponding research funding.

We expect that for the foreseeable future the revenues and funding from collaborations that support our development-stage compounds, such as the Janssen and Merck collaborations, will provide a proportionately higher level of financial support for our research and development activities than revenues and funding from research collaboration agreements.

Costs and Expenses

Royalty Payments

Royalty payments increased $0.5 million, or 18%, to $3.4 million in the three months ended June 30, 2007 from $2.9 million in the three months ended June 30, 2006. Royalty payments relate to a royalty we pay to a third party on sales of Lexiva/Telzir and Agenerase. The increased royalty payments related to the increased royalty revenues we received in the second quarter of 2007 as compared to the second quarter of 2006.

Research and Development Expenses

Research and development expenses increased $44.9 million, or 49%, to $136.2 million in the three months ended June 30, 2007, including stock-based compensation expense of $17.6 million, from $91.3 million in the three months ended June 30, 2006, including stock-based compensation expense of $9.8 million. The increase in research and development expenses was primarily the result of increased development investment to support the global Phase 2b clinical development program for telaprevir, as well as a $16.1 million increase in our investment in building commercial supply for telaprevir for use if telaprevir is approved, together with a $7.9 million increase in stock-based compensation expense. The cost of developing the commercial supply for telaprevir is considered a research and development expense due to telaprevir's stage of development. Development expenses increased by $38.7 million, accounting for 86% of the aggregate increase in research and development expenses. Research expenses increased by $6.2 million, of which $2.7 million was increased stock-based compensation expense.

Research and development expenses consist primarily of salary and benefits, stock-based compensation expense, laboratory supplies and other direct expenses, contractual services, including pharmaceutical development and clinical trial materials costs, commercial supply investment in telaprevir, and infrastructure costs, including facilities costs and depreciation. Set forth below is a summary that reconciles our total research and development expenses for the three months ended June 30, 2007 and 2006 (in thousands):

	Three Months Ended June 30,			
	2007	2006	$ Change	% Change
Research Expenses:				
Salary and benefits	$ 12,318	$ 11,129	$ 1,189	11%
Stock-based compensation expense	7,724	5,007	2,717	54%
Laboratory supplies and other direct expenses	6,343	5,965	378	6%
Contractual services	1,507	1,772	(265)	(15)%
Infrastructure costs	14,740	12,548	2,192	17%
Total research expenses	$ 42,632	$ 36,421	$ 6,211	
Development Expenses:				
Salary and benefits	$ 12,059	$ 9,544	$ 2,515	26%
Stock-based compensation expense	9,914	4,748	5,166	109%
Laboratory supplies and other direct expenses	7,479	4,610	2,869	62%
Contractual services	32,069	22,692	9,377	41%
Commercial supply investment in telaprevir	18,817	2,684	16,133	601%
Infrastructure costs	13,217	10,551	2,666	25%
Total development expenses	$ 93,555	$ 54,829	$ 38,726	
Total Research and Development Expenses:				
Salary and benefits	$ 24,377	$ 20,673	$ 3,704	18%
Stock-based compensation expense	17,638	9,755	7,883	81%
Laboratory supplies and other direct expenses	13,822	10,575	3,247	31%
Contractual services	33,576	24,464	9,112	37%
Commercial supply investment in telaprevir	18,817	2,684	16,133	601%
Infrastructure costs	27,957	23,099	4,858	21%
Total research and development expenses	$ 136,187	$ 91,250	$ 44,937	

To date we have incurred in excess of $2.0 billion in research and development costs associated with drug discovery and development. For the remainder of 2007, we expect to focus our development

investment on telaprevir, while continuing to advance the development of our other drug candidates. We expect research and development expenses in 2007 to be greater than in 2006 due to increased investment in clinical development, as we advance our core programs, as well as increased costs for the investment in commercial supply of telaprevir drug product in advance of obtaining regulatory marketing approval.

The successful development of our drug candidates is highly uncertain and subject to a number of risk factors. The duration of clinical trials may vary substantially according to the type, complexity and novelty of the drug candidate. The United States Food and Drug Administration 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 preclinical, nonclinical and clinical activities at any step in the testing process may be adverse and lead to discontinuation or redirection of development activity. Data obtained from these activities also are susceptible to varying interpretations, which could delay, limit or prevent regulatory approval. The duration and cost of discovery,

preclinical studies, 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. The most significant costs associated with drug discovery and development are those costs associated with Phase 2 and Phase 3 clinical trials. Given the uncertainties related to drug development, we are currently unable to reliably estimate when, if ever, our drug candidates will generate revenue and net cash inflows.

Sales, General and Administrative Expenses

Sales, general and administrative expenses increased $9.0 million, or 62%, to $23.3 million in the three months ended June 30, 2007 from $14.4 million in the three months ended June 30, 2006. This increase is the result of increased headcount as we build our infrastructure to support the advancement of our business, together with increased stock-based compensation expense and patent costs. We expect that our sales, general and administrative expenses in 2007 will be significantly higher than in 2006, because we are planning to build our capabilities in late-stage development, drug supply, registration and commercialization of pharmaceutical products, as we advance telaprevir through clinical development.

Restructuring Expense

Net restructuring expense for the three months ended June 30, 2007 was $0.9 million compared to a net restructuring expense for the three months ended June 30, 2006 of $0.4 million. The charge in both periods primarily related to imputed interest cost related to the restructuring liability.

The activity related to the restructuring liability for the three months ended June 30, 2007 was as follows (in thousands):

	Liability as of March 31, 2007	Cash payments in second quarter of 2007	Cash received from subleases in second quarter of 2007	Charge in second quarter of 2007	Liability as of June 30, 2007
Lease restructuring liability	$ 36,508	$ (3,269)	$ 2,169	$ 906	$ 36,314

The activity related to the restructuring liability for the three months ended June 30, 2006 was as follows (in thousands):

	Liability as of March 31, 2006	Cash payments in the second quarter of 2006	Cash received from subleases in the second quarter of 2006	Charge in second quarter of 2006	Liability as of June 30, 2006
Lease restructuring liability	$ 41,719	$ (7,904)	$ 2,020	$ 443	$ 36,278

In accordance with SFAS 146, we review our estimates and assumptions with respect to the Kendall Square lease on at least a quarterly basis, and will make whatever modifications we believe necessary to reflect any changed circumstances, based on our best judgment, until the termination of the lease. Our estimates have changed in the past, and may change in the future, resulting in additional adjustments to the estimate of liability, and the effect of any such adjustments could be material. Because our estimate of the liability includes the application of a discount rate to reflect the time-value of money, the estimate of the liability will increase each quarter simply as a result of the passage of time.

Non-Operating Items

Interest income increased $4.5 million, or 115%, to $8.4 million for the three months ended June 30, 2007 from $3.9 million for the three months ended June 30, 2006. The increase is a result of higher levels of invested funds and higher portfolio yields during the second quarter of 2007.

Interest expense decreased $1.8 million, or 76%, to $0.6 million for the three months ended June 30, 2007 from $2.4 million for the three months ended June 30, 2006. The decrease resulted from our reduction of outstanding debt in 2006 and the first quarter of 2007.

Six Months Ended June 30, 2007 Compared with Six Months Ended June 30, 2006

Our net loss for the six months ended June 30, 2007 was $198.5 million, or $1.56 per basic and diluted common share, compared to a net loss of $127.7 million, or $1.18 per basic and diluted common share for the six months ended June 30, 2006. Included in the net loss for six months ended June 30, 2007 is stock-based compensation expense of $33.8 million and restructuring expense of $6.0 million. Included in the net loss for the six months ended June 30, 2006 is stock-based compensation expense of $19.8 million, restructuring expense of $1.2 million and a benefit from the cumulative effect of an accounting change of $1.0 million, related to the adoption of SFAS 123(R) at the beginning of 2006.

Our net loss for the six months ended June 30, 2007 increased by $70.8 million as compared to the six months ended June 30, 2006, and our revenues and expenses changed significantly period to period. The increased net loss was principally the result of increased development investment as we advanced our product candidates. Our research and development expenses increased by $102.3 million from the first half of 2006 to the first half of 2007. Overall, our total costs and expenses increased by $120.5 million from the first half of 2006 to the first half of 2007. These increased costs and expenses were partially offset by the $38.2 million increase in revenues in the first half of 2007 compared to the first half of 2006. Our net loss per basic and diluted common share increased for the six months ended June 30, 2007 compared with the same period in 2006 as a result of the increased net loss partially offset by an increase in the basic and diluted weighted-average number of common shares outstanding from 108.0 million shares to 127.5 million shares.

Revenues

Total revenues increased to $107.0 million for the six months ended June 30, 2007 compared to $68.8 million in the six months ended June 30, 2006. In the six months ended June 30, 2007, revenues were comprised of $20.8 million in royalties and $86.2 million in collaborative and other research and

development revenues, as compared with $18.2 million in royalties and $50.6 million in collaborative and other research and development revenues in the six months ended June 30, 2006.

Royalty revenues increased by $2.6 million, or 14%, from the six months ended June 30, 2006 to the six months ended June 30, 2007. The increase in royalty revenues was due to the increase in Lexiva/Telzir sales.

Collaborative and other research and development revenues increased $35.6 million, or 70%, in the first half of 2007 compared to the first half of 2006. The table presented below is a summary of revenues from collaborative arrangements for the six months ended June 30, 2007 and 2006:

	Six Months Ended June 30,	
	2007	2006
	(In thousands)	
Collaborative and other research and development revenues:		
Janssen	$65,538	$ —
Merck	9,000	28,247
Other	11,705	22,382
Total collaborative and other research and development revenues	$86,243	$ 50,629

In June 2006, we entered into a new major collaboration agreement, with Janssen, which did not result in any revenue during the first half of 2006 and resulted in $65.5 million of revenues in the first half of 2007, including:

- an amortized portion of the $165.0 million up-front payment;
- net payments from Janssen relating to telaprevir development costs; and
- a milestone payment of $15.0 million in connection with commencement of patient enrollment in the PROVE 3 clinical trial.

Our revenues from Merck decreased by $19.2 million in the first half of 2007 compared to the first half of 2006. In the first half of 2007, all of our revenues related to the Merck collaboration were the result of recognition of a milestone payment. In the first half of 2006, we recognized revenue related to both milestone payments and in connection with the research program with Merck, which was completed during 2006.

Revenues from other collaborations decreased in the first half of 2007 as compared to the first half of 2006 primarily as the result of the expiration during the second quarter of 2006 of the research collaboration with Novartis Pharma AG, together with the corresponding research funding.

Costs and Expenses

Royalty Payments

Royalty payments increased $0.8 million, or 13%, to $6.7 million in the six months ended June 30, 2007 from $5.9 million in the six months ended June 30, 2006. The increased royalty payments related to the increased royalty revenues we received in the first half of 2007 as compared to the first half of 2006.

Research and Development Expenses

Research and development expenses increased $102.3 million, or 61%, to $268.8 million in the six months ended June 30, 2007, including stock-based compensation expense of $27.9 million, from $166.5 million in the six months ended June 30, 2006, including stock-based compensation expense of $16.2 million. The increase in research and development expenses was primarily the result of increased development investment to support the global Phase 2b clinical development program for telaprevir, as well as a $47.9 million increase in our investment in building commercial supply for telaprevir for use if telaprevir is approved, together with an $11.8 million increase in stock-based compensation expense. Development expenses increased by $92.4 million, accounting for 90% of the aggregate increase in research and development expenses. Research expenses increased by $9.9 million, of which $4.6 million was increased stock-based compensation expense.

Set forth below is a summary that reconciles our total research and development expenses for the six months ended June 30, 2007 and 2006 (in thousands):

	Six Months Ended June 30,			
	2007	2006	$ Change	% Change
Research Expenses:				
Salary and benefits	$ 25,163	$ 22,515	$ 2,648	12%
Stock-based compensation expense	12,903	8,328	4,575	55%
Laboratory supplies and other direct expenses	12,226	11,866	360	3%
Contractual services	3,564	3,581	(17)	0%
Infrastructure costs	28,758	26,403	2,355	9%
Total research expenses	$ 82,614	$ 72,693	$ 9,921	
Development Expenses:				
Salary and benefits	$ 23,326	$ 18,247	$ 5,079	28%
Stock-based compensation expense	15,037	7,833	7,204	92%
Laboratory supplies and other direct expenses	13,576	8,445	5,131	61%
Contractual services	58,533	38,351	20,182	53%
Commercial supply investment in telaprevir	50,538	2,684	47,854	1,783%
Infrastructure costs	25,141	18,199	6,942	38%
Total development expenses	$ 186,151	$ 93,759	$ 92,392	
Total Research and Development Expenses:				
Salary and benefits	$ 48,489	$ 40,762	$ 7,727	19%
Stock-based compensation expense	27,940	16,161	11,779	73%

Laboratory supplies and other direct expenses	25,802	20,311	5,491	27%
Contractual services	62,097	41,932	20,165	48%
Commercial supply investment in telaprevir	50,538	2,684	47,854	1,783%
Infrastructure costs	53,899	44,602	9,297	21%
Total research and development expenses	$ 268,765	$ 166,452	$ 102,313	

Sales, General and Administrative Expenses

Sales, general and administrative expenses increased $12.6 million, or 46%, to $39.9 million in the six months ended June 30, 2007 from $27.2 million in the six months ended June 30, 2006. This increase is the result of increased headcount as we build our infrastructure to support the advancement of our business.

Restructuring Expense

Net restructuring expense for the six months ended June 30, 2007 was $6.0 million compared to a net restructuring expense for the six months ended June 30, 2006 of $1.2 million. The increase in net restructuring expense for the six months ended June 30, 2007 compared to the six months ended June 30, 2006 was primarily the result of revising certain key estimates and assumptions about building operating costs for the remaining period of the lease commitment for our Kendall Square facility. The charge in both periods included imputed interest cost related to the restructuring liability.

The activity related to the restructuring liability for the six months ended June 30, 2007 was as follows (in thousands):

	Liability as of December 31, 2006	Cash payments in the first half of 2007	Cash received from subleases in the first half of 2007	Charge in the first half of 2007	Liability as of June 30, 2007
Lease restructuring liability	$ 33,073	$ (6,466)	$ 3,746	$ 5,961	$ 36,314

The activity related to the restructuring liability for the six months ended June 30, 2006 was as follows (in thousands):

	Liability as of December 31, 2005	Cash payments in the first half of 2006	Cash received from subleases in the first half of 2006	Charge in the first half of 2006	Liability as of June 30, 2006
Lease restructuring liability	$ 42,982	$ (11,884)	$ 3,970	$ 1,210	$ 36,278

Non-Operating Items

Interest income increased $9.6 million, or 122%, to $17.5 million for the six months ended June 30, 2007 from $7.9 million for the six months ended June 30, 2006. The increase is a result of higher levels of invested funds and higher portfolio yields during the first half of 2007.

Interest expense decreased $2.9 million, or 62%, to $1.8 million for the six months ended June 30, 2007 from $4.7 million for the six months ended June 30, 2006. The decrease resulted from our reduction of outstanding debt in 2006 and the first quarter of 2007.

In connection with the adoption of SFAS 123(R) during the six months ended June 30, 2006, we recorded a $1.0 million benefit from the cumulative effect of changing from recording forfeitures related to restricted stock awards as they occurred to estimating forfeitures during the service period.

Liquidity and Capital Resources

We have incurred operating losses since our inception and historically have financed our operations principally through public and private offerings of our equity and debt securities, strategic collaborative agreements that include research and/or development funding, development milestones and royalties on the sales of products, investment income and proceeds from the issuance of stock under our employee benefit programs.

At June 30, 2007, we had cash, cash equivalents and marketable securities of $617.2 million, a decrease of $144.5 million from $761.8 million at December 31, 2006. The decrease is primarily the result of expenses relating to our clinical development activities. Capital expenditures for property and equipment during the six months ended June 30, 2007 were $19.3 million.

At June 30, 2007, we had $42.1 million in aggregate principal amount of 2007 Notes, which are due and payable in September 2007. We currently intend to repay the principal and accrued interest using our existing cash, cash equivalents and marketable securities. The 2007 Notes are convertible into common stock at the option of the holder at a price equal to $92.26 per share, subject to adjustment under certain circumstances. During the first quarter of 2007, holders of $59.6 million in aggregate principal amount of our 2011 Notes converted their 2011 Notes into 3,992,473 shares of our common stock at a price of $14.94 in principal amount per share. As a result of the conversions in the first quarter of 2007, no 2011 Notes were outstanding as of June 30, 2007. At June 30, 2007, we had $20.0 million in loans outstanding under the loan facility established under our collaboration with Novartis, which is repayable, without interest, in May 2008.

Our lease restructuring liability of $36.3 million at June 30, 2007 relates to the portion of the Kendall Square facility that we are not occupying and do not intend to occupy and includes net lease obligations, recorded at net present value. In the six months ended June 30, 2007, we made cash payments of $6.5 million against the lease restructuring liability and received $3.7 million in sublease rental payments. In the second half of 2007, we expect to make cash payments of approximately $6.4 million against the lease restructuring liability, and receive approximately $4.0 million in sublease rental payments. We review our estimates underlying our lease restructuring liability on at least a quarterly basis, and the amount of the liability, and consequently any expected future payment, could change with any change in our estimates.

We expect to continue to make significant investments in our pipeline, particularly in clinical trials of telaprevir and our other drug candidates, in our effort to prepare for potential registration, regulatory approval and commercial launch of our existing and future drug candidates. We also expect to continue to make a significant investment in the commercial supply of telaprevir in order to manufacture sufficient quantities of drug product in advance of obtaining regulatory marketing approval, to support a timely commercial product launch if we are successful in completing the development of telaprevir and obtaining marketing approval. We expect to incur losses on a quarterly and annual basis for the foreseeable future.

The adequacy of our available funds to meet our future operating and capital requirements will depend on many factors, including the number, breadth and prospects of our discovery and development programs, the costs and timing of obtaining regulatory approvals for any of our drug candidates and our decisions regarding manufacturing and commercial investments. Collaborations have been and will continue to be an important component of our business strategy.

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 and engaged in equity offerings, 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 capital transactions. Any such capital transactions may or may not be similar to transactions in which we have engaged in the past.

We believe that our current cash, cash equivalents and marketable securities will be sufficient to fund our projected operating requirements for at least the next eighteen months. To the extent that our current cash, cash equivalents and marketable securities, in addition to the above-mentioned sources, are not sufficient to fund our activities, it will be necessary to raise additional funds through public offerings or private placements of our securities or other methods of financing. We also will continue to manage our capital structure and consider all financing opportunities, whenever they may occur, that could strengthen

our long-term liquidity profile. There can be no assurance that any such financing opportunities will be available on acceptable terms, if at all.

Contractual Commitments and Obligations

Our commitments and obligations were reported in our 2006 Annual Report on Form 10-K, which was filed with the Securities and Exchange Commission on March 1, 2007. As a result of the conversion of $59.6 million of our 2011 Notes into shares of common stock in the first quarter of 2007, our obligations to repay outstanding convertible notes has been reduced from $101.8 million to $42.1 million.

New Accounting Pronouncements

In June 2007, the FASB ratified the consensus reached by the Emerging Issues Task Force on EITF Issue No. 07-3, “Accounting for Nonrefundable Advance Payments for Goods or Services to Be Used in Future Research and Development Activities” (“EITF 07-3”). EITF 07-3 addresses the diversity that exists with respect to the accounting for the non-refundable portion of a payment made by a research and development entity for future research and development activities. Under this EITF, an entity would defer and capitalize non-refundable advance payments made for research and development activities until the related goods are delivered or the related services are performed. EITF 07-3 will be effective for us beginning on January 1, 2008. We currently are evaluating the effect of EITF 07-3 on our consolidated financial statements.

In February 2007, the Financial Accounting Standards Board (“FASB”) issued Statement No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115” (“SFAS 159”). SFAS 159 provides companies with an option to report selected financial assets and liabilities at fair value. Furthermore, SFAS 159 establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS 159 will be effective for us beginning on January 1, 2008. We are currently evaluating the effect of SFAS 159 on our consolidated financial statements.

In September 2006, FASB issued Statement No. 157, “Fair Value Measurements” (“SFAS 157”). SFAS 157 provides guidance for using fair value to measure assets and liabilities and requires additional disclosure about the use of fair value measures, the information used to measure fair value, and the effect fair-value measurements have on earnings. SFAS 157 does not require any new fair value measurements. SFAS 157 will be effective for us beginning on January 1, 2008. We currently are evaluating the effect of SFAS 157 on our consolidated financial statements.

We adopted FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109” (“FIN 48”) on January 1, 2007. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements in accordance with FASB Statement No. 109, “Accounting for Income Taxes.” FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. At the adoption date and as of June 30, 2007, we had no material unrecognized tax benefits and no adjustments to liabilities or operations were required under FIN 48. Our practice was and continues to be to recognize interest and penalty expenses related to uncertain tax positions in income tax expense, which were zero at the adoption date and for the three and six months ended June 30, 2007. Tax years 2003 through 2006 and 2002 through 2006 are subject to examination by the federal and state taxing authorities, respectively. There are no income tax examinations currently in process.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

As part of our investment portfolio, we own financial instruments that are sensitive to market risks. The investment portfolio is used to preserve our capital until it is required to fund operations, including our research and development activities. None of these market risk sensitive instruments are held for

trading purposes. We do not have derivative financial instruments in our investment portfolio.

Interest Rate Risk

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our chief executive officer and chief financial officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this Quarterly Report on Form 10-Q, have concluded that, based on such evaluation, as of June 30, 2007, 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 Securities and Exchange Commission 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 Exchange Act Rules 13a-15(f) and 15d-15(f)) occurred during the second quarter of 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Part II. Other Information

Item 1A. Risk Factors

Information regarding risk factors appears in Item 1A of our 2006 Annual Report on Form 10-K, which was filed with the Securities and Exchange Commission on March 1, 2007. 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:

- our expectations regarding clinical trials, development timelines and regulatory authority filings for telaprevir and other drug candidates under development by us and our collaborators;
- our expectations regarding the number of patients that will be evaluated, the anticipated date by which enrollment will be completed, the date by which interim and final data will become available and the data that will be generated by ongoing and planned clinical trials, and the ability to use that data for the design and initiation of further clinical trials, including the Phase 3 clinical trials of telaprevir, and to support regulatory filings, including potentially an NDA for telaprevir;
- our expectations regarding the scope and timing of ongoing and potential future clinical trials, including the ongoing Phase 2b clinical trials and expected Phase 3 clinical program for telaprevir, the ongoing and potential clinical trials for VX-702, the ongoing clinical trials of VX-770, and expected clinical trials in 2007 involving novel compounds currently emerging from our drug discovery programs;
- our expectations regarding the efforts our collaborators, including Merck and GlaxoSmithKline, will devote towards the clinical and preclinical development of the drug candidates that have been selected for further development;
- our plans to fund a greater proportion of our research programs than in past years with internal funds, and our beliefs regarding the benefits of this strategy;
- our business strategy;
- our planned investments in our drug development and commercialization capabilities and telaprevir;
- the establishment, development and maintenance of collaborative relationships;
- our ability to use our research programs to identify and develop new potential drug candidates;
- our estimates regarding obligations associated with a lease of a facility in Kendall Square, Cambridge, Massachusetts; and
- our liquidity.

Any or all of our forward-looking statements in this Quarterly Report may turn out to be wrong. They can be affected by inaccurate assumptions we might make or by known or unknown risks and uncertainties. Many factors mentioned in our discussion in this Quarterly Report will be important in determining future results. Consequently, no forward-looking statement can be guaranteed. Actual future results may vary materially.

Without limiting the foregoing, the words “believes,” “anticipates,” “plans,” “expects” and similar expressions are intended to identify forward-looking statements. There are a number of factors 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, including the factors set forth under “Item 1A. Risk Factors” of our Annual Report on Form 10-K, as updated or supplemented by “Part II—Item 1A—Risk Factors” of this Quarterly Report on Form 10-Q. In addition, the forward-looking statements contained herein represent our estimate only as of the date of this filing and should not be relied upon as representing our estimate as of any subsequent date. While we may elect to update these forward-looking statements at some point in the future, we specifically disclaim any obligation to do so to reflect actual results, changes in assumptions or changes in other factors affecting such forward-looking statements.

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

Issuer Repurchases of Equity Securities

The table set forth below shows all repurchases of securities by us during the three months ended June 30, 2007:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as part of publicly announced Plans or Programs	Maximum Number of Shares that may yet be purchased under publicly announced Plans or Programs
April 1, 2007 to April 30, 2007	7,136	$ 0.01	—	—
May 1, 2007 to May 31, 2007	9,505	$ 0.01	—	—
June 1, 2007 to June 30, 2007	51,522	$ 18.08	—	—

The repurchases were made under the following two programs:

- Under the terms of our 1996 Stock and Option Plan and 2006 Stock and Option Plan, we may award shares of restricted stock to our employees and consultants. These shares of restricted stock typically are subject to a lapsing right of repurchase by us. We may exercise this right of repurchase in the event that a restricted stock recipient’s service to us is terminated. If we exercise this right, we are required to repay the purchase price paid by or on behalf of the recipient for the repurchased restricted shares, which typically is the par value per share of $0.01. Repurchased shares are returned to the applicable Stock and Option Plan under which they were issued. Shares returned to the 2006 Stock and Option Plan are available for future awards under the terms of that plan.
- In addition, in the second quarter of 2007, with respect to certain outstanding grants of restricted stock that vested during such period, we repurchased shares of restricted stock from one of our employees. Under this program, we offered to repurchase from the employee a number of shares of restricted stock with a value, based on the fair market value on the vesting date, equal to our minimum statutory income tax withholding obligation on account of the employee’s newly vested shares. In the second quarter of 2007, we repurchased 35,242 shares under this program at a price of $26.43 per share. Repurchased shares under this program are not available for future awards under the 2006 Stock and Option Plan.

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

Our annual meeting of stockholders was held on May 31, 2007.

Our stockholders elected Joshua S. Boger, Charles A. Sanders and Elaine S. Ullian to serve on our board of directors until the annual meeting of stockholders to be held in 2010. The tabulation of votes with respect to the election of such directors is as follows:

	For	Withheld
Joshua S. Boger	113,930,223	514,375
Charles A. Sanders	112,319,819	2,124,779
Elaine S. Ullian	106,208,530	8,236,068

Following the meeting, our board of directors consisted of Charles A. Sanders (Chairman), Joshua S. Boger, Eric K. Brandt, Roger W. Brimblecombe, Stuart J.M. Collinson, Eugene H. Cordes, Matthew W. Emmens, Bruce I. Sachs, Eve E. Slater and Elaine S. Ullian. Dr. Slater resigned from our board of directors effective August 1, 2007.

Item 6. Exhibits

Exhibit No.	Description
10.1	Vertex Pharmaceuticals Incorporated Employee Stock Purchase Plan, as amended and restated on May 31, 2007
10.2	License, Development and Commercialization Agreement, dated as of June 11, 2004, between Vertex Pharmaceuticals Incorporated and Mitsubishi Pharma Corporation.†
10.3	Employment Agreement, between Vertex Pharmaceuticals Incorporated and Kurt Graves, dated June 29, 2007*
10.4	Offer Letter, between Vertex Pharmaceuticals Incorporated and Amit Sachdev, dated June 4, 2007*
10.5	Form of Restricted Stock Agreement for 2007 Restricted Stock Awards to John J. Alam, Victor A. Hartmann, Peter Mueller and Ian F. Smith*
31.1	Certification of the Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Management contract, compensatory plan or arrangement.

