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

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2004

OR

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

FOR THE TRANSITION PERIOD FROM ______________ TO ______________

COMMISSION FILE NUMBER 000-19319

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

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

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

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

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

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

Common Stock, par value $0.01 per share	80,309,990
Class	Outstanding at November 4, 2004

Vertex Pharmaceuticals Incorporated
Form 10-Q
For the Quarter Ended September 30, 2004

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Part I. Financial Information

Item 1. Condensed Consolidated Financial Statements

Vertex Pharmaceuticals Incorporated

Condensed Consolidated Balance Sheets

	September 30, 2004	December 31, 2003
	(Unaudited) (In thousands, except share and per share data)	
Assets:		
Current assets:		
Cash and cash equivalents	$ 37,037	$ 98,159
Marketable securities, available for sale	381,390	485,005
Accounts receivable	8,480	7,324
Prepaid expenses and other current assets	5,925	3,318
Total current assets	432,832	593,806
Restricted cash	48,416	26,061
Property and equipment, net	68,179	80,083
Investments	18,863	18,863
Other assets	6,072	5,598
Total assets	$ 574,362	$ 724,411
Liabilities and Stockholders' Equity:		
Current liabilities:		
Accounts payable	$ 9,504	$ 12,306
Accrued expenses and other current liabilities	27,624	26,374
Accrued restructuring and other expense	50,123	69,526
Deferred revenue	41,018	7,746
Accrued interest	1,489	4,455
Other obligations	4,688	4,660
Collaborator development loan	—	14,000
Total current liabilities	134,446	139,067
Deferred revenue (excluding current portion)	27,674	51,771
Collaborator development loan (excluding current portion)	19,997	18,460
Other obligations (excluding current portion)	2,925	7,268
Convertible subordinated notes (due September 2007)	82,552	315,000
Convertible senior subordinated notes (due February 2011)	232,448	—
Total liabilities	500,042	531,566
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.01 par value; 1,000,000 shares authorized; none issued and outstanding at September 30, 2004 and December 31, 2003, respectively	—	—
Common stock, $0.01 par value; 200,000,000 shares authorized; 80,119,002 and 78,025,002 shares issued and outstanding at September 30, 2004 and December 31, 2003, respectively	801	780
Additional paid-in capital	828,210	810,407
Deferred compensation, net	(10,755)	(1,112)
Accumulated other comprehensive income (loss)	(538)	2,690
Accumulated deficit	(743,398)	(619,920)
Total stockholders' equity	74,320	192,845
Total liabilities and stockholders' equity	$ 574,362	$ 724,411

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

Vertex Pharmaceuticals Incorporated

Condensed Consolidated Statements of Operations

(Unaudited)

(In thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Revenues:				
Royalties	$ 4,403	$ 2,003	$ 10,996	$ 5,944
Collaborative and other research and development revenues	22,425	13,820	51,886	41,820
Total revenues	26,828	15,823	62,882	47,764
Costs and expenses:				
Royalty payments	1,466	797	3,640	2,117
Research and development	48,790	49,627	137,915	151,336
Sales, general and administrative	10,600	9,436	30,482	28,608
Restructuring and other expense	1,561	42,394	5,216	90,424
Total costs and expenses	62,417	102,254	177,253	272,485
Loss from operations	(35,589)	(86,431)	(114,371)	(224,721)
Interest income	2,445	3,164	7,981	12,353
Interest expense	(4,634)	(4,334)	(13,642)	(13,039)
Charge for retirement of a portion of 2007 convertible subordinated notes	(993)	—	(3,446)	—
Loss from continuing operations	(38,771)	(87,601)	(123,478)	(225,407)
Income from discontinued operations				
Gain on sale of assets	—	451	—	69,683
Income (loss) from discontinued operations	—	729	—	(14)
Total income from discontinued operations	—	1,180	—	69,669
Net loss	$ (38,771)	$ (86,421)	$ (123,478)	$ (155,738)
Basic and diluted net loss per common share from continuing operations	$ (0.49)	$ (1.14)	$ (1.57)	$ (2.94)
Discontinued operations	—	$ 0.02	—	$ 0.91
Basic and diluted net loss per common share	$ (0.49)	$ (1.12)	$ (1.57)	$ (2.03)
Basic and diluted weighted average number of common shares outstanding	78,742	77,067	78,403	76,750

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

Vertex Pharmaceuticals Incorporated

Condensed Consolidated Statements of Cash Flows

	Nine Months Ended September 30,	
	2004	2003
	(Unaudited) (In thousands)	
Cash flows from operating activities		
Net loss	$ (123,478)	(155,738)
Net income from discontinued operations	—	(69,669)
Loss from continuing operations	(123,478)	(225,407)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	21,617	17,314
Non-cash based compensation expense	3,000	2,570
Non-cash restructuring and other expense	—	4,395
Loss on disposal of property and equipment	—	116
Realized gains on marketable securities	(379)	(1,113)
Charge for retirement of a portion of 2007 convertible subordinated notes	3,446	—
Loss on sale of assets	—	917
Changes in operating assets and liabilities:		
Accounts receivable	(1,156)	2,258
Prepaid expenses	(2,607)	493
Accounts payable	(2,802)	(6,965)
Accrued expenses and other current liabilities	(2,965)	(5,994)
Accrued restructuring and other expense	(19,403)	75,152
Accrued interest	(2,966)	(3,937)
Deferred revenue	9,175	4,048
Net cash used in operating activities from continuing operations	(118,518)	(136,153)
Net cash provided by operating activities from discontinued operations	—	(2,769)
Net cash used in operating activities	(118,518)	(138,922)
Cash flows from investing activities:		
Purchase of marketable securities	(132,010)	(424,340)
Sales and maturities of marketable securities	232,812	430,653
Expenditures for property and equipment	(8,691)	(13,230)
Proceeds from sale of assets	—	(844)
Restricted cash	(22,355)	30
Investments and other assets	(219)	2,103
Net cash provided by (used in) investing activities from continuing operations	69,537	(5,628)
Net cash provided by investing activities from discontinued operations	—	92,929
Net cash provided by investing activities	69,537	87,301
Cash flows from financing activities		
Issuances of common stock under our employee benefit programs	5,181	8,949
Proceeds from collaborator development loan	—	13,460
Principal payments on notes payable, capital lease and other obligations	(100)	(1,621)
Issuance costs related to 2011 convertible senior subordinated notes	(4,722)	—
Repayments of collaborator development loan	(12,463)	—
Net cash provided by (used in) financing activities from continuing operations	(12,104)	20,788
Effect of changes in exchange rates on cash	(37)	184
Net decrease in cash and cash equivalents	(61,122)	(30,649)
Cash and cash equivalents—beginning of period	98,159	108,098
Cash and cash equivalents—end of period	$ 37,037	$ 77,449

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

Vertex Pharmaceuticals Incorporated

Notes to Condensed Consolidated Financial Statements

1. Basis of Presentation

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

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

Certain information and footnote disclosures normally included in the Company's annual financial statements have been condensed or omitted. Certain prior year amounts have been reclassified to conform to current year presentation. The interim financial statements, in the opinion of management, reflect all adjustments (including normal recurring accruals) necessary for a fair statement of the financial position and results of operations for the interim periods ended September 30, 2004 and 2003.

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 ended December 31, 2004. These interim financial statements should be read in conjunction with the audited financial statements for the year ended December 31, 2003, which are contained in the Company's 2003 Annual Report to its stockholders and in its Form 10-K filed with the Securities and Exchange Commission on March 15, 2004, as amended by Form 10-K/A filed with the Securities and Exchange Commission on September 8, 2004.

2. Accounting Policies

Basic and Diluted Net Loss per Common Share

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

	At September 30,	
	2004	2003
Stock Options	15,795	17,317
Weighted-average exercise price	$ 22.98	$ 23.70
Convertible Notes	16,454	3,414
Weighted-average conversion price	$ 19.15	$ 92.26
Unvested restricted shares	1,288	—

Stock-Based Compensation

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

disclosure-only provisions of Statements of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123") and applies Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and related interpretations in accounting for all stock awards granted to employees. Under APB 25, provided that other criteria are met, when the exercise price of options granted to employees under these plans equals the market price of the common stock on the date of the grant, no compensation cost is required. When the exercise price of options granted to employees under these plans is less than the market price of the common stock on the date of grant, compensation costs are expensed over the vesting period. Subsequent changes to option terms can also give rise to compensation costs.

At September 30, 2004, the Company had one Employee Stock Purchase Plan ("ESPP") and three stock-based employee compensation plans: the 1991 Stock Option Plan, the 1994 Stock and Option Plan and the 1996 Stock and Option Plan (collectively, the "Plans"). No stock-based employee compensation cost related to stock options is reflected in net loss, as all options granted under the Plans had exercise prices equal to the market value of the underlying common stock on the date of grant.

At September 30, 2004, the Company had 1,287,808 restricted shares unvested and outstanding. During the nine months ended September 30, 2004, the Company issued 1,163,327 restricted shares, net of cancellations, to employees, including a one-time grant of 922,500 shares to senior managers and executives on May 6, 2004.

The Company grants restricted shares to employees and the price per share is equal to the par value of the Company's common stock, or $0.01 per share. In general, the restricted shares vest over four years in four equal annual installments. Under the terms of the one-time grant made to senior managers and executives in May 2004, the restricted shares vest in two increments: 50% on May 6, 2007 (the three year anniversary of the grant) and the balance on May 6, 2009, or earlier, if the Company is profitable, as determined by the Board of Directors. The Company has recorded deferred compensation of approximately $10,658,000 related to the issuance of restricted shares during the nine months ended September 30, 2004. The Company recorded deferred compensation expense of approximately $539,000 and $1,015,000 for the three and nine months ended September 30, 2004, respectively, related to all restricted shares outstanding during those periods. There was no compensation expense related to restricted stock grants recorded during the three and nine months ended September 30, 2003.

For stock options granted to non-employees, the Company recognizes compensation costs in accordance with the requirements of SFAS 123. SFAS 123 requires that companies recognize compensation expense for grants of stock, stock options and other equity instruments based on fair value.

The following table illustrates the effect on net loss and net loss per common share if the fair value recognition of SFAS 123 had been applied to the Company's stock-based employee compensation.

Employee stock-based compensation expense is amortized on a straight-line basis, as our valuation of options subject to SFAS 123 assumes a single weighted average expected life for each award.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2004	2003	2004	2003
	(In thousands)		(In thousands)	
Net loss attributable to common shareholders, as reported	$ (38,771)	$ (86,421)	$ (123,478)	$ (155,738)
Add: Employee stock-based compensation expense included in net loss, net of tax	539	—	1,015	—
Deduct: Total stock-based employee compensation expense determined under the fair value based method for all awards, net of tax	(9,657)	(12,551)	(29,786)	(39,980)
Pro forma net loss	$ (47,889)	$ (98,972)	$ (152,249)	$ (195,718)
Basic and diluted net loss per common share, as reported	$ (0.49)	$ (1.12)	$ (1.57)	$ (2.03)
Basic and diluted net loss per common share, pro forma	$ (0.61)	$ (1.28)	$ (1.94)	$ (2.55)

Research and Development

All research and development costs, including amounts funded in research collaborations, are expensed as incurred. Research and development expenses are comprised of costs incurred in performing research and development activities, including salaries and benefits, facilities costs, overhead costs, clinical trial costs, contract services and other outside costs. Collaborator and Company-sponsored research and development expenses for the three and nine months ended September 30, 2004 and 2003 were as follows:

	For the Three Months Ended September 30, 2004			For the Three Months Ended September 30, 2003		
	Research	Development	Total	Research	Development	Total
Collaborator-sponsored	$ 14,249	$ 3,915	$ 18,164	$ 14,754	$ 5,669	$ 20,423
Company-sponsored	14,116	16,510	30,626	11,316	17,888	29,204
Total	$ 28,365	$ 20,425	$ 48,790	$ 26,070	$ 23,557	$ 49,627

	For the Nine Months Ended September 30, 2004			For the Nine Months Ended September 30, 2003		
	Research	Development	Total	Research	Development	Total
Collaborator-sponsored	$ 43,913	$ 10,754	$ 54,667	$ 44,292	$ 15,419	$ 59,711
Company-sponsored	38,864	44,384	83,248	40,754	50,871	91,625
Total	$ 82,777	$ 55,138	$ 137,915	$ 85,046	$ 66,290	$ 151,336

Restructuring and Other Expense

The Company records costs and liabilities associated with exit and disposal activities, as defined in Statements of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS 146"), at fair value in the period the liability is incurred.

In periods subsequent to initial measurement, changes to the liability are measured using the credit-adjusted risk-free rate applied in the initial period.