† Confidential portions of this document have been filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment.

Signatures

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

August 9, 2007

VERTEX PHARMACEUTICALS INCORPORATED

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

VERTEX PHARMACEUTICALS INCORPORATED
EMPLOYEE STOCK PURCHASE PLAN
(as amended and restated
May 31, 2007)

ARTICLE 1
PURPOSE AND DEFINITIONS

SECTION 1.1. PURPOSE. The purpose of the Vertex Pharmaceuticals Incorporated Employee Stock Purchase Plan is to provide employees with an opportunity to purchase Common Stock in the Company through payroll deductions, thereby encouraging employees to share in the economic growth and success of the Company through stock ownership.

SECTION 1.2. DEFINITIONS. Whenever used in the Plan, unless the context clearly indicates otherwise, the following terms shall have the following meanings:

(a) "BENEFICIARY" with respect to a Participant, means the beneficiary designated by the Participant under the group term life insurance plan maintained by the Company or such other beneficiary as may be designated by a Participant for purposes of this Plan.

(b) "BOARD OF DIRECTORS" means the Board of Directors of the Company.

(c) "CODE" means the Internal Revenue Code of 1986, as the same may be amended from time to time, and references thereto shall include the valid Treasury regulations issued thereunder.

(d) "COMMITTEE" means the Management Development and Compensation Committee of the Board of Directors or such other committee of the Board of Directors designated by the Board of Directors to administer the Company's equity compensation plans.

(e) "COMMON STOCK" means shares of the $.01 par value common stock of the Company and any other stock or securities resulting from the adjustment thereof or substitution therefor as described in Section 3.4.

(f) "COMPANY" means Vertex Pharmaceuticals Incorporated or any successor by merger, purchase, or otherwise.

(g) "COMPENSATION" means the cash compensation received by an Employee for services, including pre-tax employee compensation made to the Company's 401(k) savings plan, but not including overtime or bonuses.

(h) "EFFECTIVE DATE" means July 1, 1992.

(i) "ELECTION" means an election by a Participant to terminate an Offering Period on the first Purchase Date of such Offering Period, which election shall be made within such Offering Period and prior to such First Purchase Date and shall be in writing on a form furnished by the Company for such purpose and shall be made by having such Participant complete, sign and file such form with the Company in the manner prescribed by the Company.

(j) "EMPLOYEE" means any person who receives a regular stated compensation from the Company or a Subsidiary other than a pension, severance pay, retainer, or fee under contract.

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

(l) "OFFERING" means the offering of shares of Common Stock to Participants pursuant to this Plan.

(m) "OFFERING DATE" means each May 15 and November 15. If any such date shall fall other than on a business day, then the Offering Date shall be the next succeeding business day.

(n) "OFFERING PERIOD" means either (i) the period from an Offering Date through the second Purchase Date following such Offering Date or (ii) if a Participant validly exercises an Election, the period from an Offering Date through the first Purchase Date following such Offering Date.

(o) "PARTICIPANT" means an Employee who has elected to participate in the Plan.

(p) "PURCHASE DATE" means each May 14 and November 14.

(q) "PLAN" means the Vertex Pharmaceuticals Incorporated Employee Stock Purchase Plan, an "employee stock purchase plan" within the meaning of Section 423(b) of the Code, together with any and all amendments thereto.

(r) "STOCK PURCHASE ACCOUNT," with respect to a Participant, means the account established on the books and records of the Company or a Subsidiary for such Participant representing the payroll deductions credited to such account in accordance with the provisions of the Plan.

(s) "SUBSIDIARY" means any corporation, fifty percent (50%) or more of the total combined voting power of all classes of stock of which is beneficially owned, directly or indirectly, by the Company.

ARTICLE II
PARTICIPATION

SECTION 2.1. PARTICIPATION REQUIREMENTS.

(a) COMMENCEMENT OF PARTICIPATION. Subject to Section 2.2 and Section 3.2(b), each person who becomes an Employee after the Effective Date may become a Participant in the Plan on any Offering Date following the date on which such person becomes an Employee.

(b) ELIGIBILITY OF FORMER PARTICIPANTS. If a person terminates employment with the Company after becoming a Participant and subsequently resumes employment with the Company, such person will again become eligible to participate on the Offering Date next following such resumption of employment with the Company.

SECTION 2.2. EXCLUSIONS. Notwithstanding any provision of the Plan to the contrary, in no event shall the following persons be eligible to participate in the Plan:

(a) Any Employee whose customary employment is twenty (20) hours or less per week;

(b) Any Employee whose customary employment is for not more than five (5) months in any calendar year; or

(c) Any Employee who, as of the beginning of an Offering Period, owns (or under Section 423(b)(3) of the Code would be deemed to own) stock possessing five percent (5%) or more of the total combined voting power or value of all classes of stock of the Company or a Subsidiary.

ARTICLE III
OFFERING OF COMMON STOCK

SECTION 3.1. RESERVATION OF COMMON STOCK. The Board of Directors shall reserve 1,748,660 shares of Common Stock for issuance under the Plan after March 17, 2004, subject to adjustment in accordance with Section 3.4, provided that no more than 248,660 of such shares shall be issued prior to May 15, 2004.

SECTION 3.2. OFFERING OF COMMON STOCK.

(a) GENERAL. Subject to Section 3.2(b), each Participant in the Plan on an Offering Date shall be entitled to purchase shares of Common Stock on each Purchase Date within the Offering Period that begins with such Offering Date with the amounts deducted from such Participant's Compensation during such Offering Period pursuant to Article IV, provided, however, that a Participant shall not participate in more than one Offering Period simultaneously. The purchase price for such shares of Common Stock shall be determined under Section 3.3.

(b) LIMITATIONS. Notwithstanding Section 3.2(a), no employee may accrue rights to purchase shares of Common Stock attributable to an Offering Period in excess of $25,000 of fair market value of such shares (measured as of the relevant Offering Date) for each calendar year during which such rights are outstanding. For any year, this limit shall be further reduced by the fair market value of stock (measured as of the relevant Offering Date for such stock) purchasable under any prior outstanding rights relating to such calendar year under this Plan and all other Code section 423 employee stock purchase plans of the Company or any Subsidiary. This paragraph is intended to be consistent with the limitation of Code section 423(b)(8) and shall be interpreted accordingly.

SECTION 3.3. DETERMINATION OF PURCHASE PRICE FOR OFFERED COMMON STOCK. The purchase price per share of the shares of Common Stock to be acquired by a Participant on a Purchase Date pursuant to an Offering shall be equal to eighty-five percent (85%) of the lesser of:

(a) the Fair Market Value of a share of Common Stock on the Offering Date for such Offering Period; or

(b) the Fair Market Value of a share of Common Stock on such Purchase Date;

provided, however, in no event shall the purchase price be less than the par value of a share of Common Stock.

SECTION 3.4. EFFECT OF CERTAIN TRANSACTIONS. The number of shares of Common Stock reserved for the Plan pursuant to Section 3.1, the maximum number of shares of Common Stock offered pursuant to Section 3.2(b), and the determination under Section 3.3 of the purchase price per share of the shares of Common Stock offered to Participants pursuant to an Offering shall be appropriately adjusted to reflect any increase or decrease in the number of issued shares of Common Stock resulting from a stock split, a consolidation of shares, the payment of a stock dividend, or any other capital adjustment affecting the number of issued shares of Common Stock. In the event that the outstanding shares of Common Stock shall be changed into or exchanged for a different number or kind of shares of stock or other securities of the Company or another corporation, whether through reorganization, recapitalization, merger, consolidation, or otherwise, then there shall be substituted for each share of Common Stock reserved for issuance under the Plan but not yet purchased by Participants, the number and kind of shares of stock or other securities into which each outstanding share of Common Stock shall be so changed or for which each such share shall be exchanged.

ARTICLE IV
PAYROLL DEDUCTIONS

SECTION 4.1. PAYROLL DEDUCTION ELECTIONS. Any Employee eligible to participate in the Plan may elect to have the Company deduct from the Compensation payable to such Employee during each Offering Period any amount between one percent (1%) and fifteen percent (15%) of such Participant's Compensation, in whole multiples of one percent (1%). Such election shall be made during the thirty day period preceding the Offering Period to which it first

relates. Such election shall become effective as of the first day of such Participant's first pay period that begins on or after the first day of such Offering Period and shall remain

effective for each successive pay period and for each subsequent Offering until changed or terminated pursuant to this Article IV. The percentage deduction specified by the Participant will be deducted from each payment of Compensation made to the Participant.

SECTION 4.2. ELECTION TO INCREASE OR DECREASE PAYROLL DEDUCTIONS. Subject to Section 4.4, a Participant who has a payroll deduction election in effect under Section 4.1 may prospectively increase or decrease during an Offering Period the percentage amount of the deductions being made by the Company from such Participant's Compensation (including a decrease to zero) by delivering to the Company written direction to make such change. Such change shall become effective as soon as practicable after the Company's receipt of such written direction and shall remain in effect until changed or terminated pursuant to this Article IV. A Participant shall be permitted to increase or decrease the percentage amount of the deductions being made from such Participant's Compensation only once during each of the portions of an Offering Period that ends on a Purchase Date; provided, however, a Participant may terminate the deductions being made from such Participant's Compensation at any time during such Offering Period. If a Participant terminates deductions, such Participant cannot resume deductions during that Offering Period.

SECTION 4.3. TERMINATION OF ELECTION UPON TERMINATION OF EMPLOYMENT. The termination of employment of a Participant for any reason shall automatically terminate the election of such Participant to have amounts deducted from such Participant's Compensation pursuant to this Article IV that is then in effect. Such termination shall be effective immediately following the pay period during which such termination of employment occurs, but shall not affect the deduction from Compensation for that pay period.

SECTION 4.4. FORM OF ELECTIONS. Except as otherwise permitted by the Company, any election by a Participant regarding participation in or withdrawal from the Plan or deductions from Compensation pursuant to this Article IV shall be in writing on a form furnished by the Company for such purpose and shall be made by having such Participant file such form with the Company in the manner prescribed from time to time by the Company.

ARTICLE V
STOCK PURCHASE ACCOUNTS AND PURCHASE OF COMMON STOCK

SECTION 5.1. STOCK PURCHASE ACCOUNTS. A Stock Purchase Account shall be established and maintained on the books and records of the Company for each Participant. Amounts deducted from a Participant's Compensation pursuant to Article IV shall be credited to such Participant's Stock Purchase Account. No interest or other increment shall accrue or be payable to any Participant with respect to any amounts credited to such Stock Purchase Accounts. All amounts credited to such Stock Purchase Accounts shall be withdrawn, paid, or applied toward the purchase of Common Stock pursuant to the provisions of this Article V.

SECTION 5.2. PURCHASE OF COMMON STOCK.

(a) GENERAL. As of each Purchase Date, the amount to the credit of a Participant in such Participant's Stock Purchase Account shall be used to purchase from the Company on such Participant's behalf the largest number of whole shares of Common Stock which can be purchased at the price determined under Section 3.3 with the amount then credited to such Participant's Stock Purchase Account, subject to the limitations set forth in Article III on the maximum number of shares of Common Stock such Participant may purchase. As of such date, such Participant's Stock Purchase Account shall be charged with the aggregate purchase price of the shares of Common Stock purchased on such Participant's behalf. No brokerage or other fees are to be charged upon a purchase. Stock transfer taxes, if any, shall be paid by the Company. The remaining balance, if any, credited to such Participant's Stock Purchase Account shall be carried forward and used to purchase shares of Common Stock on the next succeeding Purchase Date; provided that any excess balance remaining in a Participant's Stock Purchase Account after the application of the limitations in Section 3.2 shall be refunded to the Participant.

(b) ISSUANCE OF COMMON STOCK. The shares of Common Stock purchased for a Participant as of a Purchase Date shall be deemed to have been issued by the Company for all purposes as of the close of business on such date. Prior to such date, none of the rights and privileges of a stockholder of the Company shall exist with respect to such shares of Common Stock. As soon as practicable after such a Purchase Date the Company shall issue and deliver, or shall cause its stock transfer agent to issue and deliver, a certificate for the number of shares of Common Stock purchased for a Participant, which certificate shall be issued in the Participant's name or, if so specified by the Participant, in the name of the Participant and such other person as the Participant shall

designate as joint tenants with right of survivorship. In lieu of issuing a certificate, the Company may elect to deliver to the Participant a statement which shall indicate the number of shares of Common Stock purchased for such Participant and the aggregate number of shares of Common Stock held on behalf of such Participant under the Plan.

(c) INSUFFICIENT COMMON STOCK AVAILABLE. If, as of any Purchase Date, the aggregate Stock Purchase Accounts available for the purchase of shares of Common Stock pursuant to Section 5.2(a) would purchase a number of shares of Common Stock in excess of the number of shares of Common Stock then available for purchase under the Plan, (i) the number of shares of Common Stock which would otherwise be purchased for each Participant on such date shall be reduced proportionately to the extent necessary to eliminate such excess, (ii) the remaining balance to the credit of each Participant in each such Participant's Stock Purchase Accounts shall be distributed to each such Participant, and (iii) the Plan shall terminate automatically upon the distribution of the remaining balance in such Stock Purchase Accounts.

SECTION 5.3. WITHDRAWAL FROM PLAN PRIOR TO PURCHASE OF COMMON STOCK. In the event (i) a Participant elects in writing for any reason to withdraw from the Plan during an Offering Period or (ii) a Participant's employment with the Company terminates for any reason prior to the end of an Offering Period, then the entire amount remaining to the credit of such Participant in such Participant's Stock Purchase Account shall be distributed to such

Participant (or, if such Participant is deceased, to such Participant's Beneficiary) as soon as administratively practicable after such withdrawal or termination of employment (as the case may be).

ARTICLE VI
COMMITTEE

SECTION 6.1. POWERS OF THE COMMITTEE. The Committee shall administer the Plan. The Committee shall have all powers necessary to enable it to carry out its duties under the Plan properly. Not in limitation of the foregoing, the Committee shall have the power to construe and interpret the Plan and to determine all questions that shall arise thereunder. The decision of the Committee upon all matters within the scope of its authority shall be final and conclusive on all persons, except to the extent otherwise provided by law.

SECTION 6.2. INDEMNIFICATION OF THE COMMITTEE. The Company agrees to indemnify and hold harmless the members of the Committee against any liabilities, loss, costs, or damage that they may incur in acting as such members and to assume the defense of any and allocations, suits, or proceedings against the members of the Committee, to the extent permitted by applicable law.

ARTICLE VII
AMENDMENT AND TERMINATION

SECTION 7.1. AMENDMENT OF THE PLAN. The Company expressly reserves the right, at any time and from time to time, to amend in whole or in part any of the terms and provisions of the Plan; provided, however, no amendment may without the approval of the shareholders of the Company increase the number of shares of Common Stock reserved under the Plan.

SECTION 7.2. TERMINATION OF PLAN. The Company expressly reserves the right, at any time and for whatever reason it may deem appropriate, to terminate the Plan. The Plan shall continue in effect until terminated pursuant to (i) the preceding sentence or (ii) Section 5.2(c). Upon any termination of the Plan, the entire amount credited to the Stock Purchase Account of each Participant shall be distributed to each such Participant.

SECTION 7.3. PROCEDURE FOR AMENDMENT OR TERMINATION. Any amendment to the Plan or termination of the Plan may be retroactive to the extent not prohibited by applicable law. Any amendment to the Plan or termination of the Plan shall be made by the Company by resolution of the Board of Directors (subject to Section 7.1) and shall not require the approval or consent of any Participant or Beneficiary in order to be effective.

ARTICLE VIII
MISCELLANEOUS

SECTION 8.1. ADOPTION BY A SUBSIDIARY. A Subsidiary may, with the approval of the Board of Directors and the board of directors of such Subsidiary, elect to adopt the Plan as of a date mutually agreeable to the Board of Directors and the board of directors of such Subsidiary. Any such adoption of the Plan by a Subsidiary shall be evidenced by an appropriate instrument of adoption executed by such Subsidiary.

SECTION 8.2. AUTHORIZATION AND DELEGATION TO THE BOARD OF DIRECTORS. Each Subsidiary that hereafter adopts the Plan authorizes the Board of Directors (i) to amend or terminate the Plan without further action by said Subsidiary as provided in Article VII and (ii) to perform such other acts and to do such other things as the Board of Directors is expressly directed, authorized, or permitted to perform or do as provided herein.

SECTION 8.3. TRANSFERABILITY OF RIGHTS. Rights under the Plan are not transferable by a Participant other than by will or the laws of descent and distribution and are exercisable during a Participant's lifetime only by the Participant.

SECTION 8.4. NO EMPLOYMENT RIGHTS. Participation in the Plan shall not give any employee of the Company or any Subsidiary any right to remain employed or, upon termination of employment, any right or interest in the Plan, except as expressly provided herein.

SECTION 8.5. COMPLIANCE WITH LAW. No shares of Common Stock shall be issued under the Plan prior to compliance by the Company to the satisfaction of its counsel with any applicable laws.

SECTION 8.6. CONSTRUCTION. Article, Section, and paragraph headings have been inserted in the Plan for convenience of reference only and are to be ignored in any construction of the provisions hereof. If any provision of the Plan shall be invalid or unenforceable, the remaining provisions shall nevertheless be valid, enforceable, and fully effective. It is the intent that the Plan shall at all times constitute an "employee stock purchase plan" within the meaning of Section 423(b) of the Code, and the Plan shall be construed, and interpreted to remain such. The Plan shall be construed, administered, regulated, and governed by the laws of the United States to the extent applicable, and to the extent such laws are not applicable, by the laws of The Commonwealth of Massachusetts. Without limiting the foregoing, all Participants for an Offering Period shall have the same rights and privileges with respect to their rights to acquire Common Stock under the Plan for such period, subject to the express terms hereof.

Confidential Treatment Requested
Confidential portions of this document have been redacted and have been separately filed with the Commission

LICENSE, DEVELOPMENT AND COMMERCIALIZATION AGREEMENT

between

Vertex Pharmaceuticals Incorporated

and

Mitsubishi Pharma Corporation

TABLE OF CONTENTS

[***] Information redacted pursuant to a confidential treatment request. An unredacted version of this exhibit has been filed separately with the Commission.

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LICENSE, DEVELOPMENT AND COMMERCIALIZATION AGREEMENT

THIS LICENSE, DEVELOPMENT AND COMMERCIALIZATION AGREEMENT (the "**Agreement**") is made and entered into as of June 11, 2004 between VERTEX PHARMACEUTICALS INCORPORATED (hereinafter "**VERTEX**"), a Massachusetts corporation with principal offices at 130 Waverly Street, Cambridge, MA 02139-4242, and MITSUBISHI PHARMA CORPORATION (hereinafter "**MITSUBISHI**"), a Japanese corporation with principal offices at 6-9, Hiranomachi 2-Chome, Chuo-ku, Osaka 541-0046, Japan. VERTEX and MITSUBISHI are sometimes referred to herein individually as the "**Party**" and collectively as the "**Parties**".

INTRODUCTION

WHEREAS, VERTEX has an ongoing antiviral drug discovery and development program targeting the hepatitis C virus (HCV) NS3 4A protease; and

WHEREAS, VERTEX's discovery and development program has produced a clinical candidate known as VX-950 that is currently in late preclinical development and a back-up compound VX-905 (the "**Compounds**"); and

WHEREAS, MITSUBISHI wishes to obtain an exclusive license to develop and commercialize the Compounds in Japan and certain Asian countries, and VERTEX is willing to grant such a license, all on the terms and subject to the conditions set forth herein; and

NOW THEREFORE, in consideration of the foregoing premises, the mutual covenants set forth herein, and other good and valuable consideration, the Parties agree as follows:

ARTICLE I — DEFINITIONS

1.1 "Affiliate" shall mean, with respect to any Person, any other Person which controls, is controlled by, or is under direct or indirect common control with such Person. The term "control" means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise. Control will be presumed if one Person owns, either of record or beneficially, more than fifty percent (50%) of the voting stock of any other Person.

1.2 "Allocable Overhead" shall mean costs incurred by a party or for its account which are attributable to a party's costs of supervisory services, occupancy, payroll, information

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systems, human resources and purchasing, as allocated to company departments based on space occupied, headcount or activity-based methods, in all cases as determined by such party in accordance with its accounting standards, including International Accounting Standards (IAS) and Generally Accepted Accounting Principles (GAAP), applied on a consistent basis. Without limitation, Allocable Overhead shall not include the costs of general corporate activities including, by way of example, executive management, investor relations, business development, legal and finance.

1.3 "Bulk Drug Substance" shall mean a Compound in bulk crystal, powder, solution or other form suitable for incorporation in a Drug Product, which if required in order to stabilize the Compound shall be formulated with stabilizing excipients.

1.4 "Combination Therapy" shall mean a therapy in which for full treatment efficacy a Drug Product is clinically and regulatorily required to be used together with one or more other anti-hepatitis C virus (HCV) agents, such as interferon products.

1.5 "Commercial Supply Agreement" shall have the meaning set forth in Section 4.2 hereof.

1.6 "Competing Product" shall mean any pharmaceutical product in finished dosage form that contains **[***]** (i) that falls within one or more of the claims of the published patent applications **[***]** in the Territory as of the Effective Date, or (ii) that falls within one or more of the claims of a patent application filed **[***]** having the priority date of **[***]**.

1.7 "Completion" with respect to a Phase II Clinical Trial or a Phase III Clinical Trial shall mean the finalization of the final report with respect to such clinical trial.

1.8 "Compound" shall mean either of VX-950 or VX-905.

1.9 "Confidential Information" shall have the meaning set forth in Section 9.1.

1.10 "Controlled" shall mean the legal authority or right of a party to grant a license or sublicense of intellectual property rights to another party, or to otherwise disclose proprietary or trade secret information to such other party, without breaching the terms of any agreement with a third party, misappropriating the proprietary or trade secret information of a third party or incurring any financial obligation or potential financial obligation to a third party.

1.11 "Core Development Activities" shall mean: **[***]**

1.12 "Core Development Plan" shall have the meaning set forth in Section 3.2.3

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hereof.

1.13 "Core Development Costs" shall mean **[***]**

1.14 "Development Supply Agreement" shall have the meaning set forth in Section 4.1 hereof.

1.15 "Drug Product" shall mean a Compound in finished dosage form that is prepared from Bulk Drug Substance and is ready for administration to the ultimate consumer as a pharmaceutical product.

1.16 "Effective Date" shall mean the effective date of this Agreement as set forth on the first page hereof.

1.17 "FDA" shall mean the United States Food and Drug Administration.

1.18 "Field of Use" shall mean the treatment of any human condition, disorder or disease.

1.19 "First Commercial Sale" shall mean the first sale of a Drug Product by MITSUBISHI or an Affiliate or sublicensee of MITSUBISHI in a country in the Territory following Regulatory Approval of the Drug Product in that country, or if no such Regulatory Approval or similar marketing approval is required, the date upon which the Drug Product is first sold in such country by MITSUBISHI or an Affiliate or sublicensee of MITSUBISHI pursuant to a plan of commercial launch.

1.20 "IND" shall mean the investigational new drug application relating to the Drug Product filed with the FDA pursuant to 21 C.F.R. Part 312, including any amendments thereto, and equivalent applications with similar requirements in countries other than the United States.

1.21 "Indication" shall mean a generally acknowledged disease, disorder or condition, a significant manifestation of a disease, disorder or condition, or a symptom associated with a disease, disorder or condition for which use of a Drug Product is indicated, as would be identified in the Drug Product's label under applicable regulations of a Regulatory Authority.

1.22 "Infringement Claim" shall have the meaning set forth in Section 7.4.1 hereof.

1.23 "**Investigational Drug Product**" shall have the meaning set forth in Section 4.1 hereof.

1.24 "JDC" shall have the meaning set forth in Section 3.1 hereof.

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1.25 "Joint Know-How" shall have the meaning set forth in Section 7**.**1 hereof.

1.26 "Joint Patents" shall have the meaning set forth in Section 7.1 hereof.

1.27 "**Joint Steering Committee**" shall have the meaning set forth in Section 10.2.1 hereof.

1.28 "Know-How" shall mean all data, technical information, know-how, inventions, discoveries, trade secrets, processes, techniques, materials, compositions, methods, formulas or improvements that relate to the research, development, manufacture, use, sale, offer for sale or import of any Bulk Drug Substance, Compound, or Drug Product; provided, however, that the term "Know-How" shall not include VERTEX's proprietary and confidential drug discovery platform or techniques.

1.29 "Manufacturing Cost" shall mean the total of all costs incurred by or on behalf of VERTEX related to the manufacture of a batch or lot of Bulk Drug Substance, Compound, Drug Product, Investigational Drug Product or placebo, including direct material and labor, quality assurance/quality control and analytical costs, depreciation, as well as applicable Allocable Overhead and Third-Party costs relating to manufacturing, shipping and handling, duty, and insurance. **[***]**

1.30 "MITSUBISHI Development Activities" shall mean all non-clinical and clinical activities performed by or on behalf of MITSUBISHI or its sublicensees in the Territory with respect to Bulk Drug Substance, a Compound and/or Drug Product, including non-clinical studies, clinical trials, formulation research, formulation development, process research, process development, manufacturing scale-up, analytical method development and validation, and regulatory activities, in order to obtain Regulatory Approval from a Regulatory Authority for marketing the corresponding Drug Product in the Territory for the Indications selected.

1.31 "MITSUBISHI Development Plan" shall have the meaning set forth in Section 3.2.1 hereof.

1.32 "MITSUBISHI Know-How" shall mean all Know-How Controlled by MITSUBISHI or any of its Affiliates, including any such Know-How invented, discovered or developed in the conduct of the MITSUBISHI Development Activities.

1.33 "MITSUBISHI Patents" shall mean all Patents Controlled by MITSUBISHI or any of its Affiliates claiming Bulk Drug Substance, a Compound or a Drug Product, or a method of making or using Bulk Drug Substance, a Compound or a Drug Product, or an improvement

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to the subject matter of a Patent covering any of the foregoing that would be infringed by the research, development, manufacture, use, sale, offer for sale or import of Bulk Drug Substance, Compound(s) or Drug Product. As of the Effective Date, no MITSUBISHI Patents exist. **Schedule 1.33** hereto will be updated periodically to reflect additions thereto during the term of this Agreement.

1.34 "MITSUBISHI Technology" shall mean all MITSUBISHI Patents and all MITSUBISHI Know-How.

1.35 "Monotherapy" shall mean a therapy in which the Drug Product is used as a sole anti-hepatitis C virus (HCV) agent.

1.36 "Net Sales" shall mean the aggregate amount obtained by totaling for all countries in the Territory where Drug Products were sold in a given calendar quarter the Net Sales Price or Prices in such country multiplied by the total number of units of Drug Products sold in such country at such Net Sales Price or Prices.