Debt Issuance Costs

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

3. Discontinued Operations

The Company sold certain assets and liabilities of its Discovery Tools and Services business to Invitrogen Corporation and Telegraph Hill Partners, LP in March and December 2003, respectively. The assets sold in March and December 2003 represented a component of the Company's business that, beginning in 2002, had separately identifiable cash flows. In accordance with Statements of Financial Accounting Standards No. 144, "Accounting for the Impairment of Long-Lived Assets" ("SFAS 144"), the results of operations and cash flows for the assets sold have been reclassified in the condensed consolidated financial statements under the heading "discontinued operations" for the three and nine months ended September 30, 2003. The reclassification of amounts to discontinued operations has been prepared using estimates and assumptions, which were deemed appropriate based upon information available. Amounts reclassified to discontinued operations are not necessarily indicative of what the results would have been had the business operated on a stand-alone basis.

For the three and nine months ended September 30, 2003, income from discontinued operations is comprised of the following revenue and expenses:

	Three Months Ended September 30, 2003	Nine Months Ended September 30, 2003
	(In thousands)	(In thousands)
Revenues from discontinued operations	2,529	10,773
Expenses from discontinued operations	(1,800)	(10,787)
Gain from sale of discontinued operations	451	69,683
Income from discontinued operations	1,180	69,669

4. Comprehensive Loss

For the three and nine months ended September 30, 2004 and 2003, comprehensive loss was as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Net loss	$ (38,771)	$ (86,421)	$ (123,478)	$ (155,738)
Changes in other comprehensive income (loss):				
Unrealized holding gains (losses) on marketable securities, net of tax	835	(957)	(3,191)	(3,265)
Foreign currency translation adjustment	(28)	(44)	(37)	184
Total change in other comprehensive income (loss)	807	(1,001)	(3,228)	(3,081)
Total comprehensive loss	(37,964)	(87,422)	(126,706)	(158,819)

5. Restructuring and Other Expense

On June 10, 2003, Vertex adopted a plan to restructure its operations in preparation for investments to advance major products through clinical development to commercialization. The restructuring was designed to re-balance the Company's relative investment in research, development and commercialization, to better enable the Company to pursue its long-term objective of becoming a profitable pharmaceutical company with capabilities in research, development and commercialization of products. The restructuring plan included a workforce reduction, write-offs of certain assets and a decision not to occupy a leased facility located in Cambridge, Massachusetts (the "Kendall Square Facility"). The Kendall Square Facility is approximately 290,000 square feet of specialized laboratory and office space. The lease commenced in January 2003 and has a 15-year term. The Company is actively seeking subtenancies to minimize its ongoing lease obligations. To date, the Company has subleased 45,000 square feet of the Kendall Square Facility.

During the three and nine months ended September 30, 2004, the Company recorded an additional $1.6 million and $5.2 million, respectively, of restructuring and other expense primarily related to the imputed interest cost of the restructuring and other expense accrual. Additionally, in the third quarter of 2004, $8.2 million of cash payments for rent and build-out were charged against the accrual; for the nine months ended September 30, 2004, there were $24.6 million of cash payments for rent and build-out charged against the accrual. The accrual balance at September 30, 2004 of $50.1 million represents the present value of the Company's estimate of its net ongoing lease obligations for the Kendall Square Facility. In the three and nine months ended September 30, 2003, the Company recorded $42.4 million and $90.4 million, respectively, of restructuring and other expense related to the lease obligations. The expense for the nine months ended September 30, 2003 also includes $6.0 million of lease operating expense incurred prior to the decision not to occupy the Kendall Square Facility, as well as costs associated with the reduction of the Company's workforce and the write-off of leasehold improvements and other assets.

In accordance with Statements of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS 146"), the Company's initial estimate of its liability for its net ongoing costs associated with the Kendall Square Facility lease obligation was recorded at fair value in the second quarter of 2003. The Company reviews its assumptions and estimates quarterly and updates its estimate of this liability as changes in circumstances require. As prescribed by

SFAS 146, the expense and liability recorded was calculated using probability-weighted discounted cash-flows of the Company's estimated ongoing lease obligations, including contractual rental and build-out commitments net of sublease rentals, offset by related costs.

The expense and liability related to the Company's estimated net ongoing costs associated with its lease obligations for the Kendall Square Facility requires the Company to make significant estimates and assumptions including estimates and assumptions with respect to costs to satisfy build-out commitments under the lease, time to sublease the space, sublease rental rates and the terms of any subleases. The Company validates its estimates and assumptions through consultations with independent third parties having relevant expertise. The Company used a credit-adjusted risk-free rate of 10% to discount the estimated cash flows. The Company will review its estimates and assumptions on at least a quarterly basis, until the outcome is finalized, and make whatever modifications management believes necessary, based on the Company's best judgment, to reflect any changed circumstances. It is possible that such estimates could change in the future resulting in additional adjustments 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 as a result of the passage of time. Any such changes to the Company's estimate of the liability are recorded as additional restructuring and other expense.

The actual amount and timing of the payment of the remaining accrued liability of approximately $50.1 million is dependent upon the ultimate terms of any sublease(s) that the Company may ultimately enter into.

6. Convertible Subordinated Notes

On February 13, 2004, the Company issued approximately $153.1 million in aggregate principal amount of 5.75% Convertible Senior Subordinated Notes due in February 2011 (the "February 2011 Notes") in exchange for an equal principal amount of its outstanding 5% Convertible Subordinated Notes due in 2007 (the "2007 Notes"). On September 17, 2004, the Company issued approximately $79.3 million in aggregate principal amount of 5.75% Convertible Senior Subordinated Notes due in February 2011 (the "New Notes") in exchange for an equal principal amount of its 2007 Notes. The terms of the New Notes are identical to those of the February 2011 Notes (the February 2011 Notes and the New Notes are referred to together as the "2011 Notes"). The 2011 Notes were issued through private offerings to qualified institutional buyers.

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

At September 30, 2004, the Company had approximately $82.6 million of the 2007 Notes and approximately $232.4 million of the 2011 Notes outstanding. As a result of the exchanges, the Company recorded a charge on the retirement of $153.1 million of the 2007 Notes in February 2004 in the amount of $2,453,000, and a charge on the retirement of $79.3 million of the 2007 Notes in September 2004 in the amount of $993,000. These charges represent that portion of the unamortized deferred issuance costs applicable to the amount of 2007 Notes retired. The deferred issuance costs associated

with the issuance of the 2011 Notes, which are classified as long-term other assets, were $2,964,853 for the February 2011 Notes and $1,783,899 for the New Notes. For the three and nine months ended September 30, 2004, $330,000 and $1,022,010, respectively, were amortized to interest expense for the issuance costs of the remaining 2007 Notes and the 2011 Notes.

7. Significant Revenue Arrangements

Cystic Fibrosis Foundation

In May 2004, Vertex entered into an agreement with Cystic Fibrosis Foundation Therapeutics Incorporated ("CFFT") that allowed for an expanded collaboration with CFFT to provide funding for Vertex's late-stage cystic fibrosis drug discovery effort through December 31, 2005. Under this agreement, Vertex will retain the right to develop and commercialize any compounds discovered in the course of the research collaboration. Under the expanded collaboration, CFFT agreed to pay up to $21.0 million of contracted research payments through December 31, 2005, and potentially, a milestone payment upon advancement of the first compound into clinical development. CFFT has the right to terminate the agreement without cause effective June 30, 2005 upon 60 days' prior written notice. For the nine months ended September 30, 2004, Vertex recognized $3.5 million in revenue related to this agreement.

Mitsubishi Pharma

In June 2004, Vertex entered into a collaboration with Mitsubishi Pharma Corporation, which will provide financial and other support for the development of VX-950, the Company's oral hepatitis C virus protease inhibitor currently in Phase I clinical trials. Under the terms of the agreement, Mitsubishi has the right to develop and commercialize VX-950 in Japan and certain other Far East countries, while Vertex has retained exclusive development and marketing rights to VX-950 in the rest of the world, including North America and Europe. The agreement provides for Mitsubishi to pay to Vertex up to $33.0 million in pre-commercial payments, including an up-front license fee, development stage milestone payments, contributions to certain drug development costs for VX-950 through Phase II clinical development and royalties on sales of VX-950 in the Mitsubishi territory. Further cost sharing beyond Phase II clinical development will be determined by Mitubishi and Vertex based on the design of registration studies for VX-950. Mitsubishi may terminate the agreement at any time without cause upon 60 days' prior written notice. Vertex recognized $0.9 million of revenue related to this collaboration in the nine months ended September 30, 2004.

Merck

In June 2004, Vertex entered into a global collaboration with Merck & Co., Inc. to develop and commercialize VX-680, Vertex's lead Aurora kinase inhibitor, and possibly additional follow-on compound(s), for the treatment of cancer. The Merck collaboration provides both research funding, in the amount of $14.0 million over two years, and an up-front payment of $20.0 million, which was paid in June 2004. In addition, Vertex could receive as much as $350.0 million in milestone payments, including up to $130.0 million for the successful development of VX-680 in the first oncology indication and additional milestone payments for development of VX-680 and follow-on compounds in subsequent major oncology indications. Merck will be responsible for clinical development and commercialization of VX-680 and on other Aurora kinase inhibitors worldwide and will pay Vertex royalties on product sales. Merck may terminate the agreement without cause at any time after June 30, 2005 upon 90 days'

advance written notice, except that six months' advance written notice is required for termination during the second year of the research term or at anytime when a product has marketing approval in a major market and the termination is not for a valid safety reason. Vertex recognized $3.7 million of revenue related to this collaboration in the nine months ended September 30, 2004.

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

Vertex customarily agrees in the ordinary course of its business to include indemnification provisions in agreements with clinical trials investigators 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 include 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 collaborators in the event of third party claims alleging infringement of intellectual property rights. In each of these cases, the term of these indemnification provisions generally survives the termination of the agreement, although indemnification provisions are most relevant 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. Vertex has purchased insurance policies covering personal injury, property damage and general liability that reduce the Company's exposure for indemnification and would enable the Company 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 March 28, 2003, the Company sold certain assets of its wholly-owned subsidiary, PanVera LLC, to Invitrogen Corporation for approximately $97.0 million. The agreement with Invitrogen requires the Company to indemnify Invitrogen against any loss it may suffer by reason of Vertex's failure to perform certain covenants contained in the agreement. The covenants are of a type customary in agreements of this sort. The Company believes the estimated fair value of these indemnification arrangements is minimal.

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

On February 10, 2004, Vertex entered into a Dealer Manager Agreement with UBS Securities LLC in connection with the exchange of approximately $153.1 million of the February 2011 Notes for approximately $153.1 million of 2007 Notes. On September 13, 2004, the Company entered into a second Dealer Manager Agreement with UBS Securities in connection with the exchange of approximately $79.3 million of New Notes for approximately $79.3 million of 2007 Notes. Each of the Dealer Manager Agreements requires the Company to indemnify UBS Securities against any loss UBS Securities may suffer by reason of the Company's breach of representations, warranties and covenants relating to the exchanges of the convertible notes, the Company's failure to perform certain covenants in those agreements, the inclusion of any untrue statement of material fact in the materials provided to potential investors in the 2011 Notes, the omission of any material fact needed to make those materials not misleading, and any actions taken by the Company or its representatives in connection with the exchanges. The representations, warranties and covenants in the Dealer Manager Agreements are of a type customary in agreements of this sort. The Company believes the estimated fair value of these indemnification obligations is minimal.

9. Legal Proceedings

On September 23, 2003, two purported shareholder class actions, Carlos Marcano v. Vertex Pharmaceuticals, et al. and City of Dearborn Heights General Governmental Employees' Retirement System v. Vertex Pharmaceuticals, et al., were filed in the United States District Court for the District of Massachusetts, naming the Company and certain current and former officers and employees of the Company as defendants. Those actions were followed by three additional lawsuits, Stephen Anish v. Vertex Pharmaceuticals, et al., William Johns v. Vertex Pharmaceuticals, et al., and Ben Harrington v. Vertex Pharmaceuticals, et al., also filed in the District of Massachusetts. All five cases contain substantially identical allegations and have been consolidated by the District Court into one lawsuit. The plaintiffs claim that the defendants made material misrepresentations and/or omissions of material fact regarding VX-745, an investigational agent with potential in the treatment of inflammatory and neurological diseases, in violation of Sections 10(b) and 20(a) of the Securities Exchange Act and Rule 10(b)(5) promulgated by the Securities and Exchange Commission. The plaintiffs seek certification as a class action, compensatory damages in an unspecified amount and unspecified equitable or injunctive relief. In March 2004, the Company filed a motion to dismiss all of the claims brought against it in these lawsuits. The plaintiffs filed an amended complaint in July 2004, and the motion to dismiss remains pending.

The Company believes these claims are without merit and intends to contest them vigorously.