1.37 "Net Sales Price" with respect to a Drug Product shall mean the gross amount invoiced in a given calendar quarter in a given country for such unit of the Drug Product sold to Third Parties in bona fide, arms-length transactions by MITSUBISHI and any MITSUBISHI Affiliate or its sublicensee, less (i) trade, quantity and/or cash discounts from the invoice price which are actually allowed or taken; (ii) freight, postage and insurance included in the invoice price; (iii) amounts repaid or credited by reason of rejection or return of goods or because of retroactive price reductions specifically identifiable to the Drug Product; (iv) amounts payable resulting from governmental (or agency thereof) mandated rebate programs; (v) Third-Party rebates to the extent actually allowed; (vi) invoiced custom duties and sales and use taxes (excluding income taxes), if any, actually paid and directly related to the sale; and (vii) any other specifically identifiable amounts included in the Drug Product's invoice price that should be credited for reasons substantially equivalent to those listed above; all as determined in accordance with MITSUBISHI's usual and customary accounting methods, which are in accordance with the Japanese equivalent of Generally Accepted Accounting Principles in the United States (GAAP), consistently applied.

(a) In the case of any sale or other disposal of a Drug Product between or among MITSUBISHI and its Affiliates and sublicensees for resale, the Net Sales Price shall be calculated as above only on the value charged or invoiced on the first arm's-length sale thereafter to a Third Party;

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(b) In the case of any sale or other disposal for value, such as barter or counter-trade, of a Drug Product, or part thereof, other than in an arm's-length transaction exclusively for money, the Net Sales Price shall be calculated as above on the higher of (i) the value of the consideration received for, or (ii) the fair market price of, the Drug Product in the country of sale or disposal;

(c) If a Drug Product is sold in a finished dosage form containing the Drug Product in combination with one or more other active ingredients (a "**Combination Product**"), the Net Sales Price of the Drug Product, for the purposes of determining payments hereunder, shall be determined by multiplying the Net Sales Price (as defined above in this Section) of the Combination Product by **[***]**; and

(d) In the case of any sale which is not invoiced, the Net Sales Price shall be calculated at the time of shipment or when the Drug Product is paid for, if paid for before shipment, based on the gross purchase price.

1.38 "Patents" shall mean all existing Japanese and U.S. patents and patent applications; all patent applications hereafter filed in Japan or the United States, including any continuation, continuation-in-part, division, provisional or any substitute applications; any patent issued with respect to any such patent applications; any reissue, reexamination, renewal or extension (including any patent term extension or supplementary protection certificate) of any such patent; and any confirmation patent or registration patent or patent of addition based on any such patent; and all foreign counterparts of any of the foregoing.

1.39 "Person" shall mean any individual, corporation, partnership, association, joint-stock company, trust, unincorporated organization or government or political subdivision thereof.

1.40 "Phase I Clinical Trial" shall mean an initial human clinical trial conducted for inclusion in (i) that portion of the FDA submission and approval process which provides for initial trials of a Compound in a small number of subjects to establish the safety profile of the Compound and to collect initial data on its pharmacokinetics and pharmacological effects, as more fully defined in 21 C.F.R. § 312.21(a), and (ii) equivalent submissions with similar requirements in countries other than the United States.

1.41 "Phase Ib Clinical Trial" shall mean an initial repeated dose, dose escalation Phase I Clinical Trial conducted in a small number of patients infected with the hepatitis C virus (HCV) to establish the safety profile of the Compound and to collect additional data on its pharmacokinetics and pharmacological effects, including antiviral activity.

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1.42 **"Phase II Clinical Trial"** shall mean a human clinical trial conducted for inclusion in (i) that portion of the FDA submission and approval process which provides for trials of a Compound on a limited number of patients for the purposes of collecting data on dosages, evaluating safety and collecting preliminary information regarding efficacy in the proposed therapeutic Indication, as more fully defined in 21 C.F.R. §312.21(b), and (ii) equivalent submissions with similar requirements in countries other than the United States.

1.43 **"Phase IIa Clinical Trial"** shall mean an initial Phase II Clinical Trial in any therapeutic Indication that is designed to evaluate safety and to demonstrate a meaningful trend of efficacy in patients who have the disease or condition that the Compound is intended to treat**.**

1.44 **"Phase IIb Clinical Trial"** shall mean a Phase II Clinical Trial in any therapeutic Indication that is designed to determine the doses to be used in the Phase III Clinical Trials and to evaluate the efficacy/safety properties of the Compound.

1.45 **"Phase III Clinical Trial"** shall mean a human clinical trial conducted for inclusion in (i) that portion of the FDA submission and approval process which provides for the continued trials of a Compound on sufficient numbers of patients to generate safety and efficacy data to support Regulatory Approval in the proposed therapeutic Indication, as more fully defined in 21 C.F.R. § 312.21(c), and (ii) equivalent submissions with similar requirements in countries other than the United States.

1.46 **"Regulatory Approval"** shall mean, with respect to any country, all authorizations by a Regulatory Authority or other appropriate governmental entity or entities necessary for commercial marketing and sale of a Drug Product in that country including, where applicable, approval of labeling, price, reimbursement and manufacturing.

1.47 **"Regulatory Authority"** shall mean (i) the FDA or (ii) any regulatory body with similar regulatory authority in any other jurisdiction anywhere in the world.

1.48 **"Start"** shall mean the first dosing of the first patient with respect to a Phase II Clinical Trial or Phase III Clinical Trial, or the starting date set forth in the final protocol for the applicable study with respect to non-clinical studies.

1.49 **"Territory"** shall mean all countries identified on **Schedule 1.49** hereto.

1.50 **"Third Party"** shall mean any Person that is not a Party or an Affiliate of any Party.

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1.51 **"Valid Patent Claim"** shall mean either (i) a claim of an issued and unexpired Patent which has not lapsed, been revoked or abandoned or held permanently unenforceable or invalid by a decision of a court or other governmental agency of competent jurisdiction, unappealable or unappealed within the time allowed for appeal, and which has not been disclaimed, denied or admitted to be invalid or unenforceable through reissue, reexamination, disclaimer or otherwise, or (ii) a claim of a pending patent application which claim was filed in good faith and has not been abandoned or finally disallowed without the possibility of appeal or refilling of said application.

1.52 **"VERTEX Development Activities"** shall mean all non-clinical and clinical activities performed by or on behalf of VERTEX or a VERTEX Licensee in the VERTEX Territory with respect to Bulk Drug Substance, a Compound, and/or Drug Product, including non-clinical studies, clinical trials, formulation research, formulation development, process research, process development, manufacturing scale-up, analytical method development and validation, and regulatory activities, in order to obtain Regulatory Approval from a Regulatory Authority for marketing the corresponding Drug Product in the VERTEX Territory for the Indications selected. For the avoidance of doubt, the Core Development Activities set forth in Section 1.11 shall be included in the VERTEX Development Activities.

1.53 **"VERTEX Development Plan"** shall have the meaning set forth in Section 3.2.2 hereof.

1.54 **"VERTEX Know-How"** shall mean all Know-How Controlled by VERTEX or any of its Affiliates, including any such Know-How invented, discovered or developed in the conduct of the VERTEX Development Activities.

1.55 **"VERTEX Licensee"** shall mean any Person other than MITSUBISHI to which VERTEX grants a license under the VERTEX Technology.

1.56 **"VERTEX Patents"** shall mean all Patents Controlled by VERTEX or any of its Affiliates claiming Bulk Drug Substance, a Compound or a Drug Product, or a method of making or using Bulk Drug Substance, a Compound or a Drug Product, or an improvement to the subject matter of a Patent covering any of the foregoing that would be infringed by the research, development, manufacture, use, sale, offer for sale or import of Bulk Drug Substance, Compound(s) or Drug Product. A list of VERTEX Patents in the Territory is appended hereto as **Schedule 1.56** and will be updated periodically to reflect additions thereto during the term of this Agreement. Notwithstanding the foregoing, any Third-Party patent under which VERTEX

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obtains a license pursuant to Section 7.4.2 hereof shall not be deemed to be a VERTEX Patent.

1.57 **"VERTEX Technology"** shall mean all VERTEX Patents and all VERTEX Know-How.

1.58 **"VERTEX Territory"** shall mean all countries of the world except for the countries of the Territory.

1.59 **"VX-905"** shall mean the compound identified on **Schedule 1.59** hereto.

1.60 **"VX-950"** shall mean the compound identified on **Schedule 1.60** hereto.

ARTICLE II — LICENSE

2.1 **Grant to MITSUBISHI.**

2.1.1 License. Subject to the other provisions of this Agreement, VERTEX hereby grants to MITSUBISHI an exclusive license (or sublicense, as appropriate) in the Territory under the VERTEX Technology, with the right to sublicense, to exercise its rights and fulfill its obligations under this Agreement and to develop, manufacture, have manufactured, use, sell, have sold, offer to sell and import Drug Products and to import Bulk Drug Substance and use Bulk Drug Substance to manufacture Drug Products, in each case solely in the Field of Use. Notwithstanding the foregoing VERTEX shall retain the right to manufacture and have manufactured the Drug Product in the Territory for development, use, or sale of the Drug Product in the VERTEX Territory and for sale of the Drug Product to MITSUBISHI pursuant to this Agreement. In addition, in the event that pursuant to discussions in the JDC it is determined that VERTEX may conduct clinical trials of the Drug Product in the Territory, notwithstanding the foregoing license grant, VERTEX shall be allowed to conduct such clinical trials. Further, subject to the other provisions of this Agreement, VERTEX hereby grants to MITSUBISHI a non-exclusive license (or sublicense, as appropriate) in the VERTEX Territory under the VERTEX Technology, with the right to sublicense, to manufacture and/or have manufactured the Drug Product for development, use or sale of the Drug Product in the Territory.

2.1.2 Sublicensees and Subcontractors. MITSUBISHI shall notify VERTEX in writing of any sublicense it intends to grant pursuant to Section 2.1.1 **[***]**. Notwithstanding the foregoing, MITSUBISHI may sublicense its rights under the license granted in Section 2.1.1 to any of its Affiliates, with prior notice to but without the consent of VERTEX. MITSUBISHI shall

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guarantee and be responsible to VERTEX for the performance of any of its sublicensees or subcontractors under any sublicense or other agreement with respect to the rights granted to MITSUBISHI by VERTEX and the obligations assumed by MITSUBISHI hereunder. MITSUBISHI shall not permit any subcontractors or sublicensees to use VERTEX Technology without provisions safeguarding confidentiality equivalent to those provided in this Agreement. MITSUBISHI shall ensure that any such provisions allow VERTEX the right to directly enforce the obligations of confidentiality with respect to VERTEX Technology in the possession of the subcontractor or sublicensee.

2.2 **Competing Product**. In the event that VERTEX intends to license rights to develop and/or commercialize a Competing Product solely in the Territory (rather than as part of a worldwide license), VERTEX shall discuss with MITSUBISHI in good faith the terms and conditions for such a license prior to negotiating terms and conditions for such a license with any Third Party.

2.3 **Grant to VERTEX.**

2.3.1 License. Subject to the other provisions of this Agreement, MITSUBISHI hereby grants to VERTEX, in the VERTEX Territory and in those countries in the Territory where VERTEX may conduct clinical trials of the Drug Product or where VERTEX may manufacture and have manufactured Drug Product for development, use, or sale in the VERTEX Territory and for sale to MITSUBISHI pursuant to this Agreement, a royalty-free, non-exclusive license (or sublicense, as appropriate) under the MITSUBISHI Technology, with the right to sublicense, to exercise its rights and fulfill its obligations under this Agreement and, to the extent not inconsistent with MITSUBISHI's exclusive rights in the Territory, to research, develop, manufacture, have manufactured, use, sell, have sold, offer to sell and import Bulk Drug Substance, Compounds and Drug Products in the Field of Use.

2.3.2 Sublicensees and Subcontractors. VERTEX shall notify MITSUBISHI in writing in advance of granting any sublicenses pursuant to Section 2.3.1. VERTEX shall guarantee and be responsible to MITSUBISHI for the performance of any of its sublicensees or subcontractors under any sublicense or other agreement with respect to the rights granted to VERTEX by MITSUBISHI and the obligations assumed by VERTEX hereunder. VERTEX shall not permit any subcontractors or sublicensees to use MITSUBISHI Technology without provisions safeguarding confidentiality equivalent to those provided in this Agreement. VERTEX will ensure that any such provisions will allow MITSUBISHI the right to directly enforce the obligations of confidentiality with respect to MITSUBISHI Technology in the possession of

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the subcontractor or sublicensee.

2.4 **Transfer of Know-How**. Each Party shall deliver to the other all Know-How Controlled by it or its Affiliates and requested by the other Party from time to time, pursuant to the exercise by such other Party of any of the licenses granted hereunder. The Know-How shall be delivered in a form that reasonably facilitates the use of such Know-How and shall also include copies of all MITSUBISHI Patents in the VERTEX Territory or all VERTEX

Patents in the Territory, as applicable, and all other manifestations of the intellectual property licensed hereunder embodied in the Bulk Drug Substance, Compounds or Drug Products, whether in human or machine readable form.

2.5 No Implied Rights. Except as expressly provided in this Agreement, no right or license to use any intellectual property of either Party is granted hereunder by implication or otherwise.

ARTICLE III — DEVELOPMENT

3.1 Joint Development Committee.

3.1.1 Formation and Responsibilities. As soon as practicable after the Effective Date, VERTEX and MITSUBISHI will establish a Joint Development Committee (the "**JDC**") made up of equal numbers of VERTEX and MITSUBISHI personnel to be designated from time to time by each Party. Each of VERTEX and MITSUBISHI shall have one vote on the JDC. The objective of the JDC shall be to reach agreement by consensus on all matters falling within its authority hereunder within the scope of this Agreement. The Chairperson of the JDC shall be designated by MITSUBISHI. Meetings of the JDC other than regularly scheduled quarterly meetings may be held only if a quorum of **[***]** representatives of each Party participates; except that lack of a quorum shall not prevent the scheduling and conduct of a meeting by either Party after that Party has made good faith but unsuccessful attempts for more than ninety (90) days to schedule and convene the meeting. Semi-annually, the JDC shall meet face-to-face, alternating between the offices of the Parties, unless otherwise agreed. There shall be a telephonic or video conference meeting of the JDC in each calendar quarter in which a face-to-face meeting is not held. The JDC shall meet as described above, or with such other frequency, and at such time and location, as may be established by the JDC, for the following purposes, among others:

(i) To review and comment on the MITSUBISHI Development Plan

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as set forth in Section 3.2.1 below;

(ii) To review and comment on the Core Development Plan and the VERTEX Development Plan as set forth in Sections 3.2.2 and 3.2.3 below;

(iii) To receive and review reports by MITSUBISHI, which shall be prepared and submitted to VERTEX and the JDC no less than **[***]** days before each semi-annual face-to-face meeting, setting forth in reasonable detail, with supporting data, the results of work performed during the preceding six months under the MITSUBISHI Development Plan;

(iv) To receive and review reports by VERTEX, which shall be prepared and submitted to MITSUBISHI and the JDC no less than **[***]** days before each semi-annual face-to-face meeting, setting forth in reasonable detail, with supporting data, the results of work performed during the preceding six months under the Core Development Plan and the VERTEX Development Plan;

(v) To assist in coordinating scientific interactions and resolving disagreements between VERTEX and MITSUBISHI with respect to the development of Compounds;

(vi) To discuss matters relating to Patents claiming Bulk Drug Substance, the Compounds or Drug Products, methods of using or making the same, or improvements to the subject matter of a Patent covering any of the foregoing, including issues of inventorship and decisions relating to the filing, prosecution and maintenance of those Patents;

(vii) To discuss the budget for the Core Development Activities to be conducted pursuant to the Core Development Plan in the context of the standards in the pharmaceutical industry;

(viii) In the event VERTEX has notified the JDC in writing that VERTEX wishes to conduct clinical trials in the Territory, to discuss and approve (with such approval not to be unreasonably withheld or delayed) VERTEX's conducting such clinical trials in the Territory; and

(ix) To perform such other functions as appropriate to further the purposes of this Agreement as mutually determined by the Parties.

MITSUBISHI will prepare the initial draft of an agenda for each JDC meeting and will submit the draft to VERTEX for comments a reasonable period before the scheduled meeting

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date. The Party hosting a particular JDC meeting shall prepare and deliver to the members of the JDC, within **[***]** days after the date of each meeting, minutes of such meeting setting forth, among other things, all decisions of the JDC, and including a summary of the status of development activities as reported to the JDC. The Party not preparing the minutes may suggest changes or amendments to the minutes, and may provide a supplement addressing

activities at the meeting that are not reported in the minutes, which shall be distributed to the Parties and filed with the meeting minutes. In case the JDC meets by means of telephone or video conferences, the responsibility for preparing minutes shall lie with MITSUBISHI.

3.1.2 Retention of Rights. Notwithstanding the foregoing, each Party shall retain the rights, powers, and discretion expressly granted to it under this Agreement, and the JDC shall not be delegated or vested with any such rights, powers or discretion except as expressly provided in this Agreement. The JDC shall not have the power to amend or modify this Agreement, which may only be amended or modified as provided in Section 13.14 hereof.

3.1.3 Decision Making. If the JDC cannot reach consensus on a matter arising in connection with the Territory, such matter shall be referred to the Joint Steering Committee for resolution in accordance with the terms of Section 10.2.1. If the Joint Steering Committee is unable to resolve such matter, then MITSUBISHI shall have final authority to make the ultimate decision with respect thereto. If the JDC cannot reach consensus on a matter arising in connection with the VERTEX Territory, except for the matters set forth in Section 3.2.3, such matter shall be referred to the Joint Steering Committee for resolution in accordance with the terms of Section 10.2.1. If the Joint Steering Committee is unable to resolve such matter, then VERTEX shall have final authority to make the ultimate decision with respect thereto. If the JDC cannot reach consensus on any other matters, including the matters set forth in Section 3.2.3, such matters shall be referred to the Joint Steering Committee for resolution in accordance with the terms of Sections 10.2.1 and 10.2.2.

3.2 Development Plans.

3.2.1 MITSUBISHI Development Plan. As soon as practicable after the Effective Date, MITSUBISHI will prepare a development plan for the conduct of the MITSUBISHI Development Activities in the Territory (the "**MITSUBISHI Development Plan**"), and will provide a copy of such Plan to the JDC. The MITSUBISHI Development Plan will be updated by MITSUBISHI annually thereafter to describe the MITSUBISHI Development Activities that MITSUBISHI then intends will be conducted during the subsequent year and the remainder of the development period. Such MITSUBISHI Development Plan will be provided to

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the JDC within **[***]** days of the date that the JDC will conduct one of its quarterly or semi-annual meetings. The MITSUBISHI Development Plan will be considered Confidential Information of MITSUBISHI subject to the confidentiality obligations of Article IX. The JDC shall have the opportunity to review and comment on the MITSUBISHI Development Plan within **[***]** days of its receipt.

3.2.2 VERTEX Development Plan. As soon as practicable after the Effective Date, VERTEX will prepare a development plan for the conduct of the VERTEX Development Activities in the VERTEX Territory, other than the Core Development Activities (the "**VERTEX Development Plan**"), and will provide a copy of such Plan to the JDC. The VERTEX Development Plan will be updated by VERTEX annually thereafter to describe the VERTEX Development Activities (other than Core Development Activities) that VERTEX then intends will be conducted during the subsequent year and the remainder of the development period. Such VERTEX Development Plan will be provided to the JDC within **[***]** days of the date that the JDC will conduct one of its quarterly or semi-annual meetings. The VERTEX Development Plan will be considered Confidential Information of VERTEX subject to the confidentiality obligations of Article IX. The JDC shall have the opportunity to review and comment on the VERTEX Development Plan within **[***]** days of its receipt.

3.2.3 Core Development Plan. As soon as practicable after the Effective Date, VERTEX will prepare a development plan for the conduct of the Core Development Activities (the "**Core Development Plan**"), including an accompanying budget, and will provide a copy of such Plan to the JDC. The Core Development Plan will be updated by VERTEX annually thereafter to describe the Core Development Activities that VERTEX then intends will be conducted during the subsequent year and the remainder of the development period. Such Core Development Plan will be provided to the JDC within **[***]** days of the date that the JDC will conduct one of its quarterly or semi-annual meetings. The Core Development Plan will be considered Confidential Information of VERTEX subject to the confidentiality obligations of Article IX. The JDC shall have the right to review and comment on the Core Development Plan within **[***]** days of its receipt. Within such **[***]** day period, the JDC shall also (i) confirm that the Core Development Activities described therein fall within the scope of such definition and (ii) agree upon the protocols for non-clinical studies, which agreement shall not be unreasonably withheld or delayed. In the event that the JDC cannot reach consensus with respect to a matter described in either clause (i) or (ii) above, such matter shall be referred to the Joint Steering Committee for resolution in accordance with the terms of Sections 10.2.1 and

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10.2.2. In the event that the JDC does not agree upon the protocol for a particular non-clinical study, VERTEX shall also have the right to conduct such study independently and either (i) not to refer such dispute to the Joint Steering Committee for resolution, in which case MITSUBISHI may also not refer such dispute to the Joint Steering Committee and such study shall no longer be considered a Core Development Activity subject to cost sharing by MITSUBISHI pursuant to Section 3.3 below, or (ii) to refer such dispute to the Joint Steering Committee for resolution, and if the resolution process does not approve the protocol for such non-clinical study, such study shall not be considered a Core Development Activity subject to cost sharing by MITSUBISHI pursuant to Section 3.3 below, but if the resolution process does approve such protocol, then such study shall be considered a Core Development Activity subject to such cost sharing by MITSUBISHI.

3.3 Development Costs.

3.3.1 MITSUBISHI Cost-Sharing Obligations. MITSUBISHI will bear the cost of the MITSUBISHI Development Activities in the Territory. In addition to the above obligation, MITSUBISHI will pay to VERTEX **[***]** of the Core Development Costs incurred by or on behalf of VERTEX or a VERTEX Licensee. For the avoidance of doubt, MITSUBISHI shall have no obligation under this Section 3.3.1 to pay **[***]**. Not later than **[***]** after the end of each calendar quarter, VERTEX will submit to MITSUBISHI a summary of the Core Development Costs incurred during the calendar quarter just ended (with appropriate supporting information including a description of the time expended on the related Core Development Activities **[***]**, provided, however, that if the first invoice submitted under this Section 3.3.1 to MITSUBISHI reflects costs for activities that are subsequently not confirmed by the JDC to be Core Development Activities, then MITSUBISHI shall receive a credit for such costs against the next invoice submitted under this Section 3.3.1. The summary and supporting information shall be considered to be Confidential Information of VERTEX subject to the confidentiality obligations of Article IX. The books and records of VERTEX or a VERTEX Licensee relating to Core Development Costs will be subject to inspection by MITSUBISHI once in any calendar year upon reasonable notice, for the purpose of verifying the accuracy of the summary of Core Development Costs delivered hereunder. The books and records relating to a reported Core Development Cost shall be retained by VERTEX or a VERTEX Licensee for a period of not less than **[***]** after the year in which such cost was incurred.

3.3.2 Limitations on MITSUBISHI Cost-Sharing Obligations. MITSUBISHI'S obligation to share Core Development Costs incurred by or on behalf of VERTEX or a VERTEX

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Licensee from the Effective Date through the Completion of Phase II Clinical Trials within the Core Development Activities and to pay VERTEX therefor shall be **[***].** Upon **[***]** the Parties shall begin to discuss in good faith the maximum amount of MITSUBISHI's cost-sharing obligation relating to Core Development Costs incurred by or on behalf of VERTEX or a VERTEX Licensee for the conduct of Phase III Clinical Trials. **[***]** This amount shall be payable in accordance with the terms and conditions set forth in Sections 3.3.1 and 3.3.3.

3.3.3 Timing and Method of Payments. All amounts payable under this Section 3.3 shall be made on or before the **[***]** following MITSUBISHI's receipt of invoices from VERTEX with respect thereto. All payments shall be made by wire transfer in U.S. dollars to the credit of such bank account as may be designated by VERTEX in writing to MITSUBISHI from time to time.

3.4 **[***].** In the event that MITSUBISHI decides to file for Regulatory Approval for the Drug Product for a **[***]** in the Territory **[***]** then MITSUBISHI shall **[***].** The Parties shall discuss in good faith and agree **[***]**. For the purpose of this Section 3.4 **[***]**, In addition, in the event that MITSUBISHI determines that it will not file for Regulatory Approval for the Drug Product in the Territory for **[***]** but instead will file for Regulatory Authority for the Drug Product in the Territory for **[***]** then MITSUBISHI shall notify VERTEX of such decision no later than **[***]** and the parties shall discuss in good faith and agree upon the terms **[***]** which agreement in any event shall be reached prior to **[***].**

3.5 Data Transfer.

3.5.1 Preclinical and Non-clinical Data.

(a) MITSUBISHI shall provide to VERTEX all relevant preclinical and non-clinical data, assays and associated materials, protocols, methods, processes, techniques, commercial assessments of potential Indications, and any other relevant information or materials with respect to a Compound, that are Controlled by and in the possession of MITSUBISHI or its Affiliates and produced in the performance of the MITSUBISHI Development Activities during the term of this Agreement. Available information and materials shall be delivered by MITSUBISHI to the JDC, at MITSUBISHI's expense, within thirty (30) days after the end of each calendar quarter during the term of this Agreement in an orderly fashion and in a manner such that the value of the delivered information and materials is preserved in all material respects. Such information and materials shall be deemed Confidential Information of MITSUBISHI subject to the terms and conditions set forth in Article IX. MITSUBISHI shall enter

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into customary agreements with its sublicensees that provide that such sublicensees shall supply MITSUBISHI with relevant preclinical and non-clinical data, assays and associated materials, protocols, methods, processes, techniques, commercial assessments of potential Indications, and any other relevant information or materials with respect to a Compound produced in the performance of the MITSUBISHI Development Activities.

(b) VERTEX shall provide to MITSUBISHI all relevant preclinical and non-clinical data, assays and associated materials, protocols, methods, processes, techniques, commercial assessments of potential Indications, and any other relevant information or materials with respect to a Compound, that are Controlled by and in the possession of VERTEX or its Affiliates and produced in the performance of the VERTEX Development Activities before and during the term of this Agreement. Available information and materials shall be delivered by VERTEX to the JDC, at VERTEX's expense, within thirty (30) days after the end of each calendar quarter during the term of this Agreement in an orderly fashion and in a manner such that the value of the delivered information and materials is preserved in all material respects. Such information and materials shall be deemed Confidential Information of VERTEX subject to the terms and conditions set forth in Article IX. VERTEX shall enter into customary agreements with the VERTEX Licensees that provide that the VERTEX Licensees shall supply VERTEX with relevant preclinical and non-clinical data, assays and associated materials, protocols, methods, processes, techniques, commercial assessments of potential Indications, and any other relevant information or materials with respect to a Compound produced in the performance of the VERTEX Development Activities.

3.5.2 Clinical Data.

(a) MITSUBISHI shall provide to VERTEX all relevant materials, data and regulatory information that are Controlled by and in the possession of MITSUBISHI or its Affiliates and related to or generated in connection with any clinical trials of a Compound conducted, sponsored or funded by MITSUBISHI and/or its sublicensees (including investigator-sponsored trials and post-marketing clinical trials) pursuant to the performance of the MITSUBISHI Development Activities during the term of this Agreement, whether written or electronic, including all relevant clinical safety and efficacy data and all regulatory data and information related to the use and sale of a Drug Product for any Indication. Such materials, data and information shall be delivered to the JDC by MITSUBISHI, at MITSUBISHI's cost, promptly after completion of the analysis of such clinical trial data and information in an orderly fashion and in a manner such that the value of the accessed information is preserved in all

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material respects. Such information and materials shall be deemed Confidential Information of MITSUBISHI subject to the terms and conditions set forth in Article IX. MITSUBISHI shall enter into customary agreements with its sublicensees that provide that such sublicensees shall supply MITSUBISHI with relevant materials, data and regulatory information related to or generated in connection with any clinical trials of a Compound conducted, sponsored or funded by such sublicensees pursuant to the performance of the MITSUBISHI Development Activities.

(b) VERTEX shall provide to MITSUBISHI all relevant materials, data and regulatory information that are Controlled by and in the possession of VERTEX or its Affiliates and related to or generated in connection with any clinical trials of a Compound conducted, sponsored or funded by VERTEX and/or its VERTEX Licensees (including investigator-sponsored trials and post-marketing clinical trials) pursuant to the performance of the VERTEX Development Activities before and during the term of this Agreement, whether written or electronic, including all relevant clinical safety and efficacy data and all regulatory data and information related to the use and sale of a Drug Product for any Indication. Such materials, data and information shall be delivered to the JDC by VERTEX, at VERTEX's cost, promptly after completion of the analysis of such clinical trial data and information in an orderly fashion and in a manner such that the value of the accessed information is preserved in all material respects. Such information and materials shall be deemed Confidential Information of VERTEX subject to the terms and conditions set forth in Article IX. VERTEX shall enter into customary agreements with the VERTEX Licensees that provide that the VERTEX Licensees shall supply VERTEX with relevant materials, data and regulatory information related to or generated in connection with any clinical trials of a Compound conducted, sponsored or funded by such VERTEX Licensees pursuant to the performance of the VERTEX Development Activities.

3.6 Regulatory Matters.

3.6.1 Regulatory Approvals. Unless otherwise required by law in the relevant jurisdiction or set forth in this Agreement, MITSUBISHI shall have the sole right to obtain Regulatory Approvals in the Territory, which shall be held by and in the name of MITSUBISHI, and MITSUBISHI, its Affiliates or sublicensees shall own all submissions in connection therewith.

3.6.2 Interaction with Regulatory Authorities. MITSUBISHI, its Affiliates or sublicensees will be the principal contact for and will otherwise take the lead role in all

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interactions with Regulatory Authorities concerning a Drug Product in the Territory. VERTEX, its Affiliates or VERTEX Licensees will be the principal contact for and will otherwise take the lead role in all interactions with Regulatory Authorities concerning Bulk Drug Substance or a Drug Product in the VERTEX Territory. Each Party will provide the other Party with prompt notice of all material correspondence and filings with a Regulatory Authority regarding Bulk Drug Substance or a Drug Product and, at the other Party's request and at its expense, with copies of all such correspondence and filings.

3.6.3 Right of Cross Reference. MITSUBISHI hereby grants VERTEX and its Affiliates or VERTEX Licensees the right to cross reference, in their regulatory filings made in the VERTEX Territory or in the Territory, if any, covering Bulk Drug Substance, a Compound or Drug Product, all regulatory filings, and information contained therein, made in the Territory by MITSUBISHI or its Affiliates or sublicensees relative to such Bulk Drug Substance, Compounds or Drug Products. VERTEX hereby grants MITSUBISHI and its Affiliates or sublicensees the right to cross reference, in their regulatory filings made in the Territory covering a Compound or Drug Product, all regulatory filings, and information contained therein, made in the VERTEX Territory or in the Territory, if any, by VERTEX or its Affiliates or VERTEX Licensees relative to such Compounds or Drug Products.

3.6.4 Regulatory Reporting. During the term of this Agreement, in order to comply with applicable regulations of applicable Regulatory Authorities, the Parties agree that they shall establish procedures for reporting to such Regulatory Authorities any adverse events, technical complaints or other reportable events that may occur with respect to the manufacture, supply, use, sale or clinical testing of Bulk Drug Substance, a Compound or Drug Product hereunder. Details of such procedures shall be agreed upon by the Parties prior to the initiation of Phase I Clinical Trials by or on behalf of MITSUBISHI.

3.7 Conduct of the Development Activities.

3.7.1 Standards. MITSUBISHI and VERTEX agree to perform the MITSUBISHI Development Activities and the VERTEX Development Activities, respectively, in accordance with the terms and conditions of this Agreement and in conformity with generally accepted standards of

good laboratory practices and good clinical practices and with all applicable national, state, regional and local laws, guidelines, rules and regulations.

3.7.2 Records. MITSUBISHI and VERTEX shall prepare and maintain, or have prepared and maintained, complete and accurate written records, accounts, notes, reports and

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data with respect to all laboratory work conducted in the performance of the MITSUBISHI Development Activities and the VERTEX Development Activities, respectively. MITSUBISHI and VERTEX shall prepare and maintain, or have prepared and maintained, complete and accurate written records, data and information with respect to all clinical trials performed in the conduct of the MITSUBISHI Development Activities and the VERTEX Development Activities, respectively, as required by all applicable national, state, regional and local laws, guidelines, rules and regulations.

3.8 Ownership of Technology.

3.8.1 No Ownership by Employees. All employees of MITSUBISHI who are expected to perform the MITSUBISHI Development Activities have signed, or before any such performance will sign, agreements with MITSUBISHI regarding proprietary information and inventions in a form reasonably considered by MITSUBISHI and its counsel to assure MITSUBISHI's Control of any intellectual property invented, discovered or developed by such employees. All employees of VERTEX who are expected to perform the VERTEX Development Activities have signed, or before any such performance will sign, agreements with VERTEX regarding proprietary information and inventions in a form reasonably considered by VERTEX and its counsel to assure VERTEX's Control of any intellectual property invented, discovered or developed by such employees.

3.8.2 Ownership by Agents or Licensees. MITSUBISHI shall enter into customary agreements with its agents and sublicensees that provide that all of such agents' or sublicensees' right, title and interest in, to and under any intellectual property invented, discovered or developed by such agents or sublicensees in the performance of the MITSUBISHI Development Activities shall be assigned or licensed to MITSUBISHI. VERTEX shall enter into customary agreements with its agents and VERTEX Licensees that provide that all of such agents' or VERTEX Licensees' right, title and interest in, to and under any intellectual property invented, discovered or developed by such agents or VERTEX Licensees in the performance of the VERTEX Development Activities shall be assigned or licensed to VERTEX.

ARTICLE IV— MANUFACTURE AND SUPPLY

4.1 Supply of Bulk Drug Substance and Drug Product for Development. Subject to Section 6.4, VERTEX shall be responsible for the manufacture and supply of all Bulk Drug Substance, and MITSUBISHI will be responsible for preparing the Drug Product from Bulk

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Drug Substance, in each case as necessary for the conduct of the MITSUBISHI Development Activities in the Territory. Notwithstanding the above but subject to Section 6.4, at MITSUBISHI's request and upon no less than **[***]**, VERTEX agrees to supply that amount of Drug Product required for MITSUBISHI to conduct the Phase I Clinical Trials, Phase II Clinical Trials and Phase III Clinical Trials in the Territory ("**Investigational Drug Product**"). VERTEX will supply such Bulk Drug Substance and Investigational Drug Product to MITSUBISHI at the **[***]**. Supply of Bulk Drug Substance and Investigational Drug Product for development purposes shall be undertaken pursuant to the provisions of a supply agreement for the conduct of the MITSUBISHI Development Activities (the "**Development Supply Agreement**"), including such customary representations, warranties, covenants and conditions as are necessary or appropriate for transactions of this type, not inconsistent with the terms and conditions hereof and satisfactory in form and substance to the Parties and their legal advisors. Within **[***]** after the Effective Date, the Parties will negotiate in good faith and separately enter into the Development Supply Agreement.

4.2 Supply of Bulk Drug Substance and Drug Product for Commercial Purposes. Subject to Section 6.4, VERTEX will supply and MITSUBISHI shall purchase from VERTEX all of MITSUBISHI's requirements for Bulk Drug Substance for manufacture of Drug Product sold in the Territory pursuant to the provisions of a supply agreement for Bulk Drug Substance for commercial purposes (the "**Commercial Supply Agreement**"), including such customary representations, warranties, covenants and conditions as are necessary or appropriate for transactions of this type, not inconsistent with the terms and conditions hereof and satisfactory in form and substance to the Parties and their legal advisors. Promptly after the Start of the first Phase III Clinical Trial by MITSUBISHI, the Parties will commence good faith negotiations and separately enter into the Commercial Supply Agreement. MITSUBISHI shall purchase such Bulk Drug Substance from VERTEX in accordance with the terms of Section 6.3 hereof. VERTEX may contract with any Third Party as a manufacturing subcontractor.

4.3 Limitation on Supply Obligation. Notwithstanding Sections 4.1 or 4.2 hereof, VERTEX shall have no obligation to supply Bulk Drug Substance or Investigational Drug Product to MITSUBISHI with respect to a Drug Product unless VERTEX is developing or commercializing such Drug Product; provided, however, that if VERTEX has so supplied Bulk Drug Substance to MITSUBISHI for commercial purposes before VERTEX ceased development or commercialization of the corresponding Drug Product, then VERTEX shall be obligated to continue the supply of such Bulk Drug Substance to MITSUBISHI pursuant to the terms set forth

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in Section 6.4 hereof; provided further, however, that in any other case where MITSUBISHI wishes to develop or commercialize a Drug Product that VERTEX is not itself developing or commercializing, VERTEX shall grant to MITSUBISHI a nonexclusive license (or sublicense, as appropriate) under the VERTEX Technology, with the right to sublicense, to manufacture and have manufactured Bulk Drug Substance with respect to such Drug Product to the extent required to use, sell, have sold, offer to sell and import such Drug Product in the Territory in the Field of Use. In such event, at MITSUBISHI's expense, VERTEX will also deliver to MITSUBISHI such VERTEX Technology as may then exist (if any) and provide to MITSUBISHI any applicable technical support in connection therewith that is reasonably necessary to enable MITSUBISHI to manufacture Bulk Drug Substance in compliance with any and all current Regulatory Approvals in the Territory. Such VERTEX Technology shall be delivered to MITSUBISHI in such a way as to communicate it to MITSUBISHI promptly, effectively and economically.

4.4 Second Source of Supply for Bulk Drug Substance. Within two (2) years after the receipt of Regulatory Approval for a Drug Product in the United States, VERTEX agrees to have at least **[***]**manufacturing sites, in different geographical locations, approved by the Regulatory Authorities for the supply of the corresponding Bulk Drug Substance to MITSUBISHI pursuant to the Commercial Supply Agreement.

4.5 Manufacturing Technology. Manufacturing technology which is Controlled by one Party and which would be useful to the other Party in discharging its manufacturing obligations hereunder shall be made available to the manufacturing Party for that purpose, subject to negotiation of a reasonable compensation arrangement. If either Party (a "**Contracting Party**") engages an Affiliate or a Third Party to provide assistance to the Contracting Party in the development of processes useful for the manufacture of Bulk Drug Substance or Drug Product, the Contracting Party will make reasonable efforts to provide that any processes belonging to that Affiliate or Third Party and made available to the Contracting Party will also be made available to the other Party on the same terms offered to the Contracting Party.

4.6 Packaging. MITSUBISHI will be responsible for packaging the Drug Product and Investigational Drug Product for development purposes and for commercial sale in the Territory.

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ARTICLE V — COMMERCIALIZATION

5.1 Global Marketing and Sales. MITSUBISHI will prepare a marketing plan in reasonable detail for the launch of any Drug Product in each country of the Territory, and will provide the plan to VERTEX not later than ninety (90) days after submission of the initial application for Regulatory Approval of the Drug Product to a Regulatory Authority in such country of the Territory.

5.2 Co-Labeling. The labels, packaging and inserts for the Drug Product packaged for sale in the Territory, and any promotional materials therefor, will bear the company names and logos of both MITSUBISHI and VERTEX with such relative prominence and in such language as are permitted by the applicable laws, rules, regulations and custom of such country, with the preference that wherever possible such names and logos shall be of equal prominence and VERTEX's name shall be written in the English language. MITSUBISHI will permit VERTEX to review all material regulatory filings in the Territory that relate to product labeling, and all proposed labels, packaging, package inserts and promotional materials required under the foregoing provisions to bear VERTEX's name and logo, prior to the filing of any such material with any Regulatory Authority.

5.3 Trademarks. Each Party shall have the right to register and use its own trademark for a Drug Product, respectively. Notwithstanding the foregoing, in the event MITSUBISHI wishes to use VERTEX's trademark for a Drug Product, VERTEX hereby grants to MITSUBISHI an exclusive, royalty-free license to use VERTEX's trademark for a Drug Product for the advertising, promotion, marketing, distribution and sale of the Drug Product in the Field of Use in the Territory. MITSUBISHI shall have the right to grant sublicenses under the foregoing exclusive license to its sublicensees pursuant to Section 2.1.2 hereof.

5.4 Due Diligence. Following the First Commercial Sale of a Drug Product and until the expiration of this Agreement, MITSUBISHI shall use diligent and commercially reasonable efforts to keep the Drug Product reasonably available to the public in the Territory, devoting the same degree of attention and diligence to such efforts that it devotes to such activities for other of its products of comparable commercial potential. MITSUBISHI shall promptly notify VERTEX if it shall determine that the marketing and sale of the Drug Product in any country in the Territory is not commercially reasonable or economically profitable or if for other unforeseen reasons further commercial support of the Drug Product in any country is no longer prudent or practical. Within **[***]** of the receipt of such notice, VERTEX shall notify MITSUBISHI whether it wishes the marketing and sale of the Drug Product in such country in the Territory to continue. If VERTEX notifies MITSUBISHI that it does not wish such marketing

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and sale to continue, then MITSUBISHI may immediately stop the marketing and sale of the Drug Product in such country in the Territory. If VERTEX notifies MITSUBISHI that it does wish such marketing and sale to continue, then MITSUBISHI shall continue to market and sell the Drug Product in such country in the Territory for up to **[***]** from the date of MITSUBISHI's initial notice to VERTEX or such earlier date upon which VERTEX or a VERTEX Licensee begins to market and sell the Drug Product in such country. Upon the termination of MITSUBISHI's marketing and sale of the Drug Product in a

country, this Agreement shall be deemed to be amended to delete such country from the Territory, all rights with respect to such country under this Agreement shall revert to VERTEX, and the rights and licenses granted by VERTEX to MITSUBISHI pursuant to this Agreement shall terminate with respect to such country. At such time MITSUBISHI, at the request of VERTEX, shall also assign or otherwise transfer to VERTEX all INDs, Regulatory Approvals, or applications therefor, with respect to a Compound or Drug Product in such country, and VERTEX shall have an irrevocable, fully paid-up nonexclusive license, with the right to sublicense, in such country under the MITSUBISHI Technology to develop, manufacture, have manufactured, use, sell, have sold, offer to sell and import Bulk Drug Substance, Compound and Drug Product. In addition, at the request of VERTEX, MITSUBISHI shall assign to VERTEX free of charge all of its or its Affiliates' right, title and interest in and to any trademarks used for a Drug Product in such country, and shall execute, or cause its Affiliates to execute, such documents of transfer or assignment and perform, or cause its Affiliates to perform, such acts as may be reasonably necessary to transfer ownership of such trademarks to VERTEX and to enable VERTEX to continue to maintain such trademarks at VERTEX's expense.

ARTICLE VI — PAYMENTS

6.1 License Fee. In consideration of the grant of the license set forth in Section 2.1 hereof and in recognition of VERTEX's investment in the Compounds prior to the Effective Date, MITSUBISHI will pay to VERTEX **[***]** on or before **[***]**.

6.2 Milestone Payments by MITSUBISHI.

6.2.1 Payments. In consideration of the grant of the license set forth in Section 2.1 hereof, MITSUBISHI will make the following payments to VERTEX upon the achievement of any of the following milestones with respect to a Compound, upon the further terms and conditions set forth below.

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Milestone	Payment
1. First dosing of the first Compound in a patient in a Phase Ib Clinical Trial in the VERTEX Territory	US $4,000,000
2. First dosing of the Compound in a human in a Phase I Clinical Trial in the Territory	US $3,000,000
3. First **[***]**	US $**[***]**
4. First **[***]**	US $**[***]**
5. First **[***]**	US $**[***]**
6. First **[***]**	US $**[***]**
	US $**[***]**

6.2.2 Payments to be Made Only Once. Milestone payments are payable only once with respect to a Compound, but shall be payable with respect to each Compound that is developed. If any milestone is achieved with respect to the development of a Compound, any previously unpaid lower numbered milestone for the Compound will become immediately due and payable. Notwithstanding the foregoing, if one Compound is replaced in development by the other Compound after any one or more milestone payments have been paid with respect to the first Compound, then no comparable milestone payment shall be payable hereunder with respect to the replacement Compound if that milestone payment has already been paid with respect to the first Compound.

6.2.3 Timing and Method of Payments. Milestone payments shall be made on or before the **[***]** following the occurrence of the event giving rise to the milestone payment obligation hereunder. All payments shall be made by wire transfer in U.S. dollars to the credit of such bank account as may be designated by VERTEX in writing to MITSUBISHI from time to time. Any payment which falls due on a date which is a Saturday, Sunday, MITSUBISHI's non-working day or a legal holiday in Japan may be made on the next succeeding day which is not a Saturday, Sunday, MITSUBISHI's non-working day or a legal holiday in Japan.

6.3 Commercial Supply of Drug Product.

6.3.1 Purchase of Bulk Drug Substance. Except as otherwise provided herein,

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VERTEX shall supply and MITSUBISHI, its Affiliates and sublicensees shall purchase from VERTEX pursuant to the Commercial Supply Agreement all of their respective requirements of Bulk Drug Substance for manufacture of Drug Product for sale in the Territory.

6.3.2 Supply Price. In the Commercial Supply Agreement, the Parties shall determine the percentage of the Net Sales Price(s) for Drug Product(s) that shall be attributed to the price for Bulk Drug Substance supplied by VERTEX for the manufacture of such Drug Product(s) sold in the Territory.

6.3.3 Payment. Payments due to VERTEX for the supplied Bulk Drug Substance shall be made by MITSUBISHI within **[***]** of receipt from VERTEX of an invoice for the Bulk Drug Substance purchased by MITSUBISHI under the terms of the Commercial Supply Agreement, and annual adjustments shall be made within such time periods and applying such procedures as the Parties may agree to reflect the actual Net Sales Price(s) for the corresponding Drug Product(s) for each country for that year. Any net adjustments shall be remitted within **[***]** of determination to the Party to whom the adjustment is due.

6.4 Production of Bulk Drug Substance by MITSUBISHI. If VERTEX determines at any time that it does not wish to supply Bulk Drug Substance or Investigational Drug Product to MITSUBISHI, its Affiliates and sublicensees, VERTEX shall provide MITSUBISHI (i) **[***]** prior written notice of such determination if VERTEX has any Affiliate, subcontractor, or VERTEX Licensee that manufactures Bulk Drug Substance or Investigational Drug Product and agrees to supply Bulk Drug Substance or Investigational Drug Product to MITSUBISHI **[***] [***]**, or (ii) in a case other than the case set forth in clause (i) above, **[***]** prior written notice; provided, however, that, in the case of clause (ii) set forth above, VERTEX shall stock sufficient Bulk Drug Substance to permit MITSUBISHI to manufacture Drug Products or to permit VERTEX to manufacture Investigational Drug Product for MITSUBISHI for a **[***]** and shall supply such Bulk Drug Substance or Investigational Drug Product to MITSUBISHI for such **[***]** at a price equal to **[***]**, but otherwise pursuant to the terms and conditions of the Commercial Supply Agreement or the Development Supply Agreement, as applicable. Following the expiration of VERTEX's obligation to supply Bulk Drug Substance or Investigational Drug Product to MITSUBISHI, the Commercial Supply Agreement or the Development Supply Agreement, as applicable, shall terminate. Upon VERTEX's notice pursuant to this Section 6.4 of its determination to discontinue supply, MITSUBISHI shall have the sole right and responsibility, at its expense, for the manufacture of all Bulk Drug Substance to meet its, its Affiliates' and sublicensees' requirements in connection with the development and commercial sale of the

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Drug Product in the Territory; provided, however, that VERTEX shall have the right to so manufacture and supply Bulk Drug Substance pursuant to its obligation set forth in this Section 6.4. Upon providing such notice to MITSUBISHI, VERTEX shall grant to MITSUBISHI a nonexclusive license (or sublicense, as appropriate) under the VERTEX Technology, with the right to sublicense, to manufacture and have manufactured Bulk Drug Substance to the extent required to use, sell, have sold, offer to sell and import Drug Products in the Territory in the Field of Use. In such event, at MITSUBISHI's expense, VERTEX will also deliver to MITSUBISHI the VERTEX Technology and provide to MITSUBISHI the technical support in connection therewith reasonably necessary to enable MITSUBISHI to manufacture Bulk Drug Substance in compliance with any and all current Regulatory Approvals in the Territory. Such VERTEX Technology shall be delivered to MITSUBISHI in such a way as to communicate it to MITSUBISHI promptly, effectively and economically.

6.5 Royalties on Net Sales of Drug Product; Sales Reports.

6.5.1 Royalties. MITSUBISHI shall pay to VERTEX annual royalties at the rates set forth below, including the percentage of the Net Sales Price(s) for Drug Product(s) that shall be attributed to the supply price for Bulk Drug Substance determined by the Parties pursuant to Section 6.3.2:

(a) **[***]**

(b) **[***]**

(c) **[***]**

6.5.2 Royalties in the Event of Manufacture of Bulk Drug Substance Pursuant to Sections 4.3 or 6.4**.** Notwithstanding Section 6.5.1, in the event that Bulk Drug Substance is manufactured and supplied pursuant to Sections 4.3 or 6.4 hereof, the rates of the annual royalties to be paid by MITSUBISHI to VERTEX under this Agreement shall be changed from the rates set forth in Section 6.5.1 to the rates set forth below:

(a) **[***]** (**[***]**%) of the first $**[***]** of annual Net Sales;

(b) **[***]** (**[***]**%) of the annual Net Sales over $**[***]** and less than or equal to $**[***]**; and

(c) **[***]** (**[***]**%) of the annual Net Sales over $**[***]**.

6.5.3 Discussion of Royalty Rate Reduction**.** (i) At least **[***]** prior to the expiration in a country in the Territory of all VERTEX Patents or (ii) upon **[***] [***]**

[***] Information redacted pursuant to a confidential treatment request. An unredacted version of this exhibit has been filed separately with the Commission.

6.5.4 Reports. During the term of this Agreement and after the First Commercial Sale of a Drug Product in the Territory, MITSUBISHI shall furnish or cause to be furnished to VERTEX on a quarterly basis a written report covering such calendar quarter showing (i) the Net Sales Price(s) and total Net Sales in each country in the Territory during such calendar quarter; (ii) amounts due VERTEX under Sections 6.5.1 or 6.5.2 hereof with respect to such Net Sales, and the basis for calculating those amounts due; (iii) withholding taxes, if any, required by law to be deducted in respect of any such sales or payments, and evidence of payment thereof; and (iv) dispositions of the Drug Product other than pursuant to sales for cash. With respect to the Net Sales Price(s) of the Drug Product or Net Sales received in a currency other than U.S. dollars, the Net Sales Price(s) or Net Sales shall be expressed in the domestic currency of the party making the sale, together with the U.S. dollar equivalent of the amount, calculated using the rate reported in the *Wall Street Journal* for

the purchase of U.S. dollars with such currency on the last business day for the calendar quarter for which the report is being prepared. The foregoing quarterly reports shall be due on or before the forty-fifth (45th) day following the close of each calendar quarter. MITSUBISHI will also provide VERTEX, within ten (10) business days after the end of each calendar quarter, with a report showing MITSUBISHI's best estimate of total Net Sales for that calendar quarter based on information available to MITSUBISHI at the time of the report.

6.5.5 Audit. MITSUBISHI shall keep and shall cause to be kept accurate records in sufficient detail to enable the amounts due hereunder to be determined and to be verified by VERTEX. Upon the written request of VERTEX, at VERTEX's expense and not more than once in any calendar year, MITSUBISHI shall permit an independent accountant of national prominence selected by VERTEX, and approved by MITSUBISHI, to have access during normal business hours to those records of MITSUBISHI as may be reasonably necessary to verify the accuracy of the sales reports furnished by MITSUBISHI pursuant to this Section 6.5, in respect of any calendar year ending not more **[***]** prior to the date of such notice. Such accountant shall not disclose any information except that which should properly be contained in a sales report required under this Agreement. MITSUBISHI shall include in each sublicense entered into by it pursuant to this Agreement a provision requiring the sublicensee to keep and maintain adequate records of sales made pursuant to such sublicense and to grant access to such records by the aforementioned independent accountant for the reasons specified in this Section 6.5. Upon the expiration of three (3) years following the end of any calendar year, the calculation of amounts payable with respect to such calendar year,

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unless then in dispute, shall be binding and conclusive upon VERTEX, and MITSUBISHI and its Affiliates and sublicensees shall be released from any liability or accountability with respect to payments for such year. The report prepared by such independent accountant, a copy of which shall be sent or otherwise provided to MITSUBISHI by such independent accountant at the same time it is sent or otherwise provided to VERTEX, shall contain the conclusions of such independent accountant regarding the audit and will specify that the amounts paid to VERTEX pursuant thereto were correct or, if incorrect, the amount of any underpayment or overpayment. If such independent accountant's report shows any underpayment, MITSUBISHI shall remit or shall cause its Affiliates or sublicensees to remit to VERTEX within thirty (30) days after MITSUBISHI' receipt of such report, (i) the amount of such underpayment and (ii) if such underpayment exceeds five percent (5%) of the total amount owed for the calendar year then being audited, the reasonable and necessary fees and expenses of such independent accountant performing the audit, subject to reasonable substantiation thereof. Any overpayments shall be fully creditable against amounts payable in subsequent payment periods. VERTEX agrees that all information subject to review under this Section 6.5 or under any sublicense agreement is confidential and that VERTEX shall retain and cause its accountant to retain all such information in confidence.

6.5.6 Interest. In case of any delay in payment by one Party to the other hereunder, interest at **[***]** shall be assessed from the **[***]** day after the due date of the payment until the date paid, and shall be due from such Party upon prior written notice from the other Party. The applicable **[***]** shall be the rate in effect on the **[***]** day after the payment is due.