10. New Accounting Pronouncements

In January 2003, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51" ("FIN 46"), and in December 2003 issued a revised FIN 46 ("FIN 46R") that addresses the period of adoption of FIN 46 for entities created before January 31, 2003. FIN 46 provides a new consolidation model which determines control and consolidation based on potential variability in gains and losses. The provisions of FIN 46 are effective for enterprises with variable interest entities created after January 31, 2003. The Company adopted the provisions of FIN 46 in the first quarter of 2004 as required. The adoption of FIN 46 did not have a material impact on the Company's consolidated financial statements.

In December 2003, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 104, "Revenue Recognition" ("SAB 104"). SAB 104 supercedes Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB 101"). SAB 104's primary purpose is to rescind accounting guidance contained in SAB 101 related to multiple-element revenue arrangements, superceded as a result of the issuance of Emerging Issues Task Force 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables" ("EITF 00-21"). Additionally, SAB 104 rescinds the Securities and Exchange Commission's Revenue Recognition in Financial Statements Frequently Asked Questions and Answers (the "FAQ") issued with SAB 101 that had been codified in SEC Topic 13, Revenue Recognition. Selected portions of the FAQ have been incorporated into SAB 104. While the wording of SAB 104 has changed to reflect the issuance of EITF 00-21, the revenue recognition principles of SAB 101 remain largely unchanged by the issuance of SAB 104. The Company adopted SAB 104 in the first quarter of fiscal year 2004. The adoption of SAB 104 did not have a material impact on the Company's consolidated financial statements.

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

Overview

We are a biotechnology company in the business of discovering, developing and marketing small molecule drugs for serious diseases, including HIV infection, chronic hepatitis C virus (HCV) infection, inflammatory and autoimmune disorders and cancer, independently and with collaborators. Our principal focus is on the development and commercialization of new treatments for viral and inflammatory diseases. To date, we have discovered and advanced two products to the market, Lexiva® (fosamprenavir calcium) and Agenerase® (amprenavir). We earn a royalty on the sales of Lexiva and Agenerase and co-promote these products in collaboration with GlaxoSmithKline plc. Lexiva was approved for sale in the European Union under the trade name Telzir® in July 2004, and was launched by GlaxoSmithKline in the European Union in the third quarter of 2004. We have built a drug discovery capability that integrates advanced biology, chemistry, biophysics, automation and information technologies, with a goal of making the drug discovery process more efficient and productive.

Drug Discovery and Development

Discovery and development of a single new pharmaceutical product is a lengthy and resource-intensive process that may take ten to fifteen years or more. During this process, potential drug candidates are subjected to rigorous evaluation, driven in part by stringent regulatory considerations. This evaluation process is designed to generate information concerning toxicity profiles, efficacy, proper dosage levels and a variety of other characteristics that are important in determining whether a proposed drug candidate should be approved for therapeutic use in humans. Most chemical compounds that are investigated as potential drug candidates never progress into formal development, and most drug candidates that advance into formal development never become commercial products.

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

Business Strategy

We have elected to diversify our research and development activities across a relatively broad array of investment opportunities, due in part to the high risks associated with the biotechnology and pharmaceutical business. We focus our efforts both on programs that we expect to control throughout the development and commercialization process in North America, as well as on programs that we anticipate will be controlled by a collaborative partner through the development and commercial process. Since we have incurred losses from our inception and expect to incur losses for the foreseeable future, our business strategy is dependent in large part on our continued ability to raise significant funding to finance our operations and 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. At September 30, 2004, we had approximately $418.4 million of cash, cash equivalents and available for sale securities, approximately $82.6 million of 5% Convertible Subordinated Notes due 2007 (the "2007 Notes") and approximately $232.4 million of 5.75% Convertible Senior Subordinated Notes due 2011 (the "2011 Notes").

Collaborative Revenue

Collaborations have been and will continue to be an important component of our business strategy. In the second quarter of 2004, we entered into new collaboration agreements with Cystic Fibrosis Foundation Therapeutics Incorporated ("CFFT") (cystic fibrosis drug discovery), Mitsubishi Pharma Corporation (Far East Development of VX-950), and Merck & Co., Inc. (research and development of Aurora kinase inhibitors, including VX-680).

In addition to these new agreements, we currently have collaborations with, among others, Aventis Pharma S.A., GlaxoSmithKline and Novartis Pharma AG. In these collaborations, we have retained a share of downstream product revenue and may be entitled to significant pre-commercial milestone payments as drug candidates progress in development. We currently receive research funding from CFFT, Merck and Novartis, and we currently have drug candidates in clinical development or commercialization under our collaborations with Aventis, GlaxoSmithKline, Kissei Pharmaceutical Company, Ltd., Merck and Mitsubishi. In the third quarter of 2004, we realized $26.8 million in royalties and collaborative revenue, all of which was earned under our pharmaceutical collaborations. Our research collaboration with Laboratories Serono S.A. terminated in September 2004.

In future periods, we will seek to identify collaborative development and commercialization opportunities for additional drug discovery efforts, and for drug candidates outside of our core focus, in order to facilitate clinical advancement of these assets, as we maintain focus on our Company-sponsored opportunities. We may also seek collaborations to assist in the development and commercialization of Company-sponsored opportunities.

Our collaborations with Novartis and GlaxoSmithKline accounted for 54.8% and 19.9%, respectively, of our total revenue for the nine months ended September 30, 2004. A significant portion of our total research effort is being conducted under our collaboration with Novartis, which is scheduled to conclude, along with our research funding from Novartis, in April 2006. Under the terms of our agreement with Novartis, we will retain all rights to the intellectual property that we generate during that collaboration, except for rights licensed to Novartis in connection with the development and commercialization of specific drug candidates that Novartis accepts for development. The intellectual property rights that we may retain from this collaboration may help us initiate other collaborative opportunities in the kinase inhibitor field if our collaboration with Novartis is not extended beyond 2006. We will need to pursue those opportunities as well as other collaborations or financing alternatives in order to maintain our discovery effort at its existing level. It is not possible to predict at present whether any of those collaborations or other financing alternatives will be available in 2006 and beyond.

Financial Guidance

The key financial measures for which we have provided guidance in 2004 are as follows:

- our full year loss is expected to be between $140.0 and $150.0 million, before any gains or charges, including additional lease restructuring charges and the convertible note exchanges;
- our total revenue is expected to be in the range of $90.0 to $100.0 million in 2004; this revenue is expected to be comprised of $15.0 to $18.0 million from HIV product royalties and approximately $75.0 million from collaborations;
- we anticipate that research and development expenses will be in the range of $190.0 to $205.0 million during 2004;
- we expect sales, general and administrative expenses to be between $38.0 and $43.0 million during 2004; and
- we expect cash, cash equivalents and available for sale securities to be approximately $375.0 million at the end of 2004.

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

In this Quarterly Report on Form 10-Q, our guidance for the full year 2004, which excludes any charges or gains, contains financial measures that are not in accordance with generally accepted accounting principles in the United States ("GAAP"). We believe these non-GAAP financial measures help indicate underlying trends in our business. We use these non-GAAP financial measures to establish budgets and operational goals that are communicated internally and externally, to manage our business and to evaluate our performance.

Liquidity and Capital Resources

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

At September 30, 2004, we had cash, cash equivalents and marketable securities of $418.4 million, which is a decrease of $164.8 million from $583.2 million at December 31, 2003. Net cash used in operations for the nine months ended September 30, 2004 was $118.5 million, which includes our net loss of $123.5 million and $19.4 million of cash payments made in connection with the restructuring and other expense accrual. Restricted cash increased by $22.4 million due to the issuance of stand-by letters of credit pursuant to an operating lease agreement. Repayments under our loan facility with Novartis were $12.5 million for the nine months ended September 30, 2004. Cash receipts from the issuance of common stock under our employee benefit programs during the first nine months of 2004 were $5.2 million.

As part of our strategy to manage our long term operational cash needs, in February 2004 we exchanged approximately $153.1 million in aggregate principal amount of newly issued 2011 Notes for an equal principal amount of our 2007 Notes, and in September 2004 we exchanged an additional $79.3 million in aggregate principal amount of newly issued 2011 Notes for an equal principal amount of our 2007 Notes. The 2011 Notes were issued through private offerings to qualified institutional buyers. The 2011 Notes are convertible, at the option of the holder, into common stock at a price equal to $14.94, subject to adjustment under certain circumstances. The 2007 Notes are convertible, at the option of the holder, into common stock at a price equal to $92.26 subject to adjustment under certain circumstances. Issuance costs associated with the February 2004 issuance of 2011 Notes were $3.0 million and issuance costs associated with the September 2004 issuance of 2011 Notes were $1.8 million.

The restructuring accrual relating to our decision not to occupy a leased facility located in Cambridge, Massachusetts (the "Kendall Square Facility"), which was $50.1 million at September 30, 2004, could be paid in full over the next 18 months assuming our estimates underlying the accrual are accurate. However, the actual amount and timing of such payments will be dependent upon the ultimate terms of any new subtenancies or lease restructuring. We review our estimates underlying the restructuring accrual on at least a quarterly basis, and the accrual, and consequently any expected future payment, could change with any change in our estimates.

In connection with new collaborations entered into in the second quarter of 2004, we received approximately $25.0 million in upfront and research support payments. Consistent with our revenue recognition policy, recognition of the majority of these payments is deferred and will be recognized over the related contract term.

At September 30, 2004, we had $20.0 million in loans outstanding under a loan facility established under the original terms of our collaboration agreement with Novartis. Loans under the facility were intended to fund early clinical studies of kinase inhibitor compounds that we selected for development. In February 2004, we amended the terms of the Novartis collaboration agreement. Pursuant to the amended agreement, we will continue to be responsible for drug discovery and Novartis will continue to provide research funding through the balance of the research term ending in April 2006. However, pursuant to the amendment, Novartis will now be responsible for all nonclinical and clinical development of drug candidates that it accepts for development, and, consequently, the loan facility providing funding for development activities by Vertex has been terminated. On June 22, 2004, we gave notice to Novartis of our election to develop VX-680 independent of Novartis and, as a result, we repaid approximately $12.5 million of unspent and uncommitted loan amounts relating to that compound. Loans for collaboration compounds other than VX-680 will be forgiven on a compound by compound basis if any such compounds are selected by Novartis for development. All loans not forgiven under the facility will be repayable, without interest, in May 2008.

We expect to continue to make significant investments in our pipeline, particularly in clinical trials of our anti-HCV and oral anti-cytokine product candidates and in our ion channel and kinase discovery efforts. Consequently, we expect to incur losses on a quarterly and annual basis for the foreseeable future as we continue to develop and commercialize existing and future drug candidates. We also expect to incur substantial administrative expenditures in the future and expenses related to filing, prosecution, defense and enforcement of patent and other intellectual property rights.

For the nine months ended September 30, 2004, there have been no significant changes to our commitments and obligations as reported in our 2003 Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 15, 2004, as amended on Form 10-K/A filed with the Securities and Exchange Commission on September 8, 2004, except for the exchange of an aggregate principal amount of $232.4 million of newly issued 2011 Notes for an equal principal amount of our 2007 Notes.

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

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

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements prepared in accordance with generally accepted accounting principles in the United States of America. The preparation of these financial statements requires us to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expense during the reported periods. These items are constantly monitored and analyzed by management for changes in facts and circumstances, and material changes

in these estimates could occur in the future. Changes in estimates are recorded in the period in which they become known. We base our estimates on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from our estimates if these assumptions do not turn out to be substantially accurate.

We believe that the application of the accounting policies for restructuring and other expense, research and development expenses, and revenue recognition, all of which are important to our financial position and results of operations, require significant judgments and estimates on the part of management. Our accounting polices, including the ones discussed below, are more fully described in Note B to our consolidated financial statements included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 15, 2004, as amended on Form 10K/A filed with the Securities and Exchange Commission on September 8, 2004.

Restructuring and Other Expense

We record liabilities associated with restructuring activities based on estimates of fair value in the period the liabilities are incurred, in accordance with Standards of Financial Statements 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS 146"). These estimates are reviewed and may be adjusted in subsequent periods. Adjustments are based, among other things, on management's assessment of changes in factors underlying the estimates, the impact of which is measured using the credit-adjusted risk-free rate applied in the initial period.

In 2003, we announced a plan to restructure our operations in preparation for increased investment in the clinical development and commercialization of our drug candidates. We designed the restructuring to re-balance our relative investment in research, development and commercialization to better support our long-term objective of becoming an integrated drug company. The restructuring included a workforce reduction, write-offs of certain assets and a decision not to occupy the Kendall Square Facility. We are actively seeking subtenancies to offset our ongoing lease obligations. In September, 2004, we entered into a sublease for approximately 45,000 square feet of the Kendall Square Facility.

In accordance with SFAS 146, we have reviewed our assumptions and estimates quarterly and updated the liability as changes in circumstances have required. For the nine months ended September 30, 2004, we recorded $5.2 million of restructuring and other expenses, which is primarily the result of the imputed interest cost related to the restructuring accrual. The remaining restructuring accrual relating to the estimated net ongoing lease obligations for the Kendall Square Facility was $50.1 million at September 30, 2004.

We are required to make significant judgments and assumptions when estimating the liability for the net ongoing lease obligations for the Kendall Square Facility. We used a probability-weighted discounted cash flow analysis to calculate the amount of the liability. In accordance with SFAS 146, we used a credit-adjusted risk-free rate of 10% in discounting our estimated cash flows. The probability-weighted discounted cash flow analysis is based on management's assumptions and estimates of its ongoing lease obligations, including contractual rental and build-out commitments, and sublease rentals, including time to sublease the space, sublease rental rates and sublease rental terms. We validate our estimates and assumptions through consultations with independent third parties having relevant expertise.

It is possible that our estimates and assumptions will change in the future, resulting in additional adjustments to our estimate of the liability, and the effect of such adjustments could be material. For example, if sublease rental rates differ from our assumptions by approximately 10%, our recorded liability will be adjusted by approximately $4.3 million. If the time to secure subtenancies is delayed by six months from our estimated completion dates, the delay could result in up to $6.0 million of additional liability (and the increase would be higher if there is further delay).

We will review our assumptions and judgments related to the liability on at least a quarterly basis, until the outcome is finalized, and make whatever modifications we believe are necessary, based on our best judgment, to reflect any changed circumstances.

Revenue Recognition

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

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

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

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

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

Results of Operations

The following discussion of revenues and expenses is based only on the results of our continuing operations. We sold the assets of our Discovery Tools and Services business in two independent transactions in March and December 2003. In accordance with Statements of Financial Accounting Standards 144, "Accounting for the Impairment of Long-Lived Assets" ("SFAS No. 144"), the results of operations associated with the assets sold have been reclassified on the consolidated financial statements under the heading "discontinued operations" for the three and nine months ended

September 30, 2003. The reclassification of the amounts to discontinued operations has been prepared using estimates and assumptions we have deemed appropriate based upon the information currently available. Amounts reclassified to discontinued operations are not necessarily indicative of the results that would have been achieved had the Discovery Tools and Services business operated on a stand-alone basis during the periods presented.

As a result of the disposition of these assets, we now operate in a single operating segment: Pharmaceuticals.

Three Months Ended September 30, 2004 Compared with Three Months Ended September 30, 2003

Net Loss

Our net loss for the three months ended September 30, 2004 was $38,771,000, or $0.49 per basic and diluted common share, compared to net loss of $86,421,000, or $1.12 per basic and diluted common share, for the three months ended September 30, 2003. Included in the net loss for the quarter ended September 30, 2004 is restructuring and other expense of $1,561,000 and a charge for retirement of a portion of our 2007 notes of $993,000. Our net loss for the quarter ended September 30, 2003 includes restructuring and other expense of $42,394,000 and income from discontinued operations of $1,180,000.

Revenues

Total revenues increased to $26,828,000 for the three months ended September 30, 2004, compared to $15,823,000 for the three months ended September 30, 2003. In the third quarter of 2004, revenue was comprised of $4,403,000 in royalties and $22,425,000 in collaborative and other research and development revenue, as compared with $2,003,000 in royalties and $13,820,000 in collaborative and other research and development revenue in the third quarter of 2003.

Royalties consist of Agenerase and Lexiva royalty revenue. Royalty revenue is based on actual and estimated worldwide net sales of these drug products. We began earning royalties on sales of Lexiva in the United States in November 2003. Lexiva recently received marketing approval in the European Union (under the trade name Telzir) and it was launched in the European Union in the third quarter of 2004. Royalty revenue increased in the third quarter of 2004 as compared with the same period in 2003 primarily as a result of sales of Lexiva in the United States. We have noted a decrease in sales of Agenerase since the launch of Lexiva, which we attribute to the availability and acceptance of Lexiva, and we anticipate that this trend will continue until Agenerase is largely replaced by Lexiva in the market. We pay a royalty to a third party on sales of Agenerase and Lexiva.

Collaborative and other research and development revenue increased $8,605,000, or 62%, for the three months ended September 30, 2004 as compared with the same period in 2003. In the third quarter of 2004, we recognized revenue under our new collaborations with Merck and Mitsubishi in the amount of $4,311,000, and recorded as revenue a $1,500,000 milestone from GlaxoSmithKline as a result of the marketing approval of Telzir in the European Union.

We expect that collaborative and other research and development revenues will continue to be a significant source of our total revenues.

Costs and Expenses

Research and development expenses decreased $837,000, or 2%, to $48,790,000 for the three months ended September 30, 2004 from $49,627,000 for the same period in 2003.

Research and development expenses consist primarily of salary and benefits, laboratory supplies, contractual services and infrastructure costs, including facilities costs and depreciation. Set forth below

is a summary that reconciles our total research and development expenses for the three months ended September 30, 2004 and 2003 (in thousands):

	Three Months Ended, September 30,			
	2004	2003	$ Change	% Change
Research Expenses:				
Salary and benefits	$ 8,939	$ 8,702	$ 237	3%
Laboratory supplies and other direct expenses	5,156	4,266	890	21%
Contractual services	2,509	1,255	1,254	100%
Infrastructure costs	11,761	11,847	(86)	(1)%
Total research expenses	$ 28,365	$ 26,070		
Development Expenses:				
Salary and benefits	$ 5,224	$ 5,273	$ (49)	(1)%
Laboratory supplies and other direct expenses	2,043	1,078	965	90%
Contractual services	7,705	12,899	(5,194)	(40)%
Infrastructure costs	5,453	4,307	1,146	27%
Total development expenses	$ 20,425	$ 23,557		
Total Research and Development Expenses:				
Salary and benefits	$ 14,163	$ 13,975	$ 188	1%
Laboratory supplies and other direct expenses	7,199	5,344	1,855	35%
Contractual services	10,214	14,154	(3,940)	(28)%
Infrastructure costs	17,214	16,154	1,060	7%
Total research and development expenses	$ 48,790	$ 49,627		

The following table details our Collaborator- and Company-sponsored research and development expenses for the indicated periods (in thousands):

	For the Three Months Ended September 30, 2004			For the Three Months Ended September 30, 2003		
	Research	Development	Total	Research	Development	Total
Collaborator-sponsored	$ 14,249	$ 3,915	$ 18,164	$ 14,754	$ 5,669	$ 20,423
Company-sponsored	14,116	16,510	30,626	11,316	17,888	29,204
Total	$ 28,365	$ 20,425	$ 48,790	$ 26,070	$ 23,557	$ 49,627

We continue to focus our drug discovery efforts on the protein kinase and ion channel gene families as well as on several other targeted areas. A significant portion of our investment in research is funded by our collaborative partners. We expect research expenses to remain at relatively constant levels throughout 2004, but the level of development investment will vary depending on the occurrence and timing of clinical trials. In the third quarter of 2004, we continued a Phase IIb (METRO) study of merimepodib (in combination with Pegasys® (peginterferon alfa-2a) and Copegus® (ribavirin)) and completed a Phase Ia study of VX-950 also for the treatment of HCV infection. In the fourth quarter of 2004, we expect to begin dosing on a 28-day clinical study of merimepodib in combination with ribavirin and a Phase II clinical study of VX-765 in patients with psoriasis, in addition to a Phase Ib clinical trial of VX-950 which began in November 2004. We currently are evaluating indications for which we may pursue clinical studies for VX-702 and we plan to update our intentions for VX-702 later this year. We anticipate that development expenses will increase in future periods as we add personnel and capabilities to support the advancement of our lead drug candidates.

Sales, general and administrative expenses increased 12% to $10,600,000 for the three months ended September 30, 2004, compared to $9,436,000 for the same period in 2003. The increase is partially attributable to increased professional consulting expense incurred to comply with the Sarbanes-Oxley Act of 2002. We expect sales, general and administrative expenses for the three months ending December 31, 2004 to be similar to those expenses for the three months ended September 30, 2004.

Restructuring and other expense for the three months ended September 30, 2004 was $1,561,000, compared to $42,394,000 for the three months ended September 30, 2003. The charge in the third quarter of 2004 primarily reflects the imputed interest cost for the period related to the restructuring accrual. In addition, in the third quarter of 2004, $8,200,000 of cash payments were charged against the restructuring and other expense accrual. The charge for the third quarter of 2003 includes $42,394,000 million related to a lease restructuring. The accrual balance at September 30, 2004 was $50,123,000. We will continue to incur the imputed interest costs of the restructuring accrual on a quarterly basis at the credit-adjusted risk-free rate until the outcome is finalized. Calculating the liability related to our estimated ongoing lease obligations for the Kendall Square Facility requires us to make significant estimates and assumptions. These estimates and assumptions are monitored at least quarterly for changes in circumstances. It is reasonably possible that such estimates could change in the future, resulting in additional adjustments, and the effect of any such adjustments could be material.

Interest income decreased $719,000, or 23%, to $2,445,000 for the three months ended September 30, 2004 from $3,164,000 for the three months ended September 30, 2003. The decrease is a result of a lower average balance of funds invested and lower portfolio yields.

Nine Months Ended September 30, 2004 Compared with Nine Months Ended September 30, 2003

Net Loss

Our net loss for the nine months ended September 30, 2004 was $123,478,000, or $1.57 per basic and diluted common share, compared to a net loss of $155,738,000, or $2.03 per basic and diluted common share, for the nine months ended September 30, 2003. Included in the net loss for the nine months ended September 30, 2004 is restructuring and other expense of $5,216,000 and a charge for retirement of a portion of the 2007 Notes of $3,446,000. Our net loss for the nine months ended September 30, 2003 includes restructuring and other expense of $90,424,000 and income from discontinued operations of $69,669,000. Included in the income from discontinued operations is a gain from the sale of assets of $69,683,000.

Revenues

Total revenues increased to $62,882,000 for the nine months ended September 30, 2004, compared to $47,764,000 for the nine months ended September 30, 2003. In the nine months ended September 30, 2004, revenue was comprised of $10,996,000 in royalties and $51,886,000 in collaborative and other research and development revenue, as compared with $5,944,000 in royalties and $41,820,000 in collaborative and other research and development revenue in the nine months ended September 30, 2003.

Collaborative and other research and development revenue increased $10,066,000, or 24%, for the nine months ended September 30, 2004, as compared with the same period in 2003. In the nine months ended 2004, we recognized revenue under our collaboration with Novartis in the amount of $34,481,000, compared with $32,325,000 in the nine months ended September 30, 2003. Under our new collaborations with Merck and Mitsubishi Pharma Corporation, we recognized revenue of $4,583,000 in the nine months ended September 30, 2004.

Costs and Expenses

Research and development expenses decreased $13,421,000, or 9%, to $137,915,000 for the nine months ended September 30, 2004 from $151,336,000 in the nine months ended September 30, 2003.

Set forth below is a summary that reconciles our total research and development expenses for the nine months ended September 30, 2004 and 2003 (in thousands):

	Nine Months Ended, September 30,			
	2004	2003	$ Change	% Change
Research Expenses:				
Salary and benefits	$ 27,515	$ 29,851	$ (2,336)	(8)%
Laboratory supplies and other direct expenses	13,121	14,914	(1,793)	(12)%
Contractual services	6,118	3,785	2,333	62%
Infrastructure costs	36,023	36,496	(473)	(1)%
Total research expenses	$ 82,777	$ 85,046		
Development Expenses:				
Salary and benefits	$ 14,626	$ 15,860	$ (1,234)	(8)%
Laboratory supplies and other direct expenses	5,195	3,628	1,567	43%
Contractual services	19,054	33,599	(14,545)	(43)%
Infrastructure costs	16,263	13,203	3,060	23%
Total development expenses	$ 55,138	$ 66,290		
Total Research and Development Expenses:				
Salary and benefits	$ 42,141	$ 45,711	$ (3,570)	(8)%
Laboratory supplies and other direct expenses	18,316	18,542	226	1%
Contractual services	25,172	37,384	(12,212)	(33)%
Infrastructure costs	52,286	49,699	2,587	5%
Total research and development expenses	$ 137,915	$ 151,336		

The following table details our Collaborator- and Company-sponsored research and development expenses for the indicated periods (in thousands):

	For the Nine Months Ended September 30, 2004			For the Nine Months Ended September 30, 2003		
	Research	Development	Total	Research	Development	Total
Collaborator-sponsored	$ 43,913	$ 10,754	$ 54,667	$ 44,292	$ 15,419	$ 59,711
Company-sponsored	38,864	44,384	83,248	40,754	50,871	91,625
Total	$ 82,777	$ 55,138	$ 137,915	$ 85,046	$ 66,290	$ 151,336

Sales, general and administrative expenses increased 7% to $30,482,000 for the nine months ended September 30, 2004, compared to $28,608,000 for the same period in 2003. The increase is partially attributable to increased professional consulting expense incurred to comply with the Sarbanes-Oxley Act of 2002.