6.6 Withholding Tax. If during the term of this Agreement, withholding tax is required by law to be deducted from any payments required to be made by MITSUBISHI to VERTEX hereunder, (i) such tax will be deducted from the otherwise remittable royalty after applying for tax rate reduction under the applicable treaties for avoidance of double taxation, (ii) such tax will be paid to the proper tax authorities, and (iii) a certificate of tax will be sent to VERTEX promptly after receipt from the competent tax authority.

6.7 Currency of Payment. All payments hereunder shall be made in U.S. dollars. If at any time legal restrictions prevent the prompt remittance of any payments with respect to any country of the Territory where a Drug Product is sold, MITSUBISHI or its Affiliates or sublicensees shall have the right and option to make such payments by depositing the amount thereof in local currency to VERTEX's account in a bank or depository in such country.

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ARTICLE VII — TECHNOLOGY

7.1 Ownership. All Know-How invented, discovered or developed exclusively by either Party or its Affiliates (directly or through others acting on its behalf) shall be owned and Controlled by such Party, subject to the provisions of this Agreement. All Patents claiming Bulk Drug Substance, a Compound or a Drug Product, or a method of making or using the same or an improvement to a Patent covering any of the foregoing, invented by either Party or its Affiliates (directly or through others acting on its behalf) shall be owned and Controlled by such Party, subject to the provisions of this Agreement. All Know-How and Patents claiming Bulk Drug Substance, a Compound or a Drug Product, or a method of making or using the same or an improvement to a Patent covering any of the foregoing, invented, discovered, or developed, as applicable, jointly by the Parties or their Affiliates (directly or through others acting on their behalf) shall be owned and Controlled jointly. Such Know-How that is owned and Controlled jointly by the Parties or their Affiliates shall be "**Joint Know-How**," and such Patents that are owned and Controlled jointly by the Parties or their Affiliates shall be "**Joint Patents**." For the avoidance of doubt, either Party shall have the right, including the right to sublicense, to practice and use the Joint Know-How and the Joint Patents worldwide without any payment to the other Party.

7.2 Patent Procurement and Maintenance. VERTEX shall be responsible for the preparation, filing, prosecution and maintenance of all VERTEX Patents and any Joint Patents, and MITSUBISHI shall be responsible for the preparation, filing, prosecution and maintenance of all MITSUBISHI Patents. VERTEX, with the advice of MITSUBISHI, shall determine the countries in the Territory in which patent applications for VERTEX Patents will be filed. MITSUBISHI, with the advice of VERTEX, shall determine the countries in the VERTEX Territory in which patent applications for MITSUBISHI Patents will be filed. The Parties shall discuss and determine the countries in the Territory in which patent applications for Joint Patents will be filed. If

VERTEX decides not to prosecute, and maintain any VERTEX Patent filed in a country in the Territory, without first having filed a substitute therefor, VERTEX shall assign its right, title and interest in and to such VERTEX Patent in such country to MITSUBISHI free of charge, if MITSUBISHI so desires, and shall execute such documents of transfer or assignment and perform such acts as may be reasonably necessary to transfer sole ownership of such VERTEX Patent to MITSUBISHI and to enable MITSUBISHI to continue prosecution or maintenance of such VERTEX Patent. In such case, such VERTEX Patents shall not be

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deemed to be VERTEX Patents thereafter with respect to such country. If MITSUBISHI decides not to prosecute, and maintain any MITSUBISHI Patent filed in a country in the VERTEX Territory, without first having filed a substitute therefor, MITSUBISHI shall assign its right, title and interest in and to such MITSUBISHI Patent in such country to VERTEX free of charge, if VERTEX so desires, and shall execute such documents of transfer or assignment and perform such acts as may be reasonably necessary to transfer sole ownership of such MITSUBISHI Patent to VERTEX and to enable VERTEX to continue prosecution or maintenance of such MITSUBISHI Patent. In such case, such MITSUBISHI Patents shall not be deemed to be MITSUBISHI Patents with respect to such country. VERTEX shall provide draft applications for Joint Patents to MITSUBISHI sufficiently in advance of filing for MITSUBISHI to have the opportunity to comment thereon. VERTEX shall furnish MITSUBISHI with copies of all substantive communications between VERTEX and applicable patent offices regarding the Joint Patents. VERTEX and MITSUBISHI shall each provide the JDC with periodic reports listing, by name, any VERTEX Patents or MITSUBISHI Patents, respectively, filed by it in the Territory or the VERTEX Territory, respectively, along with a general summary of the claims made and the jurisdictions of filing in the Territory or the VERTEX Territory, respectively. Each Party will provide such assistance as the other Party may reasonably request in order to protect the other Party's rights to the Patents for which it is responsible under this Section 7.2.

7.3 Costs. VERTEX shall be responsible for paying its costs incurred for preparation, filing, prosecution and maintenance of the VERTEX Patents worldwide and of the Joint Patents in the VERTEX Territory. MITSUBISHI shall be responsible for paying its costs incurred for preparation, filing, prosecution and maintenance of the MITSUBISHI Patents worldwide and of the Joint Patents in the Territory. Either Party may at any time elect, by written notice to the other Party, to discontinue support for one or more Joint Patents (a "**Discontinued Patent**") and shall not be responsible for any costs relating to a Discontinued Patent which are incurred more than sixty (60) days after receipt of that notice by the other Party. In such case, the other Party may elect at its sole discretion to continue preparation, filing, prosecution or maintenance of the Discontinued Patent at its sole expense. The Party so continuing shall own any such Discontinued Patent, and the Party electing to discontinue support shall execute such documents of transfer or assignment and perform such acts as may be reasonably necessary to transfer sole ownership of the Discontinued Patent to the other Party and enable that Party to file or to continue prosecution or maintenance of the

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Discontinued Patent, if the other Party elects to do so. Discontinuation may be on a country-by-country basis or for a Patent series in total.

7.4 Infringement Claims by Third Parties.

7.4.1 Notice. If the manufacture, import, use, offer to sell or sale of Bulk Drug Substance, a Compound and/or a Drug Product results in a claim or reasonable apprehension of a claim against a Party for patent infringement or for inducing or contributing to patent infringement ("**Infringement Claim**"), the Party first having notice of an Infringement Claim shall promptly notify the other in writing. The notice shall set forth the facts of the Infringement Claim in reasonable detail. The Parties shall discuss how to respond to such Infringement Claim.

7.4.2 Third-Party Licenses. If practicing the VERTEX Technology in connection with the import, use, offer to sell or sale of a Compound and/or a Drug Product in any country in the Territory would require a license under a Third Party's patent, then VERTEX will use reasonable efforts to obtain a license, with a right to sublicense to MITSUBISHI, under the Third Party's patent, under terms reasonably acceptable to both VERTEX and MITSUBISHI. VERTEX shall grant a sublicense to MITSUBISHI under such Third Party's patent, subject to the financial obligation set forth in this Section 7.4.2. VERTEX and MITSUBISHI will equally bear any financial obligation payable pursuant to the license of a Third-Party patent in the Territory; provided, however, that VERTEX shall not be required to bear any financial obligation under any license of such Third-Party patents that together with any other such license and with any financial obligation pursuant to any voluntary final disposition of an action under Section 7.4.3 would effectively result in an aggregate reduction of the royalties on the Net Sales of Drug Products in the country or countries in the Territory to which such licenses relate by **[***]**.

7.4.3 Discontinued Sales, License or Defense of Suit. If the required license is either unavailable or its terms are unacceptable to either VERTEX or MITSUBISHI, then MITSUBISHI may elect in its sole discretion to discontinue sales of the Drug Product in such country in the Territory or to undertake the defense of an Infringement Claim or the prosecution of a declaratory judgment action with respect to the Third-Party patents. The Parties shall share equally all out-of-pocket costs and expenses incurred in conducting the defense of such Infringement Claims or the prosecution of such declaratory judgment actions, including the investigation and settlement thereof; provided, however, no settlement or consent judgment or other voluntary final disposition of a suit under this Section 7.4.3 may be entered into without

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the joint consent of VERTEX and MITSUBISHI (which consent shall not be unreasonably withheld). If MITSUBISHI is conducting the defense of an Infringement Claim or the prosecution of a declaratory judgment action, and VERTEX is a party to the action, then VERTEX 's defense costs shall be reported to MITSUBISHI and credited against VERTEX's share of overall defense costs. VERTEX and MITSUBISHI will equally bear any financial obligation payable pursuant to a settlement, consent judgment or other voluntary final disposition of an action pursuant to this Section 7.4.3; provided, however, that VERTEX shall not be required to bear any financial obligation under any such voluntary final disposition of an action under this Section 7.4.3 that together with any other such voluntary final dispositions and any licenses of Third-Party patents pursuant to Section 7.4.2 would effectively result in an aggregate reduction of the royalties on the Net Sales of Drug Products in the country or countries in the Territory to which such licenses relate [***]

7.5 Infringement Claims against Third Parties.

7.5.1 Protection of Technology. VERTEX and MITSUBISHI each agree to take reasonable actions to protect the VERTEX Technology and the MITSUBISHI Technology, respectively, from infringement and from unauthorized possession or use.

7.5.2 Infringement of Technology. If any VERTEX Patents, MITSUBISHI Patents or Joint Patents are infringed or claimed to be invalid or VERTEX Know-How, MITSUBISHI Know-How or Joint Know-How is misappropriated, as the case may be, by a Third Party, the Party first having knowledge of such infringement, claim or misappropriation, or knowledge of a reasonable probability of such infringement, claim or misappropriation, shall promptly notify the other in writing. The notice shall set forth the facts of such infringement, claim or misappropriation in reasonable detail. The owner of the technology, or VERTEX, in the case of joint ownership between the Parties hereto, shall have the primary right, but not the obligation, to institute, prosecute, and control with its own counsel any action or proceeding with respect to infringement, claimed invalidity or misappropriation of such technology and the other Party shall have the right, at its own expense, to be represented in such action by its own counsel. If the Party having the primary right or responsibility to institute, prosecute, and control such action or proceeding fails to do so within a period of ninety (90) days after receiving notice of the infringement, claim or misappropriation, the other Party shall have the right to bring and control any such action or proceeding by counsel of its own choice; provided, however, that such right shall only apply to MITSUBISHI with respect to VERTEX Technology, Joint Patents and/or Joint Know-How in the Territory and such right shall only apply to VERTEX

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with respect to MITSUBISHI Technology in the VERTEX Territory. In such circumstances, the Party which had the primary responsibility shall have the right, at its own expense, to be represented in any such action or proceeding by counsel of its own choice. If one Party brings any such action or proceeding, the second Party may be joined as a party plaintiff, and, in case of joining, the second Party agrees to give the first Party reasonable assistance and authority to file and to prosecute such suit. In any case the second Party shall provide all reasonable cooperation to the first Party in connection with such action or proceeding. The costs and expenses of all suits brought by a Party under this Section 7.5.2 shall be reimbursed to such Party and to the other Party, if it participates in or provides cooperation with respect to such suit, *pro rata*, out of any damages or other monetary awards recovered therein in favor of VERTEX or MITSUBISHI. If any balance remains, the Party taking such actions shall retain such balance. No settlement or consent judgment or other voluntary final disposition of a suit under this Section 7.5.2 may be entered into without the joint consent of VERTEX and MITSUBISHI (which consent shall not be unreasonably withheld).

7.6 Patent Term Extensions. The Parties shall cooperate in good faith with each other in gaining patent term extension in the Territory to VERTEX Patents, Joint Patents and MITSUBISHI Patents covering a Compound or Drug Product. MITSUBISHI and VERTEX shall mutually determine which patents shall be extended. All filings for such extension shall be made by the Party who owns the patent, and by VERTEX for Joint Patents.

ARTICLE VIII — REPRESENTATIONS AND WARRANTIES

8.1 Representations and Warranties of VERTEX. As of the Effective Date, VERTEX represents and warrants to MITSUBISHI as follows:

(a) Authorization**.** This Agreement has been duly executed and delivered by VERTEX and constitutes the valid and binding obligation of VERTEX, enforceable against VERTEX in accordance with its terms except as enforceability may be limited by bankruptcy, fraudulent conveyance, insolvency, reorganization, moratorium and other laws relating to or affecting creditors' rights generally and by general equitable principles. The execution, delivery and performance of this Agreement have been duly authorized by all necessary action on the part of VERTEX, its officers and directors. The execution, delivery and performance of this Agreement does not breach, violate, contravene or constitute a default under any contracts, arrangements or commitments to which VERTEX is a party or by which it is bound nor does the execution, delivery and performance of this Agreement by VERTEX violate any order, law or

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regulation of any court, governmental body or administrative or other agency having authority over it.

(b) No Third-Party Rights. VERTEX owns or possesses adequate licenses or other rights to use the VERTEX Technology in the Field of Use in the Territory and to grant the licenses and rights herein.

(c) Third-Party Patents. Except as disclosed in writing between the Parties, VERTEX is not aware of any issued patents or pending patent applications that, if issued, would be infringed by the development, manufacture, use, import, offer to sell or sale of any Compound, Bulk Drug Substance or Drug Product in the Territory pursuant to this Agreement.

(d) Chiron Patents. VERTEX's research activities that produced the Compounds are covered by a license granted to VERTEX by Chiron Corporation under certain intellectual property with respect to the hepatitis C virus (HCV). Vertex is not aware of any further license that would be required from Chiron Corporation to permit MITSUBISHI to develop and commercialize the Compounds and the Drug Products pursuant to this Agreement.

8.2 Representations and Warranties of MITSUBISHI. As of the Effective Date, MITSUBISHI represents and warrants to VERTEX that this Agreement has been duly executed and delivered by MITSUBISHI and constitutes the valid and binding obligation of MITSUBISHI, enforceable against MITSUBISHI in accordance with its terms except as enforceability may be limited by bankruptcy, fraudulent conveyance, insolvency, reorganization, moratorium and other laws relating to or affecting creditors' rights generally and by general equitable principles. The execution, delivery and performance of this Agreement have been duly authorized by all necessary action on the part of MITSUBISHI, its officers and directors. The execution, delivery and performance of this Agreement does not breach, violate, contravene or constitute a default under any contracts, arrangements or commitments to which MITSUBISHI is a party or by which it is bound nor does the execution, delivery and performance of this Agreement by MITSUBISHI violate any order, law or regulation of any court, governmental body or administrative or other agency having authority over it.

ARTICLE IX — CONFIDENTIALITY

9.1 Undertaking. Each Party shall keep confidential, and other than as provided herein, shall not use or disclose, directly or indirectly, any trade secrets, other knowledge, information, documents or materials, owned or Controlled by the other Party, which have been

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disclosed (in tangible or electronic form or as evidenced by meeting minutes or similar materials) to such Party after the Effective Date and designated confidential by the disclosing Party (any such information, "**Confidential Information**"). All VERTEX Know-How and VERTEX Patents shall be deemed Confidential Information of VERTEX; all MITSUBISHI Know-How and MITSUBISHI Patents shall be deemed Confidential Information of MITSUBISHI; and all Joint Know-How and Joint Patents shall be deemed Confidential Information of both Parties. Neither VERTEX nor MITSUBISHI shall use such Confidential Information of the other Party or jointly owned by the Parties for any purpose, including the filing of patent applications containing such information, without the other Party's consent (which shall not be unreasonably withheld), other than for conducting the MITSUBISHI Development Activities or VERTEX Development Activities or as otherwise permitted under this Agreement.

9.1.1 Nondisclosure and Nonuse. Each Party shall take any and all lawful measures to prevent the unauthorized use and disclosure of Confidential Information of the other Party or jointly owned by the Parties, and to prevent unauthorized Persons from obtaining or using such Confidential Information.

9.1.2 Disclosure to Affiliates and Agents. Each Party will refrain from directly or indirectly taking any action which would constitute or facilitate the unauthorized use or disclosure of Confidential Information of the other Party or jointly owned by the Parties. Each Party may disclose Confidential Information of the other Party or jointly owned by the Parties to its Affiliates, its and their officers, employees and agents, to authorized licensees and sublicensees and to subcontractors in connection with the development of a Compound or the manufacture of Bulk Drug Substance or a Drug Product, but only to the extent necessary to enable such parties to perform their obligations hereunder or under the applicable license, sublicense or subcontract, as the case may be; provided, that such officers, employees, agents, licensees, sublicensees and subcontractors have entered into appropriate confidentiality agreements for secrecy and non-use of such Confidential Information, which by their terms shall be enforceable by injunctive relief at the request of the disclosing Party.

9.1.3 Liability. Each Party shall be liable for any unauthorized use and disclosure of Confidential Information of the other Party or jointly owned by the Parties by its Affiliates, its and their officers, employees and agents and any licensees, sublicensees and subcontractors**.**

9.2 Exceptions. Notwithstanding the foregoing, the provisions of Section 9.1

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hereof shall not apply to Confidential Information which the receiving Party can conclusively establish:

(i) has entered the public domain without such Party's or its Affiliates' breach of any obligation owed to the disclosing Party;

(ii) is permitted to be disclosed by the prior written consent of the disclosing Party;

(iii) has become known to the receiving Party or any of its Affiliates from a source other than the disclosing Party, other than by breach of an obligation of confidentiality owed to the disclosing Party;

(iv) is disclosed by the disclosing Party to a Third Party without restrictions on its disclosure;

(v) is independently developed by the receiving Party or its Affiliates without use of or reference to the Confidential Information, as evidenced by contemporary written records;

(vi) is required to be disclosed by the receiving Party to seek Regulatory Approval pursuant to this Agreement, provided that the receiving Party takes reasonable and lawful actions to avoid or minimize the degree of such disclosure and to have confidential treatment accorded to any Confidential Information disclosed; or

(vii) is required to be disclosed by the receiving Party to comply with applicable laws or regulations, or to defend or prosecute litigation, provided that the receiving Party takes reasonable and lawful actions to avoid or minimize the degree of such disclosure, to have confidential treatment accorded to any Confidential Information disclosed and provides prior written notice to the disclosing Party within a time period sufficiently prior to such disclosure to permit the disclosing Party to apply for a protective order or take other appropriate action to restrict disclosure. The receiving Party shall fully cooperate with the disclosing Party in connection with the disclosing Party's efforts to obtain any such remedy.

9.3 Publicity. The Parties will agree upon the timing and content of any initial press release or other public communications relating to this Agreement and the transactions contemplated herein. Except to the extent already disclosed in that initial press release or other public communication, no public announcement concerning the existence or the terms of this Agreement or concerning the transactions described herein shall be made, either directly or indirectly, by VERTEX or MITSUBISHI, except as may be required by applicable laws, regulations, or judicial order, without first obtaining the approval of the other Party and

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agreement upon the nature, text, and timing of such announcement, which approval and agreement shall not be unreasonably withheld.

9.4 Survival. The provisions of this Article IX shall survive the termination of this Agreement and shall extend for a period of five (5) years thereafter.

ARTICLE X — DISPUTE RESOLUTION

10.1 Governing Law and Jurisdiction. This Agreement shall be governed by and construed in accordance with the internal laws of the State of New York and of the United States of America, without giving effect to the doctrine of conflict of laws.

10.2 Dispute Resolution Process.

10.2.1 Joint Steering Committee. Except as otherwise explicitly provided herein, in the event of any controversy or claim arising out of or relating to any provision of this Agreement, or the collaborative effort contemplated hereby, the Parties shall, and either Party may, refer such dispute to the JDC, and failing resolution of the controversy or claim within thirty (30) days after such referral, the matter shall be referred to a joint steering committee (the "**Joint Steering Committee**") established by the Parties comprising one (1) representative of each Party, who shall be appointed (and may be replaced at any time) by such Party on notice to the other Party in accordance with this Agreement. Any matters originating with the JDC on which it is unable to reach consensus within thirty (30) days after the initial discussion thereof shall also be referred to the Joint Steering Committee. Each Party's representative to the Joint Steering Committee shall be an executive officer of the respective Party. The Joint Steering Committee will meet as needed and agreed by the Joint Steering Committee to resolve controversy or claims referred to it by the JDC and to conduct such other activities as the Joint Steering Committee may deem appropriate. Each member of the Joint Steering Committee shall have one vote in decisions, with decisions made by unanimous vote. If the Joint Steering Committee is unable to resolve the controversy or claim within thirty (30) days of its referral to it, then those matters with respect to which MITSUBISHI or VERTEX have final decision making authority as described in Section 3.1.3 shall be referred to the applicable Party for decision. All other matters shall be referred to the Chief Executive Officer of VERTEX and the Chief Executive Officer of MITSUBISHI for resolution pursuant to Section 10.2.2 hereof.

10.2.2 Chief Executive Officer Resolution and Arbitration. Any matter that the

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Joint Steering Committee is unable to resolve pursuant to Section 10.2.1 that is not subject to resolution pursuant to Section 3.1.3 shall be referred to the Chief Executive Officer of VERTEX and the Chief Executive Officer of MITSUBISHI who shall, as soon as practicable, attempt in good faith to resolve the controversy or claim. If such controversy or claim is not resolved within **[***]** of the date of initial referral of the dispute to the JDC or the initial discussion of the disputed matter by the JDC, as applicable, such controversy or claim shall be finally settled by arbitration in accordance with the rules of Conciliation and Arbitration of the International Chamber of Commerce (the "**Rules**"). Either Party may initiate such arbitration proceeding. Such arbitration shall be conducted in Cambridge, Massachusetts if such arbitration is requested by MITSUBISHI, or in Tokyo, Japan if such arbitration is requested by VERTEX, in either case, in English by a tribunal of three independent and impartial arbitrators, one of which will be appointed by each of VERTEX and MITSUBISHI, and the third of which shall have had both training and experience as a mediator of pharmaceutical industry licensing and other general commercial matters. If the parties to this Agreement cannot agree on the third arbitrator, then the third arbitrator will be selected in accordance with the Rules and the criteria set forth in the preceding sentence. Any award ordered by the tribunal must be rendered in a writing, which writing must include an explanation of the reasons for such award. All fees, costs and expenses of the arbitrators, and all other costs and expenses of the arbitration, will be shared equally by the Parties unless the tribunal in the award assesses such costs and expenses against one of the Parties or allocates such costs and expenses other than equally between such

Parties. Pending the award of the arbitration tribunal, the Parties shall continue to perform their respective obligations under this Agreement. Notwithstanding the foregoing, either Party may, on good cause shown, seek a temporary restraining order and/or a preliminary injunction from a court of competent jurisdiction, to be effective pending the institution of the arbitration process or the deliberation and award of the arbitration tribunal.

ARTICLE XI — TERM AND TERMINATION

11.1 Term. The term of this Agreement shall extend with respect to a Drug Product in a particular country from the Effective Date until the later of: (a) the last to expire or be invalidated or abandoned of any VERTEX Patents containing a Valid Patent Claim covering the Drug Product, a Compound included in a Drug Product or a method of making or using the same in that country; or (b) ten (10) years from the date of First Commercial Sale of the Drug Product in that country, unless the Agreement is terminated at an earlier date pursuant to

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Sections 11.2, 11.3 or 11.4 hereof.

11.2 Termination for Cause. In addition to rights of termination which may be granted to either Party under other provisions of this Agreement, either Party may terminate this Agreement upon sixty (60) days prior written notice to the other Party upon the breach by such other Party of any of its material obligations under this Agreement, provided that such termination shall become effective only if the breaching Party shall fail to remedy or cure the breach, or to initiate steps to remedy the same to the other Party's reasonable satisfaction, within such sixty (60) day period.

11.3 Termination for Bankruptcy. If at any time during the term of this Agreement, an Event of Bankruptcy (as defined below) relating to either Party (the "**Bankrupt Party**") occurs, the other Party (the "**Other Party**") shall have, in addition to all other legal and equitable rights and remedies available hereunder, the option to terminate this Agreement upon thirty (30) days' prior written notice to the Bankrupt Party. It is agreed and understood that if the Other Party does not elect to terminate this Agreement upon the occurrence of an Event of Bankruptcy, except as may otherwise be agreed with the trustee or receiver appointed to manage the affairs of the Bankrupt Party, the Other Party shall continue to make all payments required of it under this Agreement as if the Event of Bankruptcy had not occurred, and the Bankrupt Party shall not have the right to terminate any license granted herein. As used above, the term "**Event of Bankruptcy**" shall mean (a) dissolution, termination of existence, liquidation or business failure of either Party; (b) the appointment of a custodian or receiver for either Party who has not been terminated or dismissed within ninety (90) days of such appointment; (c) the institution by either Party of any proceeding under national, federal or state bankruptcy, reorganization, receivership or other similar laws affecting the rights of creditors generally or the making by either Party of a composition or any assignment or trust mortgage for the benefit of creditors or under any national, federal or state bankruptcy, reorganization, receivership or other similar law affecting the rights of creditors generally, which proceeding is not dismissed within ninety (90) days of filing.

11.4 Termination by MITSUBISHI. MITSUBISHI may terminate this Agreement at any time upon sixty (60) days' prior written notice to VERTEX. MITSUBISHI's obligation of sharing the Core Development Costs incurred by or on behalf of VERTEX or a VERTEX Licensee pursuant to Section 3.3 shall not apply to any non-clinical or clinical studies which Start after the date of such notice and **[***]** In the event of such termination, MITSUBISHI, at the request of VERTEX, shall assign or otherwise transfer to VERTEX all INDs, Regulatory

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[***] Information redacted pursuant to a confidential treatment request. An unredacted version of this exhibit has been filed separately with the Commission.

Approvals, or applications therefor, with respect to a Compound or Drug Product, and VERTEX shall have an irrevocable, worldwide, fully paid-up nonexclusive license, with the right to sublicense, under the MITSUBISHI Technology to develop, manufacture, have manufactured, use, sell, have sold, offer to sell and import Bulk Drug Substance, Compound and Drug Product. In addition, at the request of VERTEX, MITSUBISHI shall assign to VERTEX free of charge all of its or its Affiliates' right, title and interest in and to any trademarks used for a Drug Product in the Territory, and shall execute, or cause its Affiliates to execute, such documents of transfer or assignment and perform, or cause its Affiliates to perform, such acts as may be reasonably necessary to transfer ownership of such trademarks to VERTEX and to enable VERTEX to continue to maintain such trademarks at VERTEX's expense.