Restructuring and other expense for the nine months ended September 30, 2004 was $5,216,000, compared to $90,424,000 for the nine months ended September 30, 2003. The charge for the nine months ended September 30, 2004 primarily reflects the imputed interest cost for the period related to the restructuring accrual. In addition, in the nine months ended September 30, 2004,

$24,603,000 million of cash payments for rent and build-out were charged against the restructuring and other expense accrual.

Interest income decreased $4,372,000, or 35%, to $7,981,000 for the nine months ended September 30, 2004 from $12,353,000 for the nine months ended September 30, 2003. The decrease is a result of a lower average balance of funds invested and lower portfolio yields.

In the first quarter of 2004, we wrote off $2,453,000 of unamortized issuance costs related to the 2007 Notes that were retired in February 2004. In the third quarter of 2004, we wrote off an additional $993,000 of unamortized issuance costs related to the 2007 Notes that were retired in September 2004.

Forward-Looking Statements

This report contains forward-looking statements about our business, including our expectation that (i) we will incur losses for the foreseeable future; (ii) research expenses for the remainder of 2004 will be consistent with the third quarter of 2004, but the level of development expenses will vary depending on the occurrence and timing of clinical trials; (iii) we will enter into additional strategic collaborations; (iv) we will continue to collaborate with existing and new partners to develop and market Vertex- discovered products for selected major therapeutic areas; (v) our financial results for 2004 will be as set forth in the section titled "Financial Guidance," beginning on page 15 of this Quarterly Report on Form 10-Q; (vi) our guarantee obligations will be as set forth in Footnote 8 to the Condensed Consolidated Financial Statements, beginning on page 11 of this Quarterly Report on Form 10-Q; (vii) our liability under the Kendall Square Facility lease will be as we have estimated and we may pay the full amount in the next 18 months; (viii) sales, general and administrative expenses during the fourth quarter of 2004 will be consistent with those in the third quarter of 2004; (ix) we will initiate clinical studies of certain of our compounds in the fourth quarter of 2004, including new studies in 2004 on merimepodib and VX-765; (x) we will make significant investments in our pipeline, particularly in clinical trials of our anti-HCV and oral anti-cytokine drug products and in our ion channel and kinase discovery efforts; and (xi) Agenerase will be largely replaced by Lexiva in the market.

While we use our best efforts to be accurate in making forward-looking statements, these statements are subject to risks and uncertainties that could cause our actual results to vary materially. These risks and uncertainties include, among other things, our inability to further identify, develop and achieve commercial success for new products and technologies; the possibility of delays in the research and development necessary to select drug development candidates; the possibility of delays in the commencement or completion of clinical trials; the risk that planned clinical and nonclinical activities may not commence as scheduled; the risk that clinical and nonclinical trials may not result in marketable products; the risk that we may be unable to successfully finance and secure regulatory approval of and market our drug candidates; our dependence upon existing and new pharmaceutical and biotechnology collaborations; uncertainties relating to the levels and timing of payments under our collaborative agreements; uncertainties about our ability to obtain new corporate collaborations on satisfactory terms, if at all; the possible development of competing systems; our possible inability to protect our proprietary technologies; possible patent-infringement claims; risks of new, changing and competitive technologies; the risk that there may be changing and new regulations governing our operations or the sale of pharmaceutical products in the U.S. and internationally; and uncertainty about our ability to restructure our obligation under the Kendall Square Facility lease; or the risk that our assumptions and estimates relating to subleases of that space may not prove accurate.

Please see the "Risk Factors" appearing in our 2003 Annual Report to Stockholders and in our Form 10-K filed with the Securities and Exchange Commission on March 15, 2004, as amended by Form 10-K/A filed with the Securities and Exchange Commission on September 8, 2004, for more details regarding these and other risks. We disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Interest Rate Risk

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

Item 4. Controls and Procedures

(a) *Evaluation of Disclosure Controls and Procedures.* The Company's chief executive officer and chief financial officer, after evaluating the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 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, the Company's disclosure controls and procedures were adequate and effective to ensure that material information relating to the Company, including its consolidated subsidiaries, was made known to them by others within those entities, particularly during the period in which this Report on Form 10-Q was being prepared. In designing and evaluating the disclosure controls and procedures, the Company's management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

(b) *Changes in Internal Controls Over Financial Reporting.* No change in the Company's internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) occurred during the third quarter of 2004 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings

See Note 9 to the condensed consolidated financial statements.

Item 5. Other Information

On November 8, 2004, the Company's Change of Change of Control Agreements with certain executives were amended, effective as of that date, to add restricted stock to the types of equity grants eligible for accelerated vesting upon termination of the executive's employment in connection with a change of control of the Company. A copy of the form of Amendment to Change of Control Agreement, with an attached schedule identifying the individual parties to that agreement, is attached to this report as Exhibit 10.7.

On November 8, 2004, the Company entered into a Restricted Stock Agreement with 25 of its officers, including the Chief Executive Officer, President, each Senior Vice President, each Vice President and each Program Executive. The Restricted Stock Agreement sets forth the specific terms and conditions of the issuance of a special one-time grant made on May 6, 2004, which vests 50% on May 6, 2007 and 50% on May 6, 2009, subject to acceleration upon the Company achieving profitability. A copy of the form of Restricted Stock Agreement, with an attached schedule of the recipients and number of shares granted, is attached to this report as Exhibit 10.8.

On November 8, 2004, the Company entered into amendments of its employment agreements with each of Dr. Joshua Boger, Chairman and Chief Executive Officer; Dr. Vicki Sato, President; Kenneth Boger, Senior Vice President and General Counsel; Dr. N. Anthony Coles, Senior Vice President, Commercial Operations; and Ian F. Smith, Senior Vice President and Chief Financial Officer. In each case, the Employment Agreements were amended to add restricted stock to the types of equity grants eligible for accelerated vesting upon termination of the executive's employment under specified circumstances. Additionally, Dr. Joshua Boger's and Dr. Sato's employment agreements were revised to eliminate a requirement that the Company provide them 18 months' notice of termination of employment other than for cause, and provide instead for 18 months' severance and accelerated vesting of equity grants held by them on the date of a not-for-cause employment termination. Mr. Kenneth Boger's and Mr. Smith's employment agreements were amended and restated to provide for annual renewal after the initial term, which was four years for Mr. Boger and three years for Mr. Smith and to provide that the severance benefits upon termination of employment during the initial term of those agreements be extended beyond the initial term into all subsequent annual renewal periods. Amendments to the Company's employment agreements with Dr. Joshua Boger, Dr. Sato, and Dr. Coles are attached to this report as Exhibits 10.9, 10.10, and 10.12, respectively. The Company's Amended and Restated Employment Agreements with each of Mr. Kenneth Boger and Mr. Smith are attached to this report as Exhibits 10.11 and 10.13, respectively.

Item 6. Exhibits

4.1	Indenture, dated as of September 17, 2004, between Vertex Pharmaceuticals Incorporated and US Bank National Association, as Trustee, filed as Exhibit 10.2 to Vertex's Current Report on Form 8-K dated September 17, 2004 [File No. 000-19319] and incorporated by reference herein.
10.1	Dealer Manager Agreement, dated September 13, 2004, between the Company and the UBS Securities LLC, filed as Exhibit 10.1 to Vertex's Current Report on Form 8-K dated September 17, 2004 [File No. 000-19319] and incorporated by reference herein.
10.2	Resale Registration Rights Agreement, dated as of September 17, 2004, between the Company and UBS Securities LLC, filed as Exhibit 10.3 to Vertex's Current Report on Form 8-K dated September 17, 2004 [File No. 000-19319] and incorporated by reference herein.
10.3	Research, Development and Commercialization Agreement, dated May 24, 2004, by and between Vertex Pharmaceuticals Incorporated and Cystic Fibrosis Foundation Therapeutics Incorporated, filed (with certain confidential information redacted) as Exhibit 99.2 to Vertex's Current Report on Form 8-K/A dated September 10, 2004 [File No. 000-19319] and incorporated by reference herein.*
10.4	Exclusive Research Collaboration, License and Commercialization Agreement, dated June 21, 2004, by and between Vertex Pharmaceuticals Incorporated and Merck & Co., Inc., filed (with certain confidential information redacted) as Exhibit 99.4 to Vertex's Current Report on Form 8-K/A dated September 10, 2004 [File No. 000-19319] and incorporated by reference herein.*
10.5	License, Development and Commercialization Agreement, dated June 11, 2004, by and between Vertex Pharmaceuticals Incorporated and Mitsubishi Pharma Corporation, filed (with certain confidential information redacted) as Exhibit 99.2 to Vertex's Current Report on Form 8-K/A dated September 10, 2004 [File No. 000-19319] and incorporated by reference herein.*
10.6	First Revised and Restated Research and Early Development Agreement dated February 3, 2004, by and between Vertex Pharmaceuticals Incorporated and Novartis Pharma AG filed (with certain confidential information redacted) as Exhibit 10.35 to Vertex's Annual Report on Form 10-K/A dated September 8, 2004 [File No. 000-19319] and incorporated by reference herein.*
10.7	Form of Amendment, dated November 8, 2004, to Letter Agreement covering special rights upon a change of control transaction with each of the individuals listed on Schedule 1 thereto. (filed herewith).+
10.8	Form of Restricted Stock Agreement between the Company and each of the individuals listed on Schedule 1 thereto.+
10.9	Second Amendment, dated November 8, 2004, to Employment Agreement between Vertex and Joshua S. Boger (filed herewith).+
10.10	Second Amendment, dated November 8, 2004, to Employment Agreement between Vertex and Vicki L. Sato (filed herewith).+
10.11	Amended and Restated Employment Agreement, dated November 8, 2004, between Vertex and Kenneth S. Boger (filed herewith).+
10.12	Amendment, dated November 8, 2004, to Letter Agreement between Vertex and N. Anthony Coles (filed herewith).+
10.13	Amended and Restated Employment Agreement dated November 8, 2004, between Vertex and Ian F. Smith (filed herewith).+

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.

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

+ Compensatory plan or agreement applicable to management and/or employees.

Signatures

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

VERTEX PHARMACEUTICALS INCORPORATED

November 9, 2004 By: /s/ IAN F. SMITH

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

Exhibit Index

Exhibit No.	Description
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* Confidential portions of this document have been filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment.

\+ Compensatory plan or agreement applicable to management and/or employees.

EXHIBIT 10.7

November 8, 2004

Re: Amendment to Change of Control Agreement

Dear [______],

The Change of Control Agreement dated as of March 7, 2003 between you and Vertex Pharmaceuticals Incorporated (the "AGREEMENT") hereby is amended, effective November 8, 2004, as follows:

1. Insert a new Section I.7, which shall state in its entirety:

I.7 "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 period (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 an additional 18 month period. For any other shares of restricted stock, "Pro-Rata Share of Restricted Stock" shall mean, as to any shares of restricted stock which 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 18 months, 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.

2. Delete Section 2, "Accelerated Vesting," in its entirety, and substitute the following therefor:

2. ACCELERATED VESTING

(a) Stock options for the purchase of the Company's securities held by you as of the Termination Date and not then exercisable shall be deemed to have been held by you for an additional 18 months, for purposes of calculating the number of options which are exercisable on the Termination Date. The options to which this accelerated vesting applies shall remain exercisable

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until the earlier of (a) the end of the 90-day period immediately following the Termination Date, or (b) the date the stock option(s) would otherwise expire; and

(b) 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.

(c) Notwithstanding anything to the contrary in this agreement, 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 agreement are more favorable to you.

As so amended, the Change of Control Agreement shall remain in full force and effect.

If you agree to the foregoing amendment, please so indicate by signing and returning the enclosed copy of this letter.

VERTEX PHARMACEUTICALS INCORPORATED

By:

Joshua S. Boger
Chairman and Chief Executive Officer

Accepted and Agreed:

- ------------------------
[ ]

SCHEDULE 1
PARTIES TO AMENDMENT TO CHANGE OF CONTROL AGREEMENT

John Alam
Lynne Brum
Pamela Fritz
Peter Mueller
Mark Murcko
Steven Schmidt
John Thomson
Jeffrey Wilson

EXHIBIT 10.8

RESTRICTED STOCK AGREEMENT

VERTEX PHARMACEUTICALS INCORPORATED

AGREEMENT made as of the 6th day of May 2004 (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 1996 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 "ACCELERATION DATE" shall mean the date on which the Company's Board of Directors determines that the Company has achieved Profitability.

1.2 "CAUSE" shall mean:

(a) conviction of the Participant of a felony 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.