11.5 Effect of Termination. If this Agreement is not terminated at an earlier date, then upon its expiration in accordance with Section 11.1 hereof in a given country MITSUBISHI shall have an irrevocable, fully paid-up nonexclusive license, with the right to sublicense, in such country under the VERTEX Know-How to develop, manufacture, have manufactured, use, sell, have sold, offer to sell and import the Bulk Drug Substance, Compound and Drug Product. If this Agreement is not terminated at an earlier date, then upon its expiration in accordance with Section 11.1 hereof in all countries in the Territory, MITSUBISHI shall have an irrevocable, fully paid-up nonexclusive license, with the right to sublicense, in the Territory under the VERTEX Know-How to develop, manufacture, have manufactured, use, sell, have sold, offer to sell and import the Bulk Drug Substance, Compound and Drug Product. If this Agreement is not terminated at an earlier date, then upon its expiration in accordance with Section 11.1 hereof, VERTEX shall have an irrevocable, worldwide fully paid-up nonexclusive license, with the right to sublicense, under the MITSUBISHI Know-How to develop, manufacture, have manufactured, use, sell, have sold, offer to sell and import the Bulk Drug Substance, Compound and Drug Product. Upon any termination of this Agreement pursuant to Sections 11.2 or 11.3 hereof, MITSUBISHI shall have the right to sell its inventory of Drug Product for a period of six (6) months from the date of termination provided MITSUBISHI complies with the provisions of Sections 6.5 through 6.7 hereof. If the license granted to MITSUBISHI under Section 2.1 hereof is terminated for any reason, at VERTEX's election, following good faith discussion with such sublicensee, any of MITSUBISHI's sublicensees at such time (other than an Affiliate of MITSUBISHI) shall continue to have the rights and license set forth in their sublicense agreements; provided, however, that such sublicensee agrees in writing that VERTEX is entitled to enforce all relevant terms and conditions of such sublicense agreement

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directly against such sublicensee. Termination of this Agreement for any reason, or expiration of this Agreement, will not affect: (i) obligations, including the obligation for payment of any supply payments or royalties, which have accrued as of the date of termination or expiration, and (ii) rights and obligations which, from the context thereof, are intended to survive termination or expiration of this Agreement including obligations pursuant to Articles VI, VII, IX, X, XI, XII and XIII, to the extent applicable. Any right to terminate this Agreement shall be in addition to and not in lieu of all other rights or remedies that the Party giving notice of termination may have at law or in equity or otherwise.

ARTICLE XII — INDEMNIFICATION

12.1 Indemnification by VERTEX. VERTEX shall indemnify and hold MITSUBISHI, its Affiliates, and their employees, officers, directors and agents harmless from and against any loss, damage, action, suit, claim, demand, liability, judgment, cost or expense (a "**Loss**"), that may be brought, instituted or arise against or be incurred by such Persons to the extent such Loss is based on or arises out of:

(a) the development, manufacture, use, sale, importation, offer to sell, storage or handling of Bulk Drug Substance, a Compound or a Drug Product by VERTEX, its Affiliates, the VERTEX Licensees or their representatives, agents, sublicensees or subcontractors under this Agreement, or any actual or alleged violation of law resulting therefrom (with the exception of Losses based on infringement or misappropriation of intellectual property rights); or

(b) the breach by VERTEX of any of its covenants, representations or warranties set forth in this Agreement;

provided, however, that the foregoing indemnification and hold harmless obligation shall not apply to any Loss to the extent such Loss is caused by the negligent or willful misconduct of MITSUBISHI, its Affiliates, or their employees, officers, directors, agents, representatives, licensees, sublicensees or subcontractors.

12.2 Indemnification by MITSUBISHI. MITSUBISHI shall indemnify and hold VERTEX, **[***]**, their Affiliates, and their and their Affiliates' employees, officers, directors and agents, harmless from and against any Loss that may be brought, instituted or arise against or be incurred by such Persons to the extent such Loss is based on or arises out of:

(a) the development, manufacture, use, sale, importation, offer to sell,

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storage or handling of Bulk Drug Substance, a Compound or a Drug Product by MITSUBISHI, its Affiliates or their representatives, agents, licensees, sublicensees or subcontractors under this Agreement, or any actual or alleged violation of law resulting therefrom (with the exception of Losses based on infringement or misappropriation of intellectual property rights); or

(b) the breach by MITSUBISHI of any of its covenants, representations or warranties set forth in this Agreement;

provided, however, that the foregoing indemnification and hold harmless obligation shall not apply to any Loss to the extent such Loss is caused by the negligent or willful misconduct of VERTEX, its Affiliates the VERTEX Licensees or their employees, officers, directors, agents, representatives, sublicensees or subcontractors; and provided further, however, that **[***]**.

12.3 Claims Procedures. Each Party entitled to be indemnified by the other Party (an "**Indemnified Party**") pursuant to Section 12.1 or 12.2 hereof shall give notice to the other Party (an "**Indemnifying Party**") promptly after such Indemnified Party has actual knowledge of any threatened or asserted claim or demand as to which indemnity may be sought, and shall permit the Indemnifying Party to assume the defense of any such claim or demand or any litigation resulting therefrom; provided that:

(a) Counsel for the Indemnifying Party, who shall conduct the defense of such claim, demand or any litigation resulting therefrom, shall be approved by the Indemnified Party (whose approval shall not unreasonably be withheld) and the Indemnified Party may participate in such defense at such Party's expense (unless (i) the employment of counsel by such Indemnified Party has been authorized by the Indemnifying Party; or (ii) the Indemnified Party shall have reasonably concluded that there may be a conflict of interest between the Indemnifying Party and the Indemnified Party in the defense of such action, in each of which cases the Indemnifying Party shall pay the reasonable fees and expenses of one law firm serving as counsel for all Indemnified Parties, which law firm shall be subject to approval, not to be unreasonably withheld, by the Indemnifying Party);

(b) The failure of any Indemnified Party to give notice as provided herein shall not relieve the Indemnifying Party of its obligations under this Agreement to the extent that the failure to give notice did not result in harm to the Indemnifying Party;

(c) No Indemnifying Party, in the defense of any such claim. demand or litigation, shall, except with the approval of each Indemnified Party which approval shall not be unreasonably withheld, consent to entry of any judgment or enter into any settlement which (i) would result in injunctive or other relief being imposed against the Indemnified Party; or (ii) does

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not include as an unconditional term thereof the giving by the claimant or plaintiff to such Indemnified Party of a release from all liability in respect to such claim or litigation. The Indemnified Party shall have no right to settle or compromise any such claim, demand or litigation without the Indemnifying Party's prior written consent; and

(d) Each Indemnified Party shall furnish such information and assistance regarding itself or the claim or demand in question as an Indemnifying Party may reasonably request in writing and shall be reasonably required in connection with the defense of such claim, demand or litigation resulting therefrom.

12.4 Limitation of Liability. Except with respect to Third-Party actions, suits, claims or demands subject to indemnification pursuant to Sections 12.1 and 12.2 above, neither Party shall be liable to the other for indirect, incidental, special, punitive, exemplary or consequential damages arising out of or resulting from this Agreement.

12.5 Insurance. Each Party shall maintain and keep in force for the term of this Agreement insurance that shall be adequate to cover its indemnification obligations hereunder and that is commensurate with the insurance that such Party maintains with respect to other comparable pharmaceutical or biotechnology products it is developing and/or commercializing. It is understood that such insurance shall not be construed to limit a Party's liability with respect to such indemnification obligations. Such insurance shall be placed with a first class insurance carrier with at least a BBB rating by Standard & Poor.

ARTICLE XIII— MISCELLANEOUS PROVISIONS

13.1 Waiver. No provision of the Agreement may be waived except in writing by both Parties hereto. No failure or delay by either Party hereto in exercising any right or remedy hereunder or under applicable law will operate as a waiver thereof, or a waiver of that or any other right or remedy on any subsequent occasion.

13.2 Force Majeure. Neither Party will be in breach hereof by reason of its delay in the performance of or failure to perform any of its obligations hereunder, if that delay or failure is caused by fire, floods, embargoes, war, terrorism, insurrections, riots, civil commotions, strikes, lockouts or other labor disturbances, sabotage, acts of God, omissions or delays in acting by any governmental authority, acts of a government or agency thereof or judicial orders or decrees, or any similar cause beyond its control and without its fault or negligence; provided, however, the Party claiming force majeure shall promptly notify the other Party of the existence

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of such force majeure, shall use its best efforts to avoid or remedy such force majeure and shall continue performance hereunder with the utmost dispatch whenever such force majeure is avoided or remedied.

13.3 Registration of License. MITSUBISHI may, at its expense, register the license granted under this Agreement in any country where the use, sale, importation, offer to sell or manufacture of a Drug Product in such country would be covered by a Valid Patent Claim. Upon request by MITSUBISHI, VERTEX agrees promptly to execute any "short form" licenses submitted to it by MITSUBISHI in order to effect the foregoing registration in such country, but such licenses shall in no way alter or affect the obligations of the Parties hereunder.

13.4 Severability. Should one or more provisions of this Agreement be or become invalid, then the Parties hereto shall attempt to agree upon valid provisions in substitution for the invalid provisions, which in their economic effect come so close to the invalid provisions that it can be reasonably assumed that the Parties would have accepted this Agreement with those new provisions. If the Parties are unable to agree on such valid provisions, the invalidity of such one or more provisions of this Agreement shall nevertheless not affect the validity of the Agreement as a whole, unless the invalid provisions are of such essential importance to this Agreement that it may be reasonably presumed that the Parties would not have entered into this Agreement without the invalid provisions.

13.5 Government Acts. In the event that any act, regulation, directive, or law of a country or its government, including its departments, agencies or courts, should make impossible or prohibit, restrain, modify or limit any material act or obligation of MITSUBISHI or VERTEX under this Agreement, the Party, if any, not so affected, shall have the right, at its option, to suspend or terminate this Agreement as to such country, if good faith negotiations between the Parties to make such modifications therein as may be necessary to fairly address the impact thereof are not successful after a reasonable period of time in producing mutually acceptable modifications to this Agreement.

13.6 Government Approvals. Each Party will obtain any government approval required in its country of domicile, or under any treaties or international agreements to which its country of domicile is a signatory, to enable this Agreement to become effective, or to enable any payment hereunder to be made, or any other obligation hereunder to be observed or performed. Each Party will keep the other informed of progress in obtaining any such government approval, and will cooperate with the other Party in any such efforts.

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13.7 Assignment; Successors and Assigns. This Agreement may not be assigned or otherwise transferred by either Party without the prior written consent of the other Party; provided, however, that either Party may assign this Agreement, without the consent of the other Party, (i) to any of its Affiliates, if the assigning Party guarantees the full performance of its Affiliates' obligations hereunder, or (ii) in connection with the transfer or sale of all or substantially all of its assets or business or the assets and business to which this Agreement relates or in the event of its merger or consolidation with another company. To the extent any rights and/or obligations of a Party are held by an Affiliate of such Party then any business transaction, change in control of a majority of the voting power or other event that, in each case, causes such Affiliate to cease to be an Affiliate of the Party, shall be deemed an assignment of the rights and/or obligations held by such former Affiliate and require prior written consent of the other Party. Any purported assignment in contravention of this Section 13.7 shall, at the option of the nonassigning Party, be null and void and of no effect. No assignment shall release either Party from responsibility for the performance of any of its accrued obligations hereunder. This Agreement shall be binding upon and enforceable against the successor to or any permitted assignee of either of the Parties hereto.

13.8 Export Controls. This Agreement is made subject to any restrictions concerning the export of materials and technology from the United States which may be imposed upon either Party to this Agreement from time to time by the United States Government. In the event any such restrictions are imposed after the Effective Date and thereby render any provisions of this Agreement invalid or unenforceable, the provisions of Section 13.4 of this Agreement shall be applicable to those provisions. MITSUBISHI will not export, directly or indirectly, any VERTEX Technology or any Bulk Drug Substance, Compounds or Drug Products utilizing such technology to any countries for which the United States Government or any agency thereof at the time of such export requires an export license or other governmental approval, without first obtaining the written consent to do so from the Department of Commerce or other applicable agency of the United States Government in accordance with the applicable statute or regulation.

13.9 Affiliates. Each Party may perform its obligations hereunder personally or through one or more Affiliates, although each Party shall nonetheless be solely responsible for the performance of its Affiliates. Neither Party shall permit any of its Affiliates to commit any act (including any act of omission) which such Party is prohibited hereunder from committing directly.

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13.10 Counterparts. This Agreement may be signed in any number of counterparts with the same effect as if the signatures to each counterpart were upon a single instrument, and all such counterparts together shall constitute the same agreement.

13.11 No Agency. Nothing herein contained shall be deemed to create an agency, joint venture, amalgamation, partnership or similar relationship between MITSUBISHI and VERTEX. Notwithstanding any of the provisions of this Agreement, neither Party shall at any time enter into, incur, or hold itself out to Third Parties as having authority to enter into or incur, on behalf of the other Party, any commitment, expense, or liability whatsoever, and all contracts, expenses and liabilities in connection with or relating to the obligations of each Party under this Agreement shall be made, undertaken, incurred or paid exclusively by that Party on its own behalf, and not as an agent or representative of the other Party.

13.12 Notice. All communications between the Parties with respect to any of the provisions of this Agreement will be sent to the addresses set out below, or to other addresses as designated by one Party to the other by notice pursuant hereto, by air courier (which shall be deemed received by the other Party on the second (2nd) business day following deposit with the air courier company), or by facsimile transmission, or other electronic means of communication (which shall be deemed received when transmitted), with confirmation by air courier, sent by the close of business on or before the next following business day:

If to MITSUBISHI, at:

Mitsubishi Pharma Corporation
6-9, Hiranomachi 2 Chome, Chuo-ku
Osaka 541-0046, Japan
Fax: 81-6-6227-4702
Attention: General Manager of Corporate Licensing Department

If to VERTEX, at:

Vertex Pharmaceutical Incorporated
130 Waverly Street
Cambridge, MA U.S.A. 02139-4211
Fax: 617-444-7117
Attention: General Counsel

13.13 Headings. The article, section and paragraph headings are for convenience of reference only and will not be deemed to affect in any way the language of the provisions to which they refer.

13.14 Entire Agreement. This Agreement, including the Schedules appended hereto,

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contains the entire understanding of the Parties relating to the matters referred to herein and may only be amended by a written document referencing this Agreement, duly executed on behalf of the respective Parties.

13.15 Rules of Construction. The use in this Agreement of the terms "include" or "including" means "include, without limitation" or "including, without limitation," respectively.

[Signature Page Follows]

[***] Information redacted pursuant to a confidential treatment request. An unredacted version of this exhibit has been filed separately with the Commission.

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be executed and delivered by their duly authorized representatives as of the day and year first above written.

VERTEX PHARMACEUTICALS INCORPORATED

By: /s/ Joshua S. Boger
Name: Joshua S. Boger, Ph.D.
Title: Chairman and Chief Executive Officer

Witness

By: /s/ Vicki L. Sato
Name: Vicki L. Sato, Ph.D.
Title: President

MITSUBISHI PHARMA CORPORATION

By: /s/ Teruo Kobori
Name: Teruo Kobori
Title: President & Chief Executive Officer

Witness

By: /s/ Akihiro Tobe
Name: Akihiro Tobe, Ph.D.
Title: Managing Executive Officer, Division Manager, Strategic Planning Division

[***] Information redacted pursuant to a confidential treatment request. An unredacted version of this exhibit has been filed separately with the Commission.

Schedule 1.33

MITSUBISHI Patents

None as of the Effective Date.

[***] Information redacted pursuant to a confidential treatment request. An unredacted version of this exhibit has been filed separately with the Commission.

Schedule 1.49

Territory

[***]

[***] Information redacted pursuant to a confidential treatment request. An unredacted version of this exhibit has been filed separately with the Commission.

Schedule 1.56

VERTEX Patents

DOCKET NO	SERIAL NO	PATENT NO	TITLE	COUNTRY	STATUS	FILED	ISSUED
VPI/00-131 CN	01815055.1		PEPTIDOMIMETIC PROTEASE INHIBITORS	CHINA	PENDING	8/31/01	
VPI/00-131 EA	200300318		PEPTIDOMIMETIC PROTEASE INHIBITORS	EURASIA	PENDING	8/31/01	
VPI/00-131 HK	Awaiting confirmation		PEPTIDOMIMETIC PROTEASE INHIBITORS	HONG KONG	PENDING	Awaiting confirmation	
VPI/00-131 ID	W-00 200300420		PEPTIDOMIMETIC PROTEASE INHIBITORS	INDONESIA	PENDING	8/31/01	
VPI/00-131 JP	2002-523884		PEPTIDOMIMETIC PROTEASE INHIBITORS	JAPAN	PENDING	8/31/01	
VPI/00-131 KR	10-2003-700-2880		PEPTIDOMIMETIC PROTEASE INHIBITORS	SOUTH KOREA	PENDING	8/31/01	
VPI/00-131 MY	PI20014137		PEPTIDOMIMETIC PROTEASE INHIBITORS	MALAYSIA	PENDING	9/3/01	
VPI/00-131 PH	1-2003-500074		PEPTIDOMIMETIC PROTEASE INHIBITORS	PHILIPPINES	PENDING	8/31/01	
VPI/00-131 SG	200300451-2		PEPTIDOMIMETIC PROTEASE INHIBITORS	SINGAPORE	PENDING	8/31/01	
VPI/00-131 TH	068019		PEPTIDOMIMETIC PROTEASE INHIBITORS	THAILAND	PENDING	8/30/01	
VPI/00-131 TW	90121629		PEPTIDOMIMETIC PROTEASE INHIBITORS	TAIWAN	PENDING	8/31/01	
VPI/00-131 VN	1-2003-00183		PEPTIDOMIMETIC PROTEASE INHIBITORS	VIET NAM	PENDING	8/31/01	
VPI/96-11 CN	97180151.7		INHIBITORS OF SERINE PROTEASES, PARTICULARLY HEPATITIS C VIRUS NS3 PROTEASE	CHINA	ALLOWED	10/17/1997	
VPI/96-11 EA	199900388	001915	INHIBITORS OF SERINE PROTEASES, PARTICULARLY HEPATITIS C VIRUS NS3 PROTEASE	EURASIAN PATENT OFFICE	ISSUED	10/17/1997	10/22/01

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[***] Information redacted pursuant to a confidential treatment request. An unredacted version of this exhibit has been filed separately with the Commission.

Schedule 1.59

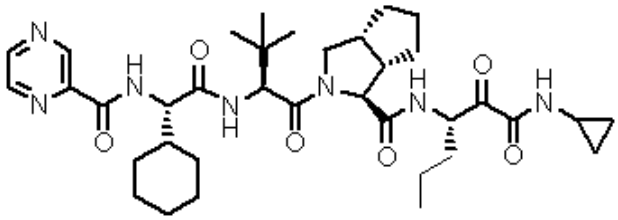
VX-905[***]

[***]

[***] Information redacted pursuant to a confidential treatment request. An unredacted version of this exhibit has been filed separately with the Commission.

Schedule 1.60

VX-950



[***] Information redacted pursuant to a confidential treatment request. An unredacted version of this exhibit has been filed separately with the Commission.

EMPLOYMENT AGREEMENT

AGREEMENT, made and entered into as of the 29th day of June, 2007, by and between Vertex Pharmaceuticals Incorporated, a Massachusetts corporation (together with its successors and assigns, the "Company"), and Kurt Graves (the "Executive").

W I T N E S S E T H

WHEREAS, the Company has offered to employ the Executive as the Executive Vice President, Chief Commercial Officer and Head, Strategic Development of the Company;

WHEREAS, the Company and the Executive desire to enter into an employment agreement, which shall set forth the terms of such employment (this "Agreement"); and

WHEREAS, the Executive desires to enter into this Agreement and to accept such employment, subject to the terms and provisions of this Agreement.

NOW, THEREFORE, in consideration of the promises and mutual covenants contained herein and for other good and valuable consideration, the receipt of which is mutually acknowledged, the Company and the Executive (each individually a "Party", and together the "Parties") agree as follows:

1. DEFINITIONS.

(a) "Base Salary" shall mean the Executive's base salary in accordance with Section 4 below.

(b) "Board" shall mean the Board of Directors of the Company.

(c) "Cause" shall mean (i) the Executive is convicted of a crime involving moral turpitude, or (ii) the Executive commits a material breach of any provision of this Agreement not involving the performance or nonperformance of duties, or (iii) the Executive, in carrying out his duties, acts or fails to act in a manner which is determined, in the sole discretion of the Board, after written notice of any such act or failure to act and a reasonable opportunity to cure the deficiency has been provided to the Executive, to be (A) willful gross neglect or (B) willful gross misconduct resulting, in either case, in material harm to the Company unless such act, or failure to act, was believed by the Executive, in good faith, to be in the best interests of the Company.

(d) a "Change of Control" shall be deemed to have occurred if either:

(i) any "person" or "group" as such terms are used in Sections 13(d) and 14(d)(2) of the Securities Exchange Act of 1934 (the "Act"), becomes a beneficial owner, as such term is used in Rule 13d-3 promulgated under the Act, of securities of the Company representing more than 50% of the combined voting power of the outstanding securities of the Company having the right to vote in the election of directors (any such owner being herein referred to as an "Acquiring Person");

(ii) a majority of the Company's Board at any time during the term of this Agreement consists of individuals other than individuals nominated or approved by a majority of the Disinterested Directors; or

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(iii) all or substantially all the business or assets of the Company are sold or disposed of, or the Company or a Subsidiary of the Company combines with another company pursuant to a merger, consolidation, or other similar transaction, other than (1) a transaction solely for the purpose of reincorporating the company in a different jurisdiction or recapitalizing or reclassifying the Company's stock, or (2) a merger or consolidation in which the shareholders of the Company immediately prior to such merger or consolidation continue to own at least a majority of the outstanding voting securities of the Company or the surviving entity immediately after the merger or consolidation.

(e) "Common Stock" shall mean the common stock of the Company.

(f) "Competitive Activity" shall mean engagement directly or indirectly, individually or through any corporation, partnership, joint venture, trust, limited liability company or person, as an officer, director, employee, agent, consultant, partner, proprietor, shareholder or otherwise, in any business associated with the biopharmaceutical or pharmaceutical industry which materially competes with the products then under development by, or being marketed, distributed or licensed by, the Company, or any of its affiliates, at any place in which it, or any such affiliate, is then conducting its business, or at any place where products manufactured or sold by it, or any such affiliate, are offered for sale, or any place in the United States or any possessions or protectorates thereof, provided, however, that ownership of five percent (5%) or less of the outstanding voting securities or equity interests of any company shall not in itself be deemed to be competition with the Company.

(g) "Disability" or "Disabled" shall mean a disability as determined under the Company's long-term disability plan or program in effect at the time the disability first occurs, or if no such plan or program exists at the time of disability, then a "disability" as defined under Internal Revenue Code ("Code") Section 22(e)(3); provided that, solely for purposes of determining whether any amount that is payable other than upon termination of employment can be made as a result of disability consistent with the provisions of Code Section 409A, the following definition of "Disability" or "Disabled" shall apply: an individual is "Disabled" or has a "Disability" if he is unable to engage in any substantial gainful activity because of any medically determinable physical or mental impairment that can be expected to result in death or last for a continuous period of no less than 12 months. Alternatively, an individual is considered disabled if he is, because of any medically determinable physical or mental impairment that can be expected to result in death or last for a continuous period of at least 12 months, receiving income replacement benefits for a period of not less than three months under the Company's long-term disability plan.

(h) "Disinterested Director" shall mean any member of the Company's Board (i) who is not an officer or employee of the Company or any of their subsidiaries, (ii) who is not an Acquiring Person or an affiliate or associate of an Acquiring Person or of any such affiliate or associate and (iii) who was a member of the Company's Board prior to the date of this Agreement or was recommended for election or elected by a majority of the Disinterested Directors on the Company's Board at the time of such recommendation or election.

(i) "Effective Date" shall mean July 17, 2007.

(j) "Good Reason" shall mean that, without the Executive's consent, one or more of the following events occurs during the term of this agreement, and the Executive, of his own

initiative, terminates his employment as a result of such event within 90 days of the first occurrence of that event:

(i) The Executive ceases to report solely to the Chief Executive Officer or is assigned to any material duties or responsibilities that are inconsistent, in any significant respect, with the scope of duties and responsibilities customarily associated with the Executive's position and office as described in Section 3, provided that such reassignment of duties or responsibilities is not for Cause or due to Executive's Disability, and is not at the Executive's request;

(ii) The Executive's title is changed from Executive Vice President, Chief Commercial Officer and Head of Strategic Development, or the Executive suffers a reduction in the authorities, duties, and responsibilities customarily associated with his position as described in Section 3, on the basis of which Executive makes a determination in good faith that Executive can no longer carry out such position or office in the manner contemplated at the time this Agreement was entered into, provided that such change in titles or reduction in the authorities, duties or responsibilities is not (a) for Cause, (b) due to Executive's Disability, or (c) at the Executive's request; provided, however, that the Executive may not assert that he has Good Reason for termination due to any reduction in duties or responsibilities that are due to a change in the commercial prospects of any one or more of the Company's product candidates (including but not limited to telaprevir);

(iii) The Executive's Base Salary is decreased;

(iv) The Executive is assigned, without the Executive's consent, to an office location thirty-five (35) or more miles away from the Executive's office location immediately prior to such reassignment (other than in connection with a change in location of the Company's principal executive offices, unless the Executive's office location ceases to be at the Company's principal executive offices);

(v) Failure of the Company's successor, in the event of a Change of Control, to assume all obligations and liabilities of this Agreement; or

(vi) The Company shall materially breach any of the terms of this Agreement.

(k) "Pro-Rata Share of Restricted Stock" for any period shall mean, for any grant of restricted stock as to which the Company's repurchase right lapses ratably over a specified time (e.g. in equal annual increments over four years), that number of shares as to which the Company's repurchase right with respect to those shares would have lapsed if the Executive's employment by the Company had continued for such period. For any other shares of restricted stock, "Pro-Rata Share of Restricted Stock" shall mean, as to any shares of restricted stock that were granted on the same date and as to which the Company's repurchase right lapses on the same date, that portion of such shares calculated by multiplying the number of shares by a fraction, the numerator of which is the number of days that have passed since the date of grant, plus the number of days in the period in question, and the denominator of which is the total number of days from the date of the grant until the date (without regard to any provisions for earlier vesting upon achievement of a specified goal) on which the Company's repurchase right would lapse under the terms of the grant.

(l) "Severance Pay" shall mean an amount equal to the sum of the Base Salary in effect on the date of termination of Executive's employment, plus the amount of the Target Bonus for the Executive for the year in which the Executive's employment is terminated, divided by twelve (12) (each of the 12 shares to constitute a "month's" Severance Pay); provided, however, that in the event Executive terminates his employment for Good Reason based on a reduction in Base Salary, then the Base Salary to be used in calculating Severance Pay shall be the Base Salary in effect immediately prior to such reduction in Base Salary.

(m) "Subsidiary" shall mean a corporation of which the Company owns 50% or more of the combined voting power of the outstanding securities having the right to vote in an election of directors, or any other business entity in which the Company directly or indirectly has an ownership interest of 50% or more.

(n) "Target Bonus" shall mean a bonus for which the Executive is eligible on an annual basis, at a level consistent with his title and responsibilities, under the Company's bonus program then in effect and applicable to the Company's senior executives generally, in such amount as may be determined in the sole discretion of the Board.

2. TERM OF EMPLOYMENT.

The Company hereby employs the Executive, and the Executive hereby accepts such employment, commencing on the Effective Date and continuing until termination in accordance with the terms of this Agreement. The period during which the Executive is employed hereunder is referred to in this Agreement as "term of employment" or the "term of this agreement."

3. POSITION, DUTIES AND RESPONSIBILITIES.

On the Effective Date, the Executive shall be employed as the Executive Vice President, Chief Commercial Officer and Head, Strategic Development of the Company, and shall be responsible for strategic development, business development, and commercial strategy and operations. In his capacity as head of strategic development, the Executive will work within a matrix management system, leading cross-functional product development teams, together with the heads of medicines development, drug innovation and realization and other members of senior management, to assess and advance

molecules from the pre-clinical development stage through successful launch and post-launch evaluation, and to evaluate the Company's chemical assets from a portfolio point of view. As head of business development, the Executive will be responsible for identifying and establishing channels for value creation in the development and commercialization with third party collaborators of assets within the Company's then-current or projected pipeline, and for investigation of in-licensing or acquisition opportunities for products or product candidates to supplement the Company's development and commercial portfolio. As the head of commercial strategy and operations, the Executive will be responsible for commercial launch of the Company's drug candidates, including the creation and maintenance of effective commercial relationships with the Company's collaborators for any of those drug candidates. The Executive will also be responsible for the initial conception and establishment of a sustainable commercial strategy and vision for the Company, and for executing on that strategy and vision for assets in the clinical development stage onward. The Executive will be a member of the Company's senior management team, which is ultimately responsible for overseeing the operation of the Company's pharmaceutical business worldwide. The Executive shall represent and serve the Company faithfully, conscientiously and to the best of the

Executive's ability and shall promote the interests, reputation and current and long term plans, objectives and policies of the Company, present and future. The Executive shall devote all of the Executive's time, attention, knowledge, energy and skills, during normal working hours, and at such other times as the Executive's duties may reasonably require, to the duties of the Executive's employment, provided, however, nothing set forth herein shall prohibit the Executive from engaging in other activities to the extent such activities do not impair the ability of the Executive to perform his duties and obligations under this Agreement, nor are contrary to the interests, reputation, current and long term plans, objectives and policies of the Company. The Executive, in carrying out his duties under this Agreement, shall report to the Chief Executive Officer of the Company.

4. BASE SALARY.

The Executive's initial annualized Base Salary shall be not less than $450,000, payable in accordance with the regular payroll practices of the Company. The Base Salary shall be reviewed no less frequently than annually, and any increase thereto (which shall thereafter be deemed the Executive's Base Salary) shall be solely within the discretion of the Board.

5. TARGET BONUS/INCENTIVE COMPENSATION PROGRAM.

(a) **Target Bonus Program**: The Executive shall participate in the Company's Target Bonus program (and other incentive compensation programs) applicable to the Company's senior executives, as any such programs are established and modified from time to time by the Board in its sole discretion, and in accordance with the terms of such program.

(b) **Sign-On Cash Bonus**: The Executive shall receive a sign-on cash bonus in the amount of $250,000 payable (with appropriate deductions as required by law) to the Executive at the first regular pay date applicable to the Executive after the Effective Date. If the Executive terminates this Agreement without "Good Reason," and other than as a result of death or Disability, during the period commencing on the Effective Date and ending on the first anniversary of the Effective Date, the Executive shall repay the sign-on cash bonus to the Company within thirty (30) days of such termination.

(c) **Sign-On Stock Option Grant**: The Executive shall be granted a stock option under the Company's existing stock option plan to purchase 100,000 shares of the Company's common stock at a price equal to the Fair Market Value of Vertex's shares, as defined in the Company's 2006 Stock and Option Plan, on the Effective Date. The option will vest and become exercisable as to equal numbers of shares of stock quarterly in arrears over the four (4) year period commencing on the Effective Date, and as otherwise specified herein and in the Company's 2006 Stock and Option plan, and shall be subject to the other terms and conditions specified in a separate grant agreement.

(d) **Sign-On Restricted Stock Grant**: The Executive will purchase, in accordance with the terms of a Restricted Stock Agreement executed and delivered to the Company by the Executive on the Effective Date, 30,000 shares of the Company's Common Stock, at a purchase price per share of $0.01. The Company will retain the right to repurchase these shares at $.01 per share purchase price should the Executive experience a termination of employment, as such term is used in the 2006 Stock and Option Plan, but this repurchase right will lapse as to equal number of shares of stock annually in arrears over the four (4) year period commencing on the Effective Date, and as otherwise specified herein and in the Company's 2006 Stock and Option

Plan and shall be subject to the other terms and conditions specified in a separate grant agreement.

(e**) Tax Return Preparation Costs**: The Executive will be entitled to reimbursement for all reasonable costs incurred for professional assistance in the initial preparation and filing of his individual income tax returns for the 2007 tax year, in the country or countries, and any subdivisions thereof, for which any such returns are required. If the Executive terminates this Agreement without "Good Reason," and other than as a result of death or Disability, during the period commencing on the Effective Date and ending on the first anniversary of the Effective Date, the Executive shall repay to the Company any such amounts previously reimbursed by the Company, within thirty (30) days of his termination date.

6. LONG-TERM INCENTIVE COMPENSATION PROGRAMS.

During the term of employment, the Executive shall be eligible to participate in the Company's long-term incentive compensation programs applicable to the Company's senior executives, as such programs may be established and modified from time to time by the Board in its sole discretion.

7. EMPLOYEE BENEFIT PROGRAMS.

During the term of employment, the Executive shall be entitled to participate in all employee welfare and pension benefit plans, programs and/or arrangements offered by the Company, as amended, from time to time to its senior executives, to the same extent and on the same terms applicable to other

senior executives. Nothing in this Section shall preclude the Company from amending or terminating any of its employee benefit plans, programs or arrangements.

8. REIMBURSEMENT OF BUSINESS EXPENSES.

During the term of employment, the Executive is authorized to incur reasonable business expenses in carrying out his duties and responsibilities under this Agreement, and the Company shall reimburse him for all such reasonable business expenses reasonably incurred in connection with carrying out the business of the Company, subject to documentation in accordance with the Company's policy.

9. RELOCATION REIMBURSEMENT AND RESTRICTED STOCK GRANT:

The Executive will be reimbursed for relocation costs in accordance with the Company's relocation reimbursement policy currently in effect, with any exceptions to be approved in advance by the Company's Chief Executive Officer. In addition, the Executive will purchase, in accordance with the terms of a Relocation Restricted Stock Agreement executed and delivered to the Company by the Executive on the Effective Date, 18,000 shares of the Company's Common Stock, at a purchase price per share of $0.01. The Company will retain the right to repurchase these shares at $.01 per share purchase price should the Executive experience a termination of employment for Cause or without Good Reason, as such terms are used in this Agreement, but this repurchase right will lapse as to equal number of shares of stock quarterly in arrears over the three (3) year period commencing on the Effective Date, and as otherwise specified herein and in the Company's 2006 Stock and Option Plan and shall be subject to the other terms and conditions specified in a separate grant agreement.

10. VACATION.

During the term of employment, the Executive shall be entitled to not less than four weeks' paid vacation days each calendar year in accordance with the Company's vacation policy then in effect.

11. TERMINATION OF EMPLOYMENT.

(a) **Termination Due to Death or Disability**. If Executive's employment is terminated due to Executive's death or Disability, the term of employment shall end as of the date of the Executive's death or termination of employment due to Disability, and Executive, his estate and/or beneficiaries, as the case may be, shall be entitled to the following:

(i) Base Salary earned by Executive but not paid through the date of termination under this Section 11(a);

(ii) all long-term incentive compensation awards earned by Executive but not paid prior to the date of termination under this Section 11(a);

(iii) a pro rata Target Bonus award for the year in which termination under this Section 11(a) occurs as determined in its sole discretion by the Board;

(iv) all stock options held by the Executive as of the date of termination under this Section 11(a) that are not exercisable as of that date shall be deemed to have been held by the Executive for an additional 12 months, for purposes of vesting and exercise rights, and any stock options that are deemed exercisable as a result thereof shall remain exercisable as provided in Section 11(a)(v) below;

(v) all exercisable stock options held by the Executive as of the date of termination under this Section 11(a) shall remain exercisable until the earlier of (1) the end of the one-year period following the date of termination, or (2) the date the option would otherwise expire;

(vi) any amounts earned, accrued or owing to the Executive (including any amounts for which the sole remaining condition to payment is that the Executive be employed by the Company on the scheduled payment date) but not yet paid under Sections 6, 7, 8, or 9 above, and in the event of termination due to Disability, benefits due to Executive under the Company's then-current disability program;

(vii) six months of Severance Pay, commencing on the first day of the month following the month in which termination under this Section 11(a) occurred; and

(viii) the Company's repurchase right with respect to shares of restricted stock held by the Executive shall lapse with respect to the Pro-Rata Share of Restricted Stock. The "period" referenced in the first sentence of the definition of "Pro-Rata Share of Restricted Stock," and the "period in question" referenced in the second sentence of that definition shall be 12 months.

(b) **Termination by the Company for Cause; or Termination by the Executive without Good Reason.** If the Company terminates the Executive's employment for Cause, or if Executive voluntarily terminates his employment, other than for Good Reason, death or

Disability, the term of employment shall end as of the date specified below, and the Executive shall be entitled to the following:

(i) Base Salary earned by Executive but not paid through the date of termination of Executive's employment under this Section 11(b); and

(ii) any amounts earned, accrued or owing to the Executive but not yet paid under Sections 6, 7, 8, or 9 above.

Termination by Company for Cause shall be effective as of the date noticed by the Company. Voluntary termination by Executive other than for Good Reason, death or Disability shall be effective upon 90 days' prior written notice to the Company and shall not be deemed a breach of this Agreement.

In the event of termination by Executive without Good Reason, the Company may elect to waive the period of notice, or any portion thereof, and, if the Company so elects, the Company will pay the Executive at the rate of his Base Salary for the notice period or for any remaining portion thereof.

(c) **Termination by the Company Without Cause; or Termination by the Executive for Good Reason.** If the Executive's employment is terminated by the Company without Cause (other than due to death or Disability), or is terminated by the Executive for Good Reason, the Executive shall be entitled to the following:

(i) Base Salary earned by Executive but not paid through the date of termination of Executive's employment under this Section 11(c);

(ii) all long-term incentive compensation awards earned by Executive but not paid prior to the date of termination of Executive's employment under this Section 11(c);

(iii) Twelve months of Severance Pay, commencing on the first day of the month following the month during which the Executive's employment is terminated under this Section 11(c); provided, however, that if the Executive dies while receiving benefits under this Section, all payments shall immediately cease, provided that the Executive or his estate or beneficiaries shall have received no less than a total of six months of Severance Pay;

(iv) a pro rata Target Bonus award for the year in which the termination of the Executive's employment occurs under this Section 11(c), as determined in its sole discretion by the Board of Directors;

(v) all exercisable stock options held by the Executive as of the date of the termination of his employment under this Section 11(c) (except for a termination described in the proviso in Section 11(c)(vi) below with respect to a Change of Control) shall remain exercisable until the earlier of (i) the end of the one-year period following the date of the termination of his employment and (ii) the date the stock option would otherwise expire;

(vi) all stock options held by the Executive as of the date of termination under this Section 11(c) that are not exercisable as of that date shall be deemed to have been

held by the Executive for an additional 18 months, for purposes of vesting and exercise rights, and any stock options that become exercisable as a result thereof shall remain exercisable as provided in Section 11(c)(v) above, PROVIDED, HOWEVER, that if such termination (1) is by the Company without Cause or by the Executive for Good Reason, and (2) takes place within (90) days prior to a Change in Control or within twelve (12) months after a Change in Control, then all unexercisable and/or unvested stock options held by the Executive as of the date of the termination under this Section 11(c)(vi) shall be deemed exercisable, and any unexercisable and/or unvested stock options which become exercisable as a result thereof shall remain exercisable until the earlier of (a) the end of the 90-day period following the date of the termination or (b) the date the stock option would otherwise expire;

(vii) any amounts earned, accrued or owing to the Executive but not yet paid under Sections 6, 7, 8, or 9 above;

(viii) continued participation, as if the Executive were still an employee, in the Company's medical, dental, hospitalization and life insurance plans in which Executive participated on the date of termination of employment under this Section 11(c), until the earlier of:

(A) the end of the period during which Severance Pay is payable under Section 11(c)(iii) above; or

(B) the date, or dates, on which the Executive receives equivalent coverage and benefits under the plans, programs and/or arrangements of a subsequent employer (such coverage and benefits to be determined on a coverage-by-coverage or benefit-by-benefit basis);

provided, however, that:

(C) if the Executive is (i) precluded from continuing his participation in medical, dental, hospitalization and life insurance plans as provided in this Section 11(c)(viii) because Executive is not an employee of the Company, and (ii) not receiving equivalent coverage and benefits through a subsequent employer, Executive shall be provided with the after-tax economic equivalent of the benefits provided under the plan, program or arrangement in which Executive is unable to participate for the period specified in this Section 11(c)(viii). The economic equivalent of any benefit foregone shall be deemed to be the lowest cost that would be incurred by the Executive in obtaining an equivalent benefit himself on an individual basis. Payment of such after-tax economic equivalent shall be made quarterly in advance; and

(ix) the Company's repurchase right with respect to shares of restricted stock held by the Executive shall lapse with respect to the Pro-Rata Share of Restricted Stock. The "period" referenced in the first sentence of the definition of "Pro-Rata Share of Restricted Stock," and the "period in question" referenced in the second sentence of that definition shall be 18 months. Notwithstanding the foregoing, if such termination (1) is by the Company without Cause or by the Executive for Good Reason, and (2) takes place within (90) days prior to a Change of Control or within

twelve (12) months after a Change of Control, then the Company's lapsing repurchase right with respect to all shares of restricted stock held by the Executive shall lapse.

Notwithstanding anything to the contrary in this Section 11, the terms of any option agreement or restricted stock agreement shall govern the acceleration, if any, of vesting or lapsing of the Company's repurchase rights, as applicable, except to the extent that the terms of this Employment Agreement are more favorable to the Executive. If Executive is a "specified employee" under Section 409A(a)(2)(B)(i) of the Internal Revenue Code of 1986, as amended (the "Code"), any payment of "nonqualified deferred compensation" (as defined under Section 409A of the Code and related guidance) attributable to a "separation from service" (as defined under Section 409A of the Code and related guidance) shall not commence until the first full business day that is more than 6 months since the applicable separation from service ("Deferred Payment Date"). Any payments which would have otherwise been made between a separation from service and the Deferred Payment Date, but for this paragraph, shall be made in a lump sum on the Deferred Payment Date. Payments which, in any case, are scheduled to be made after the Deferred Payment Date shall continue according to the applicable payment schedule.

12. MITIGATION.

In the event of any termination of this Agreement, the Company hereby is authorized to offset against any Severance Pay due the Executive during the period for which Severance Pay is due under Section 11 any remuneration earned by the Executive during that period and attributable to any subsequent employment or engagement that the Executive may obtain. Executive shall provide Company written notice of subsequent employment or engagement no later than five (5) business days after commencement by Executive of such employment or engagement.

13. CONFIDENTIALITY; ASSIGNMENT OF RIGHTS.

(a) During the term of employment and thereafter, the Executive shall not disclose to anyone or make use of any trade secret or proprietary or confidential information of the Company, including such trade secret or proprietary or confidential information of any customer of the Company or other entity that has provided such information to the Company, that Executive acquires during the term of employment, including but not limited to records kept in the ordinary course of business, except (i) as such disclosure or use may be required or appropriate in connection with his work as an employee of the Company, (ii) when required to do so by a court of law, by any governmental agency having supervisory authority over the business of the Company or by any administrative or legislative body (including a committee thereof) with apparent jurisdiction to order him to divulge, disclose or make accessible such information, or (iii) as to such confidential information that becomes generally known to the public or trade without violation of this Section 13(a).

(b) The Executive hereby sells, assigns and transfers to the Company all of his right, title and interest in and to all inventions, discoveries, improvements and copyrightable subject matter (the "rights") which during the term of employment are made or conceived by him, alone or with others, and which are within or arise out of any general field of the Company's business or arise out of any work Executive performs or information Executive receives regarding the business of the Company while employed by the Company. The Executive shall fully disclose to the Company as promptly as available all information known or possessed by him concerning the

rights referred to in the preceding sentence, and upon request by the Company and without any further remuneration in any form to him by the Company, but at the expense of the Company, execute all applications for patents and for copyright registration, assignments thereof and other instruments and do all things which the Company may deem necessary to vest and maintain in it the entire right, title and interest in and to all such rights.

14. NONCOMPETITION; NONSOLICITATION.

(a) Notwithstanding any of the provisions herein to the contrary, if the Executive's employment with the Company is terminated for any reason other than due to Executive's death or termination by Executive for Good Reason, the Executive shall not engage in Competitive Activity for a period that is the lesser of (i) 12 months from the date of termination under such applicable provision listed above or (ii) the maximum length of time allowed under then current Massachusetts law. The Company may, at its election, waive its rights of enforcement under this Section 14(a).

(b) The Parties acknowledge that in the event of a breach or threatened breach of Sections 13 or 14(a), the Company shall not have an adequate remedy at law. Accordingly, in the event of any breach or threatened breach of Sections 13 or 14(a), the Company shall be entitled to such equitable and injunctive relief as may be available to restrain the Executive and any business, firm, partnership, individual, corporation or entity participating in the breach or threatened breach from the violation of the provisions of Sections 13 or 14(a) above. Nothing in this Agreement shall be construed as prohibiting the Company from pursuing any other remedies available at law or in equity for breach or threatened breach of Sections 13 or 14(a) including the recovery of damages.

15. ASSIGNABILITY; BINDING NATURE.

This Agreement shall be binding upon and inure to the benefit of the parties and their respective successors, heirs (in the case of the Executive) and assigns. No rights or obligations of the Company under this Agreement may be assigned or transferred by the Company except that such rights or obligations may be assigned or transferred pursuant to a merger or consolidation in which the Company is not the continuing entity, or the sale or liquidation of all or substantially all of the assets of the Company; provided, however, that the assignee or transferee is the successor to all or substantially all of the assets of the Company and such assignee or transferee assumes the liabilities, obligations and duties of the Company, as contained in this Agreement, either contractually or as a matter of law.

16. REPRESENTATIONS.

The Company represents and warrants that it is fully authorized and empowered to enter into this Agreement, and to make the awards provided for herein under the terms of the applicable plans, that all equity grants provided for herein have been duly authorized, and that the performance of its obligations under this Agreement will not violate any agreement between it and any other person, firm or organization. The Executive represents and warrants that no agreement exists between him and any other person, firm or organization that would be violated by the performance of his obligations under this Agreement.

17. INDEMNIFICATION; INSURANCE.

The Executive shall at all times be indemnified and eligible for advancement of expenses on the same basis as is provided for the Company's other executive officers and in accordance with the provisions of the Company's charter and by-laws then in effect. The Executive shall also be covered under all of the Company's policies of liability insurance maintained for the benefit of its directors and officers on the same basis as is provided for its other executive officers.

18. ENTIRE AGREEMENT; TERMINATION.

This Agreement contains the entire understanding and agreement between the Parties concerning the subject matter hereof and supersedes all prior agreements, understandings, discussions, negotiations and undertakings, whether written or oral, between the parties with respect thereto. Subject to the terms of this Agreement the Company shall be entitled to terminate the Executive's employment at any time, and the Executive may terminate his employment by the Company, at any time, in each case by written notice provided in accordance with Section 25 of this Agreement.

19. AMENDMENT OR WAIVER.

No provision in this Agreement may be amended unless such amendment is agreed to in writing and signed by the Executive and an authorized officer of the Company. No waiver by either party of any breach by the other party of any condition or provision contained in this Agreement to be performed by such other party shall be deemed a waiver of a similar or dissimilar condition or provision at the same or any prior or subsequent time. Any waiver must be in writing and signed by the Executive or an authorized officer of the Company, as the case may be.

20. SEVERABILITY.

If any provision or portion of this Agreement shall be determined to be invalid or unenforceable for any reason, in whole or in part, the remaining provisions of this Agreement shall be unaffected thereby and shall remain in full force and effect to the fullest extent permitted by law.

21. SURVIVORSHIP.

The respective rights and obligations of the parties hereunder shall survive any termination of the Executive's employment to the extent necessary to the intended preservation of such rights and obligations.

22. BENEFICIARIES/REFERENCES.

The Executive shall be entitled, to the extent permitted under any applicable law, to select and change a beneficiary or beneficiaries to receive any compensation or benefit payable hereunder following the Executive's death by giving the Company written notice thereof. In the event of the Executive's death or a judicial determination of his incompetence, reference in this Agreement to the Executive shall be deemed, where appropriate, to refer to his beneficiary, estate or other legal representative.

23. GOVERNING LAW/JURISDICTION.

This Agreement shall be governed by and construed and interpreted in accordance with the laws of The Commonwealth of Massachusetts without reference to principles of conflict of laws.

24. RESOLUTION OF DISPUTES.

Any disputes arising under or in connection with this Agreement may, at the election of the Executive or the Company, be resolved by binding arbitration, to be held in Massachusetts in accordance with the Rules and Procedures of the American Arbitration Association. If arbitration is elected, the Executive and the Company shall mutually select the arbitrator. If the Executive and the Company cannot agree on the selection of an arbitrator, each Party shall select an arbitrator and the two arbitrators shall select a third arbitrator, and the three arbitrators shall form an arbitration panel that shall resolve the dispute by majority vote. Judgment upon the award rendered by the arbitrator or arbitrators may be entered in any court having jurisdiction thereof. Costs of the arbitrator or arbitrators and other similar costs in connection with an arbitration shall be shared equally by the Parties; all other costs, such as attorneys' fees incurred by each Party, shall be borne by the Party incurring such costs.

25. NOTICES.

All notices which are required or permitted hereunder shall be in writing and sufficient if delivered personally, sent by facsimile (and promptly confirmed by personal delivery, registered or certified mail or overnight courier), sent by nationally-recognized overnight courier or sent by registered or certified mail, postage prepaid, addressed as follows:

If to the Company: Vertex Pharmaceuticals Incorporated
130 Waverly Street
Cambridge, MA 02139-4242
Attn: Chief Executive Officer
with copies to:
General Counsel
Vice President of Human Resources

If to the Executive: Kurt Graves
at his home address then listed in
the Company's payroll records

Any such notice shall be deemed to have been given: (a) when delivered if personally delivered or sent by facsimile on a business day; (b) on the business day after dispatch if sent by nationally-recognized overnight courier; and/or (c) on the fifth business day following the date of mailing if sent by mail.

26. HEADINGS.

The headings of the sections contained in this Agreement are for convenience only and shall not be deemed to control or affect the meaning or construction of any provision of this Agreement.

27. COUNTERPARTS.

This Agreement may be executed in two or more counterparts.

28. SECTION 409A COMPLIANCE.

It is the intention of the Company and the Executive that this Agreement and the payments provided for herein meet the requirements of Section 409A of the Code, to the extent applicable to this Agreement and such payments. The Company and the Executive agree to cooperate in good faith in preparing and executing, at such time as sufficient guidance is available under Section 409A and from time to time thereafter, such amendments to this Agreement, if any, as the Executive may reasonably request solely for the purpose of assuring that this Agreement and the payments provided hereunder meet the requirements of Section 409A. Nothing in this Section 28 shall require the Company to increase the Executive's compensation or make the Executive whole for any requested changes.

29. TAX WITHHOLDING; NO GUARANTEE OF ANY TAX CONSEQUENCES.

All payments hereunder shall be subject to all applicable withholding for any federal, state or local income taxes including any excise taxes under the Code. Notwithstanding any other provision of this Agreement to the contrary or other representation, the Company does not in any way guarantee the tax consequences of any payment or compensation under this Agreement including, without limitation, under Section 409A of the Code.

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the date first written above.

Vertex Pharmaceuticals Incorporated

/s/ Joshua S. Boger
Joshua S. Boger
President & Chief Executive Officer

Executive

/s/ Kurt Graves
Kurt Graves

Confidential

June 4, 2007

Mr. Amit Sachdev
5218 Loughboro Road NW
Washington, DC 20016

Dear Amit:

This letter sets forth the principal terms for you to join Vertex Pharmaceuticals Incorporated ("Vertex" or the "Company").

Position: Senior Vice President, Public Policy and Government Affairs

Status: Full-Time, Exempt

Reporting to: Joshua S. Boger, Ph.D.
President and Chief Executive Officer

Base Salary Rate: $13,461.53 per bi-weekly pay period

Hiring Bonus: $50,000 less normal withholdings, payable with your first paycheck. If you terminate your employment voluntarily before the end of the first twelve months of employment, you will be required to repay the Hiring Bonus to the Company in full.

Equity: Stock Options – 75,000

Upon commencement of your employment with the Company, you will be granted an option to purchase 75,000 shares (non-qualified stock options) of the common stock of Vertex pursuant to the Vertex 2006 Stock and Option Plan (the "Stock Plan"). The option exercise price per share will be equal to the average of the high and low market price of Vertex common stock on the date of commencement of your employment. The shares of common stock subject to your stock option will vest quarterly over four years.

Restricted Shares – 15,000

In addition to the stock options grant, you will also be granted 15,000 restricted shares of the Common Stock of Vertex pursuant to the Stock

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Plan. One quarter of the restricted shares will vest at each anniversary of your employment start date, assuming you are still employed by Vertex at that time. Any shares that have not vested at the end of your employment at Vertex will be forfeited.

Restricted Shares – 2,000

You will also receive an additional grant of 2,000 restricted shares of the Common Stock of Vertex pursuant to the Stock Plan. One quarter of the restricted shares for this grant will vest quarterly over a 12 month period commencing on the date of hire.

The specific terms and conditions of your stock option and restricted share grants will be set forth in separate agreements between you and Vertex which, among other things, will incorporate the terms and conditions of the Stock Plan. These agreements will be entered into and executed after you commence your employment with the Company. You may wish to consult with your tax advisor regarding the income tax aspects of restricted stock and option grants.

Bonus: You will also be eligible to participate in the Company's target bonus program (and other incentive compensation programs) applicable to the Company's senior executives, as any such programs are established and modified from time to time by the Company's board of directors in its sole discretion, and in accordance with the terms of such program.

Under the Company's target bonus program as presently constituted, the 2007 target bonus for senior executives at your level is 35% of your annual base salary. The final amount of any bonus award is subject to adjustment on the basis of the board's appraisal of the Company's performance and your supervisor' appraisal of your performance, and could range from 0% - 150% of target bonus amount. All awards for the first year of employment are prorated based on your date of hire. All bonus targets and awards are made at the discretion of the Board of Directors and are subject to change without notice.

Annual Equity Grants: You will also be eligible to participate in the Company's annual equity grant program applicable to the Company's senior executives, as any such programs are established and modified from time to time by the Company's board of directors in its sole discretion, and in accordance with the terms of such program.

Under the Company's annual equity grant program as presently constituted, the 2007 target equity grants for senior executives at your level are 61,000 stock options and 8,133 shares of Performance-Accelerated Restricted Stock. The final amount of any equity award is

subject to adjustment on the basis of your supervisor' appraisal of your performance, and could range from 0% - 150% of the target equity grant amounts. All equity awards are made at the discretion of the Board of Directors and are subject to change without notice.

Severance: You will be eligible for the Company's severance program for its Senior Vice Presidents, if adopted, and as it may be amended from time to time by the Board of Directors. There currently is no such program. In lieu thereof, we agree that if your employment is involuntarily terminated before any such program is adopted, or if the terms of any such program are less favorable to you than the terms of this offer letter, you shall be entitled to the severance benefits set forth in this offer letter. These benefits will be payable for any termination of your employment by the Company, other than for Cause (as defined herein), or by you for Good Reason (as defined herein), whether in the ordinary course of business, in the context of a change in control or otherwise (all such instances being an "involuntary termination" of employment).