1.3 "CHANGE OF CONTROL" shall mean that:

(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 beneficial owner, as such term is used in Rule 13d-3 promulgated under the Act, of securities of the Company representing more than fifty percent (50%) of the combined voting power of the outstanding securities of the Company having the right to vote in

the election of directors; or

(b) 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 (i) a transaction solely for the purpose of reincorporating the Company or one of its subsidiaries in a different jurisdiction or recapitalizing or reclassifying the Company's stock; or (ii) 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.

1.4 "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).

1.5 "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:

(i) The Participant is assigned to any duties or responsibilities that are inconsistent, in any significant respect, with the scope of duties and responsibilities performed in the Participant's positions and offices 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 positions and offices on the date hereof on the basis of which the Participant makes a determination in good faith that the Participant can no longer carry out such positions or offices in the manner contemplated 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;

(iii) The Participant's base salary is decreased below the level on the date hereof;

(iv) The principal office of the Company, or the location of the office to which the Participant is assigned on the date hereof, is relocated to a place thirty-five (35) or more miles away; or

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

1.6 "PROFITABILITY" shall mean that the Company has aggregate positive net income for four consecutive financial quarters, as reported by the Company, applying generally accepted accounting principles, consistently applied, adjusted upwards or downwards to exclude:

(a) acquisition and merger-related charges;

(b) gains and losses from the disposition of significant assets other than in the ordinary course of the Company's business;

(c) gains and losses from investments (not including gains and losses related to the management of cash and cash equivalents, and marketable securities);

(d) gains and losses from the adoption of new or alternative accounting treatments;

(e) employee stock/equity compensation charges;

(f) gains or losses associated with conversion or exchange of convertible debt;

(g) special charges related to acquisitions, such as, for example, good will adjustments, in-process R&D charges, and adjustments for harmonization of accounting principles;

(h) asset impairment charges;

(i) legal contingencies; and

(j) other similar or analogous items;

PROVIDED, HOWEVER, that in making the determination of the amount of aggregate net income, the Company's Board of Directors may include any particular item falling within the categories listed above, or exclude or include other items as it deems reasonable and appropriate to achieve the objectives of the Plan.

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, [_________] 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), (ii) and (iii) below, if for any reason the Participant no longer is an employee, director or consultant of the Company or an affiliate prior to the fifth anniversary of the Grant Date, the Company (or its designee) shall have the option, but not the obligation, to purchase from the Participant (or the Participant's survivor), and, in the event the Company exercises such option, the Participant (or the Participant's survivor) 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), (ii) and (iii) 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, in the event 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 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 50% of the Granted Shares on the third anniversary of the Grant Date, if the Participant continues to serve as an employee, director or consultant of the Company on that date;

(ii) the Company's Lapsing Repurchase Right shall lapse with respect to 50% of the Granted Shares on the earlier of (a) the Acceleration Date or (b) the fifth anniversary of the Grant Date, if the Participant continues to serve as an employee, director or consultant of the Company on that date.

(iii) notwithstanding anything to the contrary contained in this Agreement, if the Company or an affiliate terminates the Participant's employment or service for Cause or in the event the Committee determines, within 90 days after the Participant's termination, that either prior or subsequent to the Participant's termination the Participant engaged in conduct that would constitute Cause, the Company shall have the option to repurchase all of the Granted Shares acquired by the Participant hereunder for the Purchase Price.

(b) EFFECT OF TERMINATION BY THE COMPANY WITHOUT CAUSE, BY THE PARTICIPANT FOR GOOD REASON, OR UPON DISABILITY OR DEATH. Except as otherwise provided in Subsection 3 (a)(iii) above, 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 May 6, 2004 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:

Name:
Title:

PARTICIPANT:

Print name:

EXHIBIT A

CONSENT OF SPOUSE

I, ____________________________, spouse of _____________________________, acknowledge that I have read the RESTRICTED STOCK AGREEMENT dated as of _______________, 200__ (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 ________________, 200__.

Print name:

SCHEDULE 1
PARTIES TO RESTRICTED STOCK AGREEMENT

Individual	Number of Shares
Alam, John J.	65,000
Boger, Joshua S.	105,000
Boger, Kenneth S.	65,000
Brum, Lynne H.	35,000
Coles, N. Anthony	65,000
Fritz, Pamela J.	35,000
Gharakharian, Shahin	20,000
Golec, Julian	20,000
Henry, Glinda Louise	20,000
Kauffman, Robert S.	20,000
Kelley, William S.	20,000
Lyons, Steve	20,000
Mueller, Peter	65,000
Murcko, Mark	20,000
Negulescu, Paul A.	20,000
Olson, Eric	20,000
Randle, John C.R.	20,000
Sato, Vicki L.	87,500
Schmidt, Steven P.	20,000
Smith, Ian F.	65,000
Thomson, John	20,000
Tung, Roger D.	20,000
Vaz, Alfred	20,000
Williams Leslie L.	20,000
Wilson, Jeffrey D.	35,000

EXHIBIT 10.9

November 8, 2004

Joshua S. Boger
243 Old Pickard Road
Concord, MA 01742

Re: Second Amendment to Employment Agreement

Dear Joshua,

The Employment Agreement dated as of November 1, 1994, as amended by letter agreement dated May 12, 1995, between you and Vertex Pharmaceuticals Incorporated (the "Agreement") hereby is amended, effective November 8, 2004, by deleting Section 6.4 in its entirety, and substituting the following:

6.4 TERMINATION WITHOUT CAUSE. If the Executive's employment is terminated by the Company without Cause, the Executive shall be entitled to 18 months of Severance Pay. "Severance Pay" shall mean an amount equal to the Executive's base salary then in effect, plus the amount of the target bonus 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). In addition: (i) all unexercisable stock options held by the Executive as of the date of termination shall be deemed to have been held by the Executive for an additional eighteen (18) months after the date of termination, for purposes of vesting and exercise rights, and any unexercisable 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 termination and (2) the date the option would otherwise expire and (ii) the Company's lapsing 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 "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 period (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 an additional eighteen month period. For any other shares of restricted stock, "Pro-Rata Share of Restricted Stock" shall mean, as to any shares of restricted stock which 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 18 months, 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. Notwithstanding the foregoing, the terms of any option agreement or restricted stock agreement shall govern the acceleration 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.

As so amended, the Agreement shall remain in full force and effect.

If you agree to the foregoing amendment, please so indicate by signing and returning the enclosed copy of this letter.

VERTEX PHARMACEUTICALS INCORPORATED

By: /s/ VICKI L. SATO

Vicki L. Sato, President

Accepted and Agreed:

/s/ JOSHUA S. BOGER
- -----------------------------------
Joshua S. Boger

Exhibit 10.10

November 8, 2004

Vicki L. Sato
43 Larch Road
Cambridge, MA 02138

Re: Second Amendment to Employment Agreement

Dear Vicki,

The Employment Agreement dated as of November 1, 1994, as amended by letter agreement dated May 12, 1995, between you and Vertex Pharmaceuticals Incorporated (the "Agreement") hereby is amended, effective November 8, 2004, as follows:

1. Section 6.4 shall be deleted in its entirety, and the following substituted therefor:

6.4 TERMINATION WITHOUT CAUSE. If the Executive's employment is terminated by the Company without Cause, the Executive shall be entitled to 18 months of Severance Pay. "Severance Pay" shall mean an amount equal to the Executive's base salary then in effect, plus the amount of the target bonus 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). In addition: (i) all unexercisable stock options held by the Executive as of the date of termination shall be deemed to have been held by the Executive for an additional eighteen (18) months after the date of termination, for purposes of vesting and exercise rights, and any unexercisable 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 termination and (2) the date the option would otherwise expire and (ii) the Company's lapsing 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 "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 period (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 an additional eighteen month period. For any other shares of restricted stock, "Pro-Rata Share of Restricted Stock" shall mean, as to any shares of restricted stock which 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 18 months, 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. Notwithstanding the foregoing, the terms of any option agreement or restricted stock agreement shall govern the acceleration 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.

2. Appendix A, Section 1.3(i)(a) shall be deleted in its entirety, and the following substituted therefor:

   (a) substantial adverse alteration in the nature or status of the Executive's position or responsibilities as President of the Company or the condition of her employment as President of the Company;

As so amended, the Agreement shall remain in full force and effect.

If you agree to the foregoing amendment, please so indicate by signing and returning the enclosed copy of this letter.

VERTEX PHARMACEUTICALS INCORPORATED

By: /s/ Joshua S. Boger

Joshua S. Boger, Chairman and CEO

Accepted and Agreed:

/s/ Vicki L. Sato
- ------------------------
Vicki L. Sato

EXHIBIT 10.11

AMENDED AND RESTATED EMPLOYMENT AGREEMENT

This Amended and Restated Employment Agreement (the "Agreement") amends and restates, effective as of this 8th day of November, 2004, that certain Employment Agreement made and entered into as of the 24th day of September, 2001 (the "ORIGINAL AGREEMENT") by and between Vertex Pharmaceuticals Incorporated, a Massachusetts corporation (together with its successors and assigns, the "COMPANY"), and Kenneth S. Boger (the "EXECUTIVE").

W IT N E S S E T H

WHEREAS, the Company has employed the Executive as the General Counsel and a Senior Vice President of the Company since the date of the Original Agreement; and

WHEREAS, the Company and the Executive desire to amend the Original Agreement to extend certain terms of the Original Agreement beyond the Initial Term, to add certain provisions regarding grants of restricted stock, which the Company has begun issuing in addition to stock options since the date of the Original Agreement, and to make certain other changes to clarify the meaning of some provisions.

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, 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, 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) "CHANGE OF CONTROL" shall be deemed to have occurred if:

(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

(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(other than a business which is an independent general practice law firm which is so "associated" only by reason of the business of one or more of its clients), which, in the sole discretion of the Company, is determined to compete with the business and/or interests or future interests of 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 Section 22(e)(3).

(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 the first date written above.

(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:

(i) The Executive 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 suffers a reduction in the authorities, duties, and responsibilities customarily associated with his position and office 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 reduction in the authorities, duties or responsibilities is not for Cause, or due to Executive's Disability, and is not at the Executive's request;

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

(iv) The principal executive office of the Company, or the Executive's own office location as assigned to him by the Company at the Effective Date is relocated to a place thirty-five (35) or more miles away, without the Executive's agreement; or

(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 period (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 which 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, for the period commencing on the Effective Date and ending on the fourth anniversary of the Effective Date, subject to earlier termination in accordance with the terms of this Agreement. Thereafter, the Term of Employment shall automatically renew on each anniversary of the Effective Date for additional one-year period(s), UNLESS (i) the Company notifies the Executive in writing in accordance with SECTION 23 below, at least 90 days prior to the expiration of the then-current Term that it does not want the Term of Employment to so renew, or (ii) the Executive has notified the Company in writing in accordance with SECTION 23 below that Executive does not want the Term of Employment to so renew. The initial four year Term of Employment hereunder is referred to herein as the "INITIAL TERM", and the Initial Term plus all additional one-year renewal periods (if any), are collectively referred to herein as the "TERM OF EMPLOYMENT" or the "TERM OF THE AGREEMENT".

3. POSITION, DUTIES AND RESPONSIBILITIES.

On the Effective Date and continuing for the remainder of the Term of Employment, the Executive shall be employed as the General Counsel and Senior Vice President of the Company, and shall be responsible for duties customarily associated with the position of chief legal officer of the Company. 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. 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 President of the Company.

4. BASE SALARY.

During the Term of this Agreement, the Executive shall be paid an annualized Base Salary of $320,000, 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 $70,000 payable to the Executive on the Effective Date. In the event the Executive terminates this Agreement without "Good Reason" during the period commencing on the Effective Date and ending on the first anniversary of the Effective Date, then 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: An initial stock option grant shall be awarded to the Executive pursuant to the terms of the Company's stock option plan. The initial stock option grant shall be for 120,000 shares of Company capital stock, the option for which will vest and become exercisable in equal amounts quarterly over the five (5) year period commencing on the Effective Date, and as otherwise specified herein and in the Company's stock option plan, and shall be subject to the other terms and conditions specified in a separate grant agreement.

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 from time to time to its senior executives, to the same extent and on the same terms applicable to other senior executives.

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. VACATION.

During the Term of Employment, the Executive shall be entitled to paid vacation days each calendar year in accordance with the Company's vacation policy.

10. TERMINATION OF EMPLOYMENT.

(a) TERMINATION DUE TO DEATH OR DISABILITY. In the event 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 10(a);

(ii) all long-term incentive compensation awards earned by Executive but not paid prior to the date of termination under this SECTION 10(a);

(iii) a pro rata Target Bonus award for the year in which termination under this SECTION 10(a) occurs, as determined in its sole discretion by the Board of Directors;

(iv) all stock options held by the Executive as of the date of the termination under this SECTION 10(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

unexercisable stock options which are deemed exercisable as a result thereof shall remain exercisable as provided in SECTION 10(a)(v) below;

(v) all exercisable stock options held by the Executive as of the date of termination under this SECTION 10(a) shall remain exercisable until the earlier of (1) the end of the 1-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 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 10(A) occurred; and

(viii) the Company's lapsing 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; TERMINATION BY THE EXECUTIVE WITHOUT GOOD REASON; OR NONRENEWAL OF THE AGREEMENT BY THE EXECUTIVE. In the event the Company terminates the Executive's employment for Cause, or if Executive terminates his employment without Good Reason, or if the Executive gives notice of nonrenewal of this Agreement, 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 10(b);

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

(iii) a pro rata Target Bonus award for the year in which termination under this SECTION 10(b) occurs, as determined in its sole discretion by the Board of Directors.

Termination by Company for Cause shall be effective as of the date noticed by the Company. Termination by Executive without Good Reason 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 that the Executive gives notice of non-renewal in accordance with SECTION 2 above, the Term of Employment shall end on the last day of the then-current Term.

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 his Base Salary for the notice period or for any remaining portion thereof.

(c) TERMINATION BY THE COMPANY WITHOUT CAUSE; TERMINATION BY THE EXECUTIVE FOR GOOD REASON OR NONRENEWAL OF THE AGREEMENT BY THE COMPANY. If the Executive's employment is terminated by the Company without Cause (other than due to death or Disability), is terminated by the Executive for Good Reason, or if the Company gives notice of nonrenewal of this Agreement, 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 10(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 10(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 10(c); PROVIDED, HOWEVER, that if the Executive dies while receiving benefits under this Section, all payments shall immediately cease, but in no event shall the Executive or his estate or beneficiaries receive 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 10(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 10(c) shall remain exercisable until the earlier of (1) the end of the one-year period following the date of the termination of his employment or (2) the date the stock option would otherwise expire;

(vi) all stock options held by the Executive as of the date of the termination under this SECTION 10(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 which become exercisable as a result thereof shall remain exercisable as provided in SECTION 10(c)(v) above;

(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 10(c), until the earlier of:

(A) the end of the period during which Severance Pay is payable under SECTION 10(D)(III) above; or

(B) the date, or dates, 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 SECTION 10(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 SECTION 10(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 lapsing 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 anything to the contrary in this Section 10, 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 the Company gives notice of nonrenewal in accordance with Section 2 above, the Term of Employment shall end on the last day of the then current term.

11. MITIGATION.

In the event of any termination of this Agreement, Company is hereby authorized to offset against any Severance Pay due the Executive during the period for which Severance Pay is due under SECTION 10 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.

12. 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, which 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 12(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.

13. NONCOMPETITION; NONSOLICITATION.

(a) Notwithstanding any of the provisions herein to the contrary, in the event that 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 not to exceed the lesser of 12 months from the date of termination under such applicable provision listed above or the maximum length of time allowed under then current Massachusetts State law. The Company may, at its election, waive its rights of enforcement under this SECTION 13(a).

(b) The Parties acknowledge that in the event of a breach or threatened breach of SECTIONS 12 or 13(a), the Company shall not have an adequate remedy at law. Accordingly, in the event of any breach or threatened breach of SECTIONS 12 OR 13(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 12 or 13(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 12 or 13(a) including the recovery of damages.

14. 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.

15. REPRESENTATIONS.

The Company represents and warrants that it is fully authorized and empowered to enter into this Agreement 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.

16. ENTIRE AGREEMENT.

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.

17. 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.

18. SEVERABILITY.

In the event that 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.

19. 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.

20. 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.

21. 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.

22. 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 which 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.

23. NOTICES.

All notices that 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: Chairman of the Board
with a copy to:
Vice President of HR

If to the Executive: Kenneth S. Boger
200 Church Street Rear
Newton, MA 02458

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.

24. 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.

25. COUNTERPARTS.

This Agreement may be executed in two or more counterparts.

26. CERTAIN ADDITIONAL PAYMENTS BY THE COMPANY.

If any payment or benefit received by Executive pursuant to this Agreement, but determined without regard to any additional payments required under this Agreement, would be subject to the excise tax imposed by Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code"), or any interest or penalties are incurred by the Executive with respect to such excise tax, the Company will pay to Executive an additional amount in cash (the "Additional Amount") equal to the amount necessary to cause the aggregate payments and benefits received by Executive, including such Additional Amount (net of all federal, state, and local income and payroll taxes and all taxes payable as a result of the application of Sections 280G and 4999 of the Code and including any interest and penalties with respect to such taxes) to be equal to the aggregate payments and benefits Executive would have received, excluding such Additional Amount (net of all federal, state and local income and payroll taxes) as if Sections 280G and 4999 of the Code (and any successor provisions thereto) had not been enacted into law.

If the Company and the Executive do not agree on the calculation of the amount of any such Additional Amount, Executive may submit to the Company a written opinion (the "Opinion") of a nationally recognized accounting firm, employment consulting firm, or law firm selected by Executive setting forth a statement and a calculation of the Additional Amount. The determination of such firm concerning the extent of the Additional Amount (which determination need not be free from doubt), shall be final and binding on both Executive and the Company. The Company will pay to Executive the Additional Amount not later than ten (10) business days after such firm has rendered the Opinion. The Company agrees to pay the reasonable fees and expenses of such firm in preparing and rendering the Opinion.

If, following the payment to Executive of the Additional Amount, Executive's liability for the excise tax imposed by Section 4999 of the Code on the payments and benefits received by Executive is finally determined (at such time as the Internal Revenue Service is unable to make any further adjustment to the amount of such liability) to be less than the amount thereof set forth in the Opinion, the Executive shall promptly file for a refund with respect thereof, and the Executive shall promptly pay to the Company the amount of such refund when received (together with any interest paid or credited thereon after taxes applicable thereto). If, following the payment to Executive of the Additional Amount, Executive's liability for the excise tax imposed by Section 4999 of the Code on the payments and benefits received by Executive is finally

determined (at such time as the Internal Revenue Service is unable to make any further adjustment to the amount of such liability) to be more than the amount thereof set forth in the Opinion and the Executive thereafter is required to make a further payment of any such excise

tax, the Company shall promptly pay to or for the benefit of the Executive an additional Additional Amount in respect of such underpayment.

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

VERTEX PHARMACEUTICALS INCORPORATED

/s/ VICKI L. SATO

Vicki L. Sato, President

/s/ KENNETH S. BOGER

Kenneth S. Boger

EXHIBIT 10.12

November 8, 2004

N. Anthony Coles, M.D.
166 Fisher Avenue
Brookline, MA 02445

Re: AMENDMENT TO CHANGE OF CONTROL AGREEMENT

Dear Tony:

The offer letter from Vertex Pharmaceuticals Incorporated to you dated as of February 21, 2002 (the "AGREEMENT") hereby is amended, effective November 8, 2004, as follows:

1. Insert the following after the last full paragraph under the heading entitled "Severance Payment Upon Termination by the Company without Cause or by You for Good Reason," and after the last full paragraph under the heading "Severance Payment Upon a Change of Control:"

> "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."

2. After the definition of "Cause," insert the following:

> "For purposes of this offer, "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 period (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 an additional 18 month period. For any other shares of restricted stock, "Pro-Rata Share of Restricted Stock" shall mean, as to any shares of restricted stock which 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 18 months, 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."

3. Insert the following after the definition of "Pro-Rata Share of Restricted Stock:"

> "Notwithstanding anything to the contrary in this letter, 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 agreement are more favorable to you."

As so amended, the Agreement shall remain in full force and effect.

If you agree to the foregoing amendment, please so indicate by signing and returning the enclosed copy of this letter.

VERTEX PHARMACEUTICALS INCORPORATED

By: /s/ JOSHUA S. BOGER

Joshua S. Boger
Chairman and Chief Executive Officer

Accepted and Agreed:

/s/ N. ANTHONY COLES
- -----------------------------------
N. Anthony Coles

EXHIBIT 10.13

AMENDED AND RESTATED EMPLOYMENT AGREEMENT

This Amended and Restated Employment Agreement (the "Agreement") amends and restates, effective as of this 8th day of November, 2004, that certain Employment Agreement made and entered into as of the 26th day of October, 2001 (the "ORIGINAL AGREEMENT") by and between Vertex Pharmaceuticals Incorporated, a Massachusetts corporation (together with its successors and assigns, the "COMPANY"), and Ian F. Smith (the "EXECUTIVE").

W I T N E S S E T H

WHEREAS, the Company has employed the Executive as the Chief Financial Officer of the Company since the date of the Original Agreement; and

WHEREAS, the Company and the Executive desire to amend the Original Agreement to extend certain terms of the Original Agreement beyond the Initial Term, to add certain provisions regarding grants of restricted stock, which the Company has begun issuing in addition to stock options since the date of the Original Agreement, and to make certain other changes to clarify the meaning of some provisions.

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 (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, or (iii) the Executive, in carrying out his duties, acts or fails to act in such a manner which is determined, in the sole discretion of the Board, 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) "CHANGE OF CONTROL" shall be deemed to have occurred if:

(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 51% or more 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 during any 12-month period, is replaced at a Company Board meeting or a Company shareholders' meeting, with individuals other than individuals nominated or approved by a majority of the Disinterested Directors;

(iii) all or substantially all the business of the Company is disposed of pursuant to a merger, consolidation or other transaction (other than a merger, consolidation or other transaction with a company of which 50% or more of the combined voting power of the outstanding securities having a right to vote at the election of directors is owned, directly or indirectly, by the Company both before and immediately after the merger, consolidation or other transaction) in which the Company is not the surviving corporation or is materially or completely liquidated; or

(iv) the Company combines with another company and is the surviving corporation (other than a merger, consolidation or other transaction with a company of which 50% or more of the combined voting power of the outstanding securities having a right to vote at the election of directors is owned, directly or indirectly, by the Company both before and immediately after the merger, consolidation or other transaction)

but, immediately after the combination, the shareholders of the Company hold, directly or indirectly, less than 50% of the total outstanding securities of the combined company having the right to vote in the election of directors.

(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, in the sole discretion of the Company, is determined to compete with the business and/or interests or future interests of 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 possession or protectorates thereof, provided, however, that ownership of five percent (5%) or less of the outstanding stock of any company whose shares trade on any national exchange or market shall not 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 Section 22(e)(3).

(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 then on the Company's Board.

(i) "EFFECTIVE DATE" shall mean October 26, 2001.

(j) "GOOD REASON" shall mean that, without the Executive's consent, one or more of the following events occurs and the Executive, of his own initiative, terminates his employment:

(i) The Executive is assigned to any duties or responsibilities that are inconsistent, in any significant respect, with the scope of duties and responsibilities currently performed in his positions and offices as described in SECTION 3, provided that such reassignment of duties or responsibilities is not due to the Executive's Disability or the Executive's performance, nor is at the Executive's request;

(ii) The Executive suffers a reduction in the authorities, duties, and responsibilities associated with his positions and offices as described in SECTION 3 on the basis of which the Executive makes a determination in good faith that the Executive can no longer carry out such positions or offices in the manner contemplated at the time this Agreement was entered into, provided that such reassignment of duties or responsibilities is not due to the Executive's Disability or the Executive's performance, nor is at the Executive's request;

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

(iv) The Executive's own office location as assigned to him by the Company is relocated thirty-five (35) or more miles from Cambridge, Massachusetts; or

(v) Failure of any entity, in the event of a Change of Control to assume all obligations and liabilities of this Agreement.

(k) "PRO-RATA SHARE OF RESTRICTED STOCK" shall mean for any period shall mean, for any grant of restricted stock as to which the Company's repurchase right lapses ratably over a specified period (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 which 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 the 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 the 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) "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, for the period commencing on the Effective Date and ending on the third anniversary of the Effective Date, subject to earlier termination in accordance with the terms of this Agreement. Absent such earlier termination, the Term of employment shall automatically renew on each anniversary of the Effective Date for additional one-year period(s), UNLESS (i) the Company notifies the Executive in writing in accordance with SECTION 23 below, at least 90 days prior to the anniversary of the Effective Date that it does not want the Term of employment to so renew, or (ii) the Executive has notified the Company in writing in accordance with SECTION 23 below that the Executive does not want the Term of employment to so renew.

3. POSITION, DUTIES AND RESPONSIBILITIES.

On the Effective Date and continuing for the remainder of the Term of employment, as extended or renewed, the Executive shall be employed as the Chief Financial Officer of the Company, and shall be responsible for duties reasonably associated with such position. 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. 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.