If you experience an involuntary termination of employment, you will be entitled to receive 12 months of base salary and will be reimbursed for 12 months of COBRA coverage. All exercisable stock options held by you as of the date of the involuntary termination of employment that are not exercisable as of that date shall be deemed to have been held by you for an additional 18 months, for purposes of vesting and exercise rights, and any stock options that become exercisable as a result thereof shall remain exercisable until the earlier of (1) the end of the 90-day period following the date of the employment termination and (2) the date the stock option otherwise would expire. The Company's lapsing repurchase right with respect to shares of restricted stock held by you shall lapse with respect to the Pro-Rata Share of Restricted Stock (as defined herein).

"Good Reason": For purposes of the severance benefit described above, "Good Reason" shall mean that without your consent, one or more of the following events occurs and you, of your own initiative, terminate your employment by notice in writing to the Company within 90 days after the first occurrence of the event:

(a) You are assigned to any duties or responsibilities that are inconsistent, in any significant respect, with the scope of duties and responsibilities customarily associated with the position and office of Senior Vice President, Public Policy and Government Affairs , provided that such reassignment of duties or responsibilities is not due to your Disability or performance, nor is at your request;

(b) You suffer a reduction in the authorities, duties, and responsibilities customarily associated with your position as Senior Vice President, Public Policy and Government Affairs, provided that such reassignment of authorities, duties and responsibilities is not due to your Disability or your performance, and is not at your request or with your prior agreement;

(c) Your base salary is decreased below $350,000 per year, other than a reduction which is part of an across-the-board proportionate reduction in the salaries of the senior management team; or

(d) Your office location as assigned to you by the Company is relocated thirty-five (35) or more miles from Cambridge, Massachusetts (other than in connection with a relocation of the Company's principal executive offices).

"Cause": For purposes of the severance benefit described above, "Cause" shall mean

(a) your conviction of a crime of moral turpitude;

(b) your willful refusal or failure to follow a lawful directive or instruction of the Company's Board of Directors or the individual(s) to whom you report, provided that you receive prior written notice of the directive(s) or instruction(s) that you failed to follow, and provided further that the Company, in good faith, gives you thirty (30) days to correct any problems and further provided if you correct the problem(s) you may not be terminated for Cause in that instance;

(c) in carrying out your duties you commit (i) willful gross negligence, or (ii) willful gross misconduct, resulting in either case in material harm to the Company, unless such act, or failure to act, was believed by you, in good faith, to be in the best interests of the Company; or

(d) your violation of the Company's policies made known to you regarding confidentiality, securities trading or inside information.

"*Pro-Rata Share of Restricted Stock*": shall mean, for any grant of restricted stock as to which the Company's repurchase right lapses ratably over a specified time (e.g. in equal annual increments over four years), that number of shares as to which the Company's repurchase right with respect to those shares would have lapsed if your employment by the Company had continued for an additional 18 months. For any other shares of restricted stock, "Pro-Rata Share of Restricted Stock" shall mean, as to any shares of restricted stock that were granted on the same date and as to which the Company's repurchase right lapses on the same date, that portion of such shares calculated by multiplying the number of shares by a fraction, the numerator of which is the number of days that have passed since the date of grant (until the employment termination date), plus the number of days in the 18 months after the employment termination date, and the denominator of which is the total number of days from the date of

the grant until the date (without regard to any provisions for earlier vesting upon achievement of a specified goal) on which the Company's repurchase right would lapse under the terms of the grant.

In order to be eligible to receive the severance benefits described above, you shall be required to execute and deliver to Vertex (without subsequent revocation if provided for therein), a general release of claims against Vertex, including any claims concerning the Company's obligations under this offer letter.

Benefits: You will be entitled to receive standard medical, life and dental insurance benefits for yourself and your dependents in accordance with Company policy.

401(k) Plan: You will be eligible to participate in the Vertex 401(k) Plan on the same basis as other senior executives of the Company. Currently, eligible employees may enroll in the plan on a monthly basis, on the first of any month following original date of hire. Through automatic payroll deduction, you can contribute from 1% to 60% of your eligible pay on a pretax basis, up to the annual IRS dollar limit. Under the current plan, Vertex contributes 100% on the dollar on the first 3% of earnings contributed by employees to the plan, and 50% on the dollar on the next 3% of earnings contributed by employees to the plan. This matching contribution is in the form of Vertex unitized stock, vests immediately, and is deposited in participants' accounts on a quarterly basis.

ESPP You will be eligible to participate in the Employee Stock Purchase Plan ("ESPP"), as in effect from time to time, on the same basis as other senior executives of the Company. Under the current terms of the ESPP, you will be able to enroll at the next offering after your employment begins. Offering Dates are currently May 15th and November 15th of each year and you are able to contribute between 1% and 15% (whole percentages only) of your Base Salary to purchase Vertex common stock at a discounted price.

Vacation: During the term of employment, you shall be entitled to not less than four weeks' paid vacation days each calendar year in accordance with the Company's vacation policy then in effect.

Employment-At-Will: Your employment will be on an at-will basis, which means it may be terminated at any time by you or the Company, with or without cause.

Start Date: July 30, 2007

As a condition of your employment, you will be required to sign a copy of our "*Non-disclosure, Non-competition and Inventions Agreement*" prior to your start date. It is the Company's policy to respect fully the rights of your previous employers in their proprietary or confidential information. No employee is expected to disclose, or is allowed to use for the Company's purposes, any confidential or proprietary information he or she may have acquired as a result of previous employment.

[In addition, to conform with the Immigration Reform and Control Act of 1986, you will be required to provide sufficient documentation to show proof of employment eligibility in the United States. Please bring with you on your start date, the original of one of the documents noted in List A or one document from List B and one document from List C as itemized in the enclosed "Lists of Acceptable Documents". If you do not have the originals of any of these documents, please contact me immediately.]

I am pleased to extend this offer to you and look forward to your acceptance. Please sign and return the enclosed copy of this offer letter as soon as possible to indicate your agreement with the terms of this offer. This offer will lapse if not signed and returned by fax to 617-444-6773 by June 8, 2007.

Once signed by you, this letter will constitute the complete agreement between you and the Company regarding employment matters and will supersede all prior written or oral agreements or understandings on these matters.

I believe you will be able to make an immediate contribution to Vertex's effort, and I think you will enjoy the rewards of working for an innovative, fast-paced company. One of the keys to our accomplishments is good people. We hope you accept our offer to be one of those people.

Yours sincerely,

/s/ Joshua S. Boger

Joshua S. Boger
President and Chief Executive Officer

Enclosures

I accept the terms of employment as described in this offer letter dated June 4, 2007 and will start my employment on . I confirm that by my start date at Vertex I will be under no contract or agreement with any other entity which would in any way restrict my ability to work at Vertex or perform the functions of my job for Vertex, including, but not limited to, any employment agreement and/or non-compete agreement.

/s/ Amit Sachdev

Name ***Date***

RESTRICTED STOCK AGREEMENT

VERTEX PHARMACEUTICALS INCORPORATED

AGREEMENT made as of the 24th day of January, 2007 (the "Grant Date") between Vertex Pharmaceuticals Incorporated (the "Company"), a Massachusetts corporation having its principal place of business in Cambridge, Massachusetts, and (the "Participant").

WHEREAS, the Company has adopted the Vertex Pharmaceuticals Incorporated 2006 Stock and Option Plan (the "Plan") to promote the interests of the Company by providing an incentive for employees, directors and consultants of the Company or its Affiliates;

WHEREAS, pursuant to the provisions of the Plan, the Company desires to offer for sale to the Participant shares of the Company's common stock, $0.01 par value per share ("Common Stock"), in accordance with the provisions of the Plan, all on the terms and conditions hereinafter set forth;

WHEREAS, Participant wishes to accept said offer; and

WHEREAS, the parties agree that any terms used and not defined herein have the meanings ascribed to such terms in the Plan.

NOW, THEREFORE, in consideration of the premises and the mutual covenants contained herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

1. Definitions.

1.1 "Cause" shall mean:

(a) conviction of the Participant of a crime of moral turpitude;

(b) the Participant's willful refusal or failure to follow a lawful directive or instruction of the Company's Board of Directors or the individual(s) to whom the Participant reports provided that the Participant received prior written notice of the directive(s) or instruction(s) that the Participant failed to follow, and provided further that the Participant did not correct any such problems within thirty (30) days after receiving notice in good faith from the Company;

(c) the Participant commits (i) willful gross negligence, or (ii) willful gross misconduct in carrying out the Participant's duties, resulting in either case in material harm to the Company, unless such act, or failure to act, was believed by the Participant, in good faith, to be in the best interests of the Company; or

(d) the Participant's violation of the Company's policies made known to the Participant regarding confidentiality, securities trading or inside information.

1.2 a "Change of Control" shall be deemed to have occurred if:

(a) any "person" or "group" as such terms are used in Sections 13(d) and 14(d)(2) of the Securities Exchange Act of 1934 (the "Act"), becomes a

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beneficial owner, as such term is used in Rule 13d-3 promulgated under the Act, of securities of the Company representing more than 50% of the combined voting power of the outstanding securities of the Company having the right to vote in the election of directors (any such owner being herein referred to as an "Acquiring Person");

(b) a majority of the Company's Board at any time during the Term of this Agreement consists of individuals other than individuals nominated or approved by a majority of the Disinterested Directors; or

(c) all or substantially all the business or assets of the Company are sold or disposed of, or the Company or a Subsidiary of the Company combines with another company pursuant to a merger, consolidation, or other similar transaction, other than (1) a transaction solely for the purpose of reincorporating the company in a different jurisdiction or recapitalizing or reclassifying the Company's stock, or (2) a merger or consolidation in which the shareholders of the Company immediately prior to such merger or consolidation continue to own at least a majority of the outstanding voting securities of the Company or the surviving entity immediately after the merger or consolidation.

1.3 "Disability" shall mean a disability as determined under the Company's long-term disability plan or program in effect at the time the disability first occurs, or if no such plan or program exists at the time of disability, then a "disability" as defined under Internal Revenue Code Section 22(e)(3).

1.4 "Disinterested Director" shall mean any member of the Company's Board (i) who is not an officer or employee of the Company or any of their subsidiaries, (ii) who is not an Acquiring Person or an affiliate or associate of an Acquiring Person or of any such affiliate or associate and (iii) who was a member of the Company's Board prior to the date of this Agreement or was recommended for election or elected by a majority of the Disinterested Directors on the Company's Board at the time of such recommendation or election.

1.5 "Good Reason" shall mean that, without the Participant's consent, one or more of the following events occurs, and the Participant, of his or her own initiative, terminates his or her employment by the Company or an affiliate within ninety (90) days of such event:

(i) The Participant is assigned to any duties or responsibilities that are inconsistent, in any significant respect, with the scope of the Participant's duties and responsibilities on the date hereof, provided that such reassignment of duties or responsibilities is

not due to the Participant's Disability or the Participant's performance, nor is at the Participant's request;

(ii) The Participant suffers a reduction in the authorities, duties and responsibilities associated with the Participant's position and office on the date hereof, provided that such reduction is not due to the Participant's Disability or the Participant's performance, nor is at the Participant's request;

(iii) The Participant's base salary is decreased below the level on the date hereof, other than a reduction which is part of an across-the-board proportionate reduction in the salaries of the senior management team;

(iv) The Participant is assigned, without Participant 's consent, to an office location thirty-five (35) or more miles away from Participant's office

location immediately prior to such reassignment (other than in connection with a relocation of the Company's principal executive offices); or

(v) Following a Change of Control, the Company's successor fails to assume the Company's rights and obligations under this Agreement.

2. Terms of Purchase. The Participant hereby accepts the offer of the Company to issue to the Participant, in accordance with the terms of the Plan and this Agreement, 20,000 shares of the Company's Common Stock (such shares, subject to adjustment pursuant to Section 17 of the Plan and Subsection 3(g) hereof, the "Granted Shares") at a purchase price per share of $0.01 (the "Purchase Price"), receipt of which is hereby acknowledged by the Company.

3. Company's Lapsing Repurchase Right.

(a) Lapsing Repurchase Right. Except as set forth in Subsection 3(b) hereof, and subject to subsections (i) and (ii) below, if for any reason the Participant no longer is an employee, director or consultant of the Company or an affiliate prior to May 6, 2010, the Company (or its designee) shall have the option, but not the obligation, to purchase from the Participant, and, in the event the Company exercises such option, the Participant shall be obligated to sell to the Company (or its designee), at a price per Granted Share equal to the Purchase Price, all or any part of the Granted Shares as set forth in clauses (i) and (ii) below (the "Lapsing Repurchase Right"). The Company's Lapsing Repurchase Right shall be valid for a period of one year commencing with the date of such termination of employment or service. Notwithstanding any other provision hereof, if the Company is prohibited during such one year period from exercising its Lapsing Repurchase Right by applicable law, then the time period during which such Lapsing Repurchase Right may be exercised shall be extended until the later of (a) the end of such one-year period or (b) 30 days after the Company is first not so prohibited. Notwithstanding the foregoing,

(i) the Company's Lapsing Repurchase Right shall lapse with respect to 5,000 of the Granted Shares on May 6, 2008, if the Participant continues to serve as an employee, director or consultant of the Company on that date; and

(ii) the Company's Lapsing Repurchase Right shall lapse with respect to 15,000 of the Granted Shares on May 6, 2010, if the Participant continues to serve as an employee, director or consultant of the Company on that date.

(b) Effect of Termination by the Company Without Cause, by the Participant for Good Reason, or Upon Disability or Death. The Company's Lapsing Repurchase Right shall terminate, and the Participant's ownership of all Granted Shares then owned by the Participant shall become vested, if the Company or an affiliate terminates the Participant's employment or service other than for Cause, if the Participant terminates his or her employment for Good Reason, or if the Participant ceases to be an employee, director or consultant of the Company by reason of Disability or death.

(c) Closing. If the Company exercises the Lapsing Repurchase Right, the Company shall notify the Participant, or, in the case of the Participant's death, his or her survivor, in writing of its intent to repurchase the Granted Shares. Such notice may be mailed by the Company up to and including the last day of the time period provided for above for exercise of the Lapsing Repurchase Right. The notice shall specify the place, time and date for payment of the repurchase price (the "Closing") and the number of Granted Shares with respect to which the Company is exercising the Lapsing Repurchase Right. The Closing shall be not less than ten days nor more than 60 days from the date of mailing of the notice, and the Participant or the Participant's survivor with respect to the Granted Shares which the Company elects to repurchase shall have no further rights as the owner thereof from and after the date specified in the notice. At the Closing, the repurchase price shall be delivered to the Participant or the Participant's

survivor and the Granted Shares being repurchased, duly endorsed for transfer, shall, to the extent that they are not then in the possession of the Company, be delivered to the Company by the Participant or the Participant's survivor.

(d) Escrow. All Granted Shares that are subject to the Lapsing Repurchase Right, together with any securities distributed in respect thereof such as through a stock split or other recapitalization, shall be held by the Company in escrow until such time as the Granted Shares have vested. The Company promptly shall release Granted Shares from escrow upon termination of the Lapsing Repurchase Right with respect to those Granted Shares.

(e) Prohibition on Transfer. The Participant recognizes and agrees that all Granted Shares that are subject to the Lapsing Repurchase Right may not be sold, transferred, assigned, hypothecated, pledged, encumbered or otherwise disposed of, whether voluntarily or by operation of law, other than to the Company (or its designee). However, the Participant, with the approval of the Committee, may transfer the Granted Shares for no consideration to or for the benefit of the Participant's Immediate Family (including, without limitation, to a trust for the benefit of the Participant's Immediate Family or to a partnership or limited liability company for one or more members of the Participant's Immediate Family), subject to such limits as the Committee may establish, and the transferee shall remain subject to all the terms and conditions applicable to this Agreement prior to such transfer and each such transferee shall so acknowledge in writing as a condition precedent to the effectiveness of such transfer. The term "Immediate Family" shall mean the Participant's spouse, former spouse, parents, children, stepchildren, adoptive relationships, sisters, brothers, nieces and nephews and grandchildren (and, for this purpose, shall also include the Participant). The Company shall not be required to transfer any Granted Shares on its books which shall have been sold, assigned or otherwise transferred in violation of this Subsection 3(e), or to treat as the owner of such Granted Shares, or to accord the right to vote as such owner or to pay dividends to, any person or organization to which any such Granted Shares shall have been so sold, assigned or otherwise transferred, in violation of this Subsection 3(e).

(f) Failure to Deliver Granted Shares to be Repurchased. If the Granted Shares to be repurchased by the Company under this Agreement are not in the Company's possession pursuant to Subsection 3(d) above or otherwise and the Participant or the Participant's survivor fails to deliver such Granted Shares to the Company (or its designee), the Company may elect (i) to establish a segregated account in the amount of the repurchase price, such account to be turned over to the Participant or the Participant's survivor upon delivery of such Granted Shares, and (ii) immediately to take such action as is appropriate to transfer record title of such Granted Shares from the Participant to the Company (or its designee) and to treat the Participant and such Granted Shares in all respects as if delivery of such Granted Shares had been made as required by this Agreement. The Participant hereby irrevocably grants the Company a power of attorney which shall be coupled with an interest for the purpose of effectuating the preceding sentence.

(g) Adjustments. The Plan contains provisions covering the treatment of Granted Shares in a number of contingencies such as stock splits and mergers. Provisions in the Plan for adjustment with respect to the Granted Shares and the related provisions with respect to successors to the business of the Company are hereby made applicable hereunder and are incorporated herein by reference.

3. Legend. In addition to any legend required pursuant to the Plan, all certificates representing the Granted Shares to be issued to the Participant pursuant to this Agreement shall have endorsed thereon a legend substantially as follows:

> "The shares represented by this certificate are subject to restrictions set forth in a Restricted Stock Agreement dated as of January 24, 2007 with the Company, a

copy of which Agreement is available for inspection at the offices of the Company or will be made available upon request."

4. Incorporation of the Plan. The Participant specifically understands and agrees that the Granted Shares issued under the Plan are being sold to the Participant pursuant to the Plan, a copy of which Plan the Participant acknowledges he or she has read and understands and by which Plan he or she agrees to be bound. The provisions of the Plan are incorporated herein by reference.

5. Tax Liability of the Participant and Payment of Taxes. The Participant acknowledges and agrees that any income or other taxes due from the Participant with respect to the Granted Shares issued pursuant to this Agreement, including, without limitation, the Lapsing Repurchase Right, shall be the Participant's responsibility. The Participant agrees and acknowledges that (i) the Company promptly will withhold from the Participant's pay the amount of taxes the Company is required to withhold upon the lapsing of any Lapsing Repurchase Right on the part of the Company pursuant to this Agreement, and (ii) the Participant shall make immediate payment to the Company in the amount of any tax required to be withheld by the Company in excess of the Participant's pay available for such withholding.

6. Equitable Relief. The Participant specifically acknowledges and agrees that in the event of a breach or threatened breach of the provisions of this Agreement or the Plan, including the attempted transfer of the Granted Shares by the Participant in violation of this Agreement, monetary damages may not be adequate to compensate the Company, and, therefore, in the event of such a breach or threatened breach, in addition to any right to damages, the Company shall be entitled to equitable relief in any court having competent jurisdiction. Nothing herein shall be construed as prohibiting the Company from pursuing any other remedies available to it for any such breach or threatened breach.

7. No Obligation to Maintain Relationship. The Company is not by the Plan or this Agreement obligated to continue the Participant as an employee, director or consultant of the Company or an affiliate. The Participant acknowledges: (i) that the Plan is discretionary in nature and may be suspended or terminated by the Company at any time; (ii) that the grant of the Granted Shares is a one-time benefit which does not create any contractual or other right to receive future grants of shares, or benefits in lieu of shares; (iii) that all determinations with respect to any such future grants, including, but not limited to, the times when shares shall be granted, the number of shares to be granted, the purchase price, and the time or times when each share shall be free from a lapsing repurchase right, will be at the sole discretion of the Company; (iv) that the Participant's participation in the Plan is voluntary; (v) that the value of the Granted Shares is an extraordinary item of compensation which is outside the scope of the Participant's employment contract, if any; and (vi) that the Granted Shares are not part of normal or expected compensation for purposes of calculating any severance, resignation, redundancy, end of service payments, bonuses, long-service awards, pension or retirement benefits or similar payments.

9. Notices. Any notices required or permitted by the terms of this Agreement or the Plan shall be given by recognized courier service, facsimile, registered or certified mail, return receipt requested, addressed as follows:

If to the Company:

> Vertex Pharmaceuticals Incorporated
> 130 Waverly Street
> Cambridge, MA 02139
> Attention: Legal Department-Corporate

If to the Participant:

> At the Participant's home address then
> listed in the Company's payroll records

or to such other address or addresses of which notice in the same manner has previously been given. Any such notice shall be deemed to have been given on the earliest of receipt, one business day following delivery by the sender to a recognized courier service, or three business days following mailing by registered or certified mail.

10. Benefit of Agreement. Subject to the provisions of the Plan and the other provisions hereof, this Agreement shall be for the benefit of and shall be binding upon the heirs, executors, administrators, successors and assigns of the parties hereto.

11. Governing Law. This Agreement shall be construed and enforced in accordance with the laws of The Commonwealth of Massachusetts, without giving effect to the conflict of law principles thereof. For the purpose of litigating any dispute that arises under this Agreement, whether at law or in equity, the parties hereby consent to exclusive jurisdiction in Massachusetts and agree that such litigation shall be conducted in the courts of Boston, Massachusetts or the federal courts of the United States for the District of Massachusetts**.**

12. Severability. If any provision of this Agreement is held to be invalid or unenforceable by a court of competent jurisdiction, then such provision or provisions shall be modified to the extent necessary to make such provision valid and enforceable, and to the extent that this is impossible, then such provision shall be deemed to be excised from this Agreement, and the validity, legality and enforceability of the rest of this Agreement shall not be affected thereby.

13. Entire Agreement. This Agreement, together with the Plan, constitutes the entire agreement and understanding between the parties hereto with respect to the subject matter hereof and supersedes all prior oral or written agreements and understandings relating to the subject matter hereof. No statement, representation, warranty, covenant or agreement not expressly set forth in this Agreement shall affect or be used to interpret, change or restrict the express terms and provisions of this Agreement provided, however, in any event, this Agreement shall be subject to and governed by the Plan.

14. Modifications and Amendments; Waivers and Consents. The terms and provisions of this Agreement may be modified or amended as provided in the Plan. Except as provided in the Plan, the terms and provisions of this Agreement may be waived, or consent for the departure therefrom granted, only by written document executed by the party entitled to the benefits of such terms or provisions. No such waiver or consent shall be deemed to be or shall constitute a waiver or consent with respect to any other terms or provisions of this Agreement, whether or not similar. Each such waiver or consent shall be effective only in the specific instance and for the purpose for which it was given, and shall not constitute a continuing waiver or consent.

15. Consent of Spouse. If the Participant is married as of the date of this Agreement, the Participant's spouse shall execute a Consent of Spouse in the form of Exhibit A hereto, effective as of the date hereof. Such consent shall not be deemed to confer or convey to the spouse any rights in the Granted Shares that do not otherwise exist by operation of law or the agreement of the parties. If the Participant marries or remarries subsequent to the date hereof, the Participant shall, not later than 60 days thereafter, obtain his or her new spouse's acknowledgement of and consent to the existence and binding effect of all restrictions contained in this Agreement by such spouse's executing and delivering a Consent of Spouse in the form of Exhibit A.

16. Counterparts. This Agreement may be executed in one or more counterparts, and by different parties hereto on separate counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

17. Data Privacy. By entering into this Agreement, the Participant: (i) authorizes the Company and each affiliate, and any agent of the Company or any affiliate administering the Plan or providing Plan record keeping services, to disclose to the Company or any of its affiliates such information and data as the Company or any such affiliate shall request in order to facilitate the grant of Granted Shares and the administration of the Plan; (ii) waives any data privacy rights he or she may have with respect to such information; and (iii) authorizes the Company and each affiliate to store and transmit such information in electronic form.

[Signature page follows]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

VERTEX PHARMACEUTICALS

INCORPORATED

By: _____
Joshua S. Boger
President and Chief Executive Officer

PARTICIPANT:

_____

EXHIBIT A

CONSENT OF SPOUSE

I, , spouse of , acknowledge that I have read the RESTRICTED STOCK AGREEMENT dated as of January 24, 2007 (the "Agreement") to which this Consent is attached as Exhibit A and that I know its contents. Capitalized terms used and not defined herein shall have the meanings assigned to such terms in the Agreement. I am aware that by its provisions the Granted Shares granted to my spouse pursuant to the Agreement are

subject to a Lapsing Repurchase Right in favor of **VERTEX PHARMACEUTICALS INCORPORATED** (the "Company") and that, accordingly, the Company has the right to repurchase up to all of the Granted Shares of which I may become possessed as a result of a gift from my spouse or a court decree and/or any property settlement in any domestic litigation.

I hereby agree that my interest, if any, in the Granted Shares subject to the Agreement shall be irrevocably bound by the Agreement and further understand and agree that any community property interest I may have in the Granted Shares shall be similarly bound by the Agreement.

I agree to the Lapsing Repurchase Right described in the Agreement and I hereby consent to the repurchase of the Granted Shares by the Company and the sale of the Granted Shares by my spouse or my spouse's legal representative in accordance with the provisions of the Agreement. Further, as part of the consideration for the Agreement, I agree that at my death, if I have not disposed of any interest of mine in the Granted Shares by an outright bequest of the Granted Shares to my spouse, then the Company shall have the same rights against my legal representative to exercise its rights of repurchase with respect to any interest of mine in the Granted Shares as it would have had pursuant to the Agreement if I had acquired the Granted Shares pursuant to a court decree in domestic litigation.

I AM AWARE THAT THE LEGAL, FINANCIAL AND RELATED MATTERS CONTAINED IN THE AGREEMENT ARE COMPLEX AND THAT I AM FREE TO SEEK INDEPENDENT PROFESSIONAL GUIDANCE OR COUNSEL WITH RESPECT TO THIS CONSENT. I HAVE EITHER SOUGHT SUCH GUIDANCE OR COUNSEL OR DETERMINED AFTER REVIEWING THE AGREEMENT CAREFULLY THAT I WILL WAIVE SUCH RIGHT.

Dated as of the day of , 2007.

Print name:

Exhibit 31.1

CERTIFICATION

I, Joshua S. Boger, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Vertex Pharmaceuticals Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2007

/s/ Joshua S. Boger
Joshua S. Boger
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Ian F. Smith, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Vertex Pharmaceuticals Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2007

/s/ Ian F. Smith
Ian F. Smith
Executive Vice President and Chief Financial Officer

Exhibit 32.1

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

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), each of the undersigned officers of Vertex Pharmaceuticals Incorporated, a Massachusetts corporation (the "Company"), does hereby certify, to such officer's knowledge, that the Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (the "Form 10-Q") of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 9, 2007

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

Dated: August 9, 2007

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