4. BASE SALARY.

During the Term of this Agreement, the Executive shall be paid an annualized Base Salary of $300,000, 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 (or other incentive compensation program) applicable to executives, as 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 $150,000. Two-thirds ($100,000) of the sign-on cash bonus will be paid to the Executive on the Effective Date, and the remaining one-third

($50,000) which is hereby deemed accrued and owed to the Executive will be paid to the Executive upon the one-year anniversary of the Effective Date, regardless of whether the executive is employed by the Company on the one year anniversary of the effective date; PROVIDED, HOWEVER, that in the event the Executive terminates this Agreement without "Good Reason" during the period commencing on

the Effective Date and ending on the first anniversary of the Effective Date, then the Executive shall repay to the Company within thirty (30) days of such termination the sign-on cash bonus previously paid to the Executive.

c) SIGN-ON STOCK OPTION GRANT: An initial stock option grant shall be awarded to the Executive pursuant to the terms of the Company's stock option plan. The initial stock option grant shall be for 110,000 shares of Company capital stock and shall be subject to the terms and conditions specified in a separate grant agreement.

6. LONG-TERM INCENTIVE COMPENSATION PROGRAMS.

During the Term of employment, the Executive shall be eligible to participate in the Company's applicable long-term incentive compensation programs, as 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 so offered by the Company from time to time to its senior executives, to the same extent and on the same terms applicable to other senior executives.

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. VACATION.

During the Term of employment, the Executive shall be entitled to paid vacation days each calendar year in accordance with the Company's vacation policy.

10. TERMINATION OF EMPLOYMENT.

(a) TERMINATION DUE TO DEATH OR DISABILITY. In the event the Executive's employment is terminated due to the 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 the Executive shall be entitled to the following:

(i) Base Salary earned by the Executive but not paid through the date of termination under this SECTION 10(a);

(ii) all long-term incentive compensation awards earned by the Executive but not paid prior to the date of termination under this SECTION 10(a);

(iii) a pro rata Target Bonus award for the year in which termination under this SECTION 10(a) occurs, as determined in its sole discretion by the Board of Directors;

(iv) all stock options held by the Executive as of the date of the termination under this SECTION 10(a) that are not exercisable or vested 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 unexercisable stock options which are deemed exercisable as a result thereof shall remain exercisable until the earlier of (1) the end of the

of the 90-day period following the date of termination, or (2) the date the stock option would otherwise expire;

(v) all exercisable and/or vested stock options held by the Executive as of the date of termination under this SECTION 10(a) shall remain exercisable until the earlier of (1) the end of the 1-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 but not yet paid under SECTIONS 5(b), 6, 7, 8, or 9 above, and in the event of termination due to Disability, benefits due to the Executive under the Company's then-current disability program;

(vii) six month's of Severance Pay, commencing on the first day of the month following the month in which termination under this SECTION 10(a) occurred; and

(viii) the Company's lapsing 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 "period in question" referenced in the second sentence of that definition shall be 12 months.

Any and all payments due under SUBSECTIONS (i), (ii), (iii) and (vi) of this SECTION 10(a) shall be paid, in the case of the Executive's death, to his estate and/or beneficiaries within 60 days of his death and, in the case of Disability, to the Executive within 60 days of his termination due to Disability.

(b) TERMINATION BY THE COMPANY FOR CAUSE; TERMINATION BY THE EXECUTIVE WITHOUT GOOD REASON; OR NONRENEWAL OF AGREEMENT BY THE EXECUTIVE. In the event the Company terminates the Executive's employment for Cause, or if the Executive terminates his employment without Good Reason, or if the Executive gives notice of nonrenewal of this Agreement, 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 the Executive but not paid through the date of termination of the Executive's employment under this SECTION 10(b);

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

(iii) a pro rata Target Bonus award for the year in which termination under this SECTION 10(b) occurs, as determined in its sole discretion by the Board of Directors;

(iv) any amount not yet paid under SECTION 5(b); PROVIDED, HOWEVER, that payments under SECTION 5(b) shall not be made by the Company in the event the Executive terminates this Agreement without "Good Cause" during the period

commencing on the Effective Date and ending on the first anniversary of the Effective Date; and

(v) the Executive shall retain any rights associated with his stock options consistent with his grant agreement and the applicable stock option plan.

Termination by Company for Cause shall be effective as of the date noticed by the Company. Termination by the Executive without Good Reason 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 that the Executive gives notice of non-renewal in accordance with SECTION 2 above, the Term of employment shall end on the last day of the then-current Term.

In the event of termination by the 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 his Base Salary for the notice period or for any remaining portion thereof.

Any and all payments due under this SECTION 10(b) shall be paid to the Executive within 60 days of the date his employment terminates.

(c) TERMINATION BY THE COMPANY WITHOUT CAUSE; TERMINATION BY THE EXECUTIVE FOR GOOD REASON OR NONRENEWAL OF THE AGREEMENT BY THE COMPANY. If the Executive's employment is terminated by the Company without Cause (other than due to death or Disability), is terminated by the Executive for Good Reason, or if the Company gives notice of nonrenewal of this Agreement, the Executive shall be entitled to the following:

(i) Base Salary earned by the Executive but not paid through the date of termination of the Executive's employment under this SECTION 10(c);

(ii) all long-term incentive compensation awards earned by the Executive but not paid prior to the date of termination of the Executive's employment under this SECTION 10(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 10(c); PROVIDED, HOWEVER, that if the Executive dies while receiving benefits under this Section, all payments shall immediately cease, but in no event shall the Executive or his estate or beneficiaries receive 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 10(c), as determined in its sole discretion by the Board of Directors;

(v) the Company's lapsing 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, with the period referenced in the first sentence of the definition of "Pro-Rata Share of Restricted Stock" and "period in question" referenced in the second sentence of that definition being 18 months), 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 the Company's lapsing repurchase right with respect to all shares of restricted stock held by the Executive shall lapse;

(vi) all exercisable and/or vested stock options held by the Executive as of the date of the termination of his employment under this SECTION 10(c) shall remain exercisable until the earlier of (1) the end of the 90-day period following the date of the termination of his employment or (2) the date the stock option would otherwise expire;

(vii) all stock options held by the Executive as of the date of the termination of his employment under this SECTION 10(c) that are not exercisable as of that date shall be deemed to have been held by the Executive for an additional 18 months and any stock options which become exercisable as a result thereof shall remain vested and exercisable until the earlier of (1) the end of the 90-day period following the date of the termination or (2) the date the stock option would otherwise expire; 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 10(c)(vii) 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;

(viii) any amounts earned, accrued or owing to the Executive but not yet paid under SECTIONS 5(b), 6, 7, 8, or 9 above; and

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

(A) exhaustion of Severance Pay; or

(B) the date, or dates, 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 SECTION 10(c)(ix) because the Executive is not an employee of the Company, and (ii) not receiving equivalent coverage and benefits through a subsequent employer, the Executive shall be provided with the after-tax economic equivalent of the benefits provided under the plan, program or arrangement in which the Executive is unable to participate for the period specified in SECTION 10(c)(ix). The economic equivalent of any benefit foregone shall be deemed to be the lowest cost that would be incurred by the Executive in obtaining

such benefit himself on an individual basis. Payment of such after tax economic equivalent shall be made quarterly in advance.

Any and all payments due under subsections (i), (ii), (iv) and (viii) of this SECTION 10(C) shall be paid to the Executive within 60 days of the date his employment terminates.

If the Company gives notice of nonrenewal in accordance with Section 2 above, the term of employment shall end on the last day of the then current term.

Notwithstanding anything to the contrary in this Section 10, 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.

11. MITIGATION.

In the event of any termination of this Agreement, the Executive shall be obligated to seek other employment, and the Company is hereby authorized to offset against Severance Pay due the Executive under SECTION 10 any Base Salary attributable to any subsequent employment or engagement that the Executive may obtain. The Executive shall provide Company written notice of subsequent employment or engagement no later than five (5) business days after commencement by the Executive of such employment or engagement.

12. CONFIDENTIALITY; ASSIGNMENT OF RIGHTS.

(a) During the Term of employment, as extended or renewed, 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, which the Executive acquires during the Term of employment, as extended or renewed, 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 12(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 the Executive performs or information the 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.

13. NONCOMPETITION; NONSOLICITATION.

(a) Notwithstanding any of the provisions herein to the contrary, in the event that the Executive's employment with the Company is terminated for any reason other than due to the Executive's death or termination by the Executive for Good Reason, the Executive shall not engage in Competitive Activity for a period not to exceed the lesser of 12 months from the date of termination under such applicable provision listed above or the maximum time allowed under then current Massachusetts State Law. The Company may, at its election, waive its rights of enforcement under this SECTION 13(a).

(b) The Parties acknowledge that in the event of a breach or threatened breach of SECTIONS 12 or 13(a), the Company shall not have an adequate remedy at law. Accordingly, in the event of any breach or threatened breach OF SECTIONS 12 OR 13(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 12 or 13(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 12 or 13(a) including the recovery of damages.

14. 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.

15. REPRESENTATIONS.

The Company represents and warrants that it is fully authorized and empowered to enter into this Agreement 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.

16. ENTIRE AGREEMENT.

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.

17. 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.

18. SEVERABILITY.

In the event that 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.

19. 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.

20. 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.

21. 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.

22. 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 which 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.

23. NOTICES.

All notices that 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: Chairman of the Board
with a copy to:

If to the Executive: At the Participant's 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.

24. 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.

25. COUNTERPARTS.

This Agreement may be executed in two or more counterparts.

26. CERTAIN ADDITIONAL PAYMENTS BY THE COMPANY.

If any payment or benefit received by the Executive pursuant to this Agreement, but determined without regard to any additional payments required under this Agreement, would be subject to the excise tax imposed by Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code"), or any interest or penalties are incurred by the Executive with respect to such excise tax, the Company will pay to the Executive an additional amount in cash (the "Additional Amount") equal to the amount necessary to cause the aggregate payments and benefits received by the Executive, including such Additional Amount (net of all federal, state, and local income and payroll taxes and all taxes payable as a result of the application of Sections 280G and 4999 of the Code and including any interest and penalties with respect to such taxes) to be equal to the aggregate payments and benefits the Executive would have received, excluding

such Additional Amount (net of all federal, state and local income and payroll taxes) as if Sections 280G and 4999 of the Code (and any successor provisions thereto) had not been enacted into law.

Following the termination of the Executive's employment, the Executive may submit to the Company a written opinion (the "Opinion") of a nationally recognized accounting firm, employment consulting firm, or law firm selected by the Executive setting forth a statement and a calculation of the Additional Amount. The determination of such firm concerning the extent of the Additional Amount (which determination need not be free from doubt), shall be final and binding on both the Executive and the Company. The Company will pay to the Executive the Additional Amount not later than ten (10) business days after such firm has rendered the Opinion. The Company agrees to pay the reasonable fees and expenses of such firm in preparing and rendering the Opinion.

If, following the payment to the Executive of the Additional Amount, the Executive's liability for the excise tax imposed by Section 4999 of the Code on the payments and benefits received by the Executive is finally determined (at such time as the Internal Revenue Service is unable to make any further adjustment to the amount of such liability) to be less than the amount thereof set forth in the Opinion, the Executive shall promptly file for a refund with respect thereof, and the Executive shall promptly pay to the Company the amount of such refund when received (together with any interest paid or credited thereon after taxes applicable thereto). If, following the payment to the Executive of the Additional Amount, the Executive's liability for the excise tax imposed by Section 4999 of the Code on the payments and benefits received by the Executive is finally determined (at such time as the Internal Revenue Service is unable to make any further adjustment to the amount of such liability) to be more than the amount thereof set forth in the Opinion and the Executive thereafter is required to make a further payment of any such excise tax, the Company shall promptly pay to or for the benefit of the Executive an additional amount in respect of such underpayment.

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
Chairman and Chief Executive Officer

/s/ IAN F. SMITH

Ian F. Smith

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Exhibit 31.1

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

I, Joshua S. Boger, certify that:

1. I have reviewed this quarterly report of Vertex Pharmaceuticals Incorporated;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

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

    b) 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

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

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

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

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

Date: November 9, 2004

/s/ JOSHUA S. BOGER

Joshua S. Boger
Chairman and Chief Executive Officer

QuickLinks

[Exhibit 31.1](#)

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Exhibit 31.2

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

I, Ian F. Smith, certify that:

1. I have reviewed this quarterly report of Vertex Pharmaceuticals Incorporated;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

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

    b) 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

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

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

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

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

Date: November 9, 2004

/s/ IAN F. SMITH

Ian F. Smith
Senior Vice President and Chief Financial Officer

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[Exhibit 31.2](#)

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Exhibit 32.1

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

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), each of the undersigned officers of Vertex Pharmaceuticals Incorporated, a Massachusetts corporation (the "Company"), does hereby certify, to such officer's knowledge, that the Quarterly Report on Form 10-Q for the quarter ended September 30, 2004 (the "Form 10-Q") of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operation of the Company.

Dated: November 9, 2004

/s/ JOSHUA S. BOGER

Joshua S. Boger
Chairman and Chief Executive Officer
(principal executive officer)

Dated: November 9, 2004

/s/ IAN F. SMITH

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

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Exhibit 32.1