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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 MARCH 31, 2005

OR

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

FOR THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NUMBER 000-19319

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

MASSACHUSETTS (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 $.01 per share Class	81,290,268 Outstanding at May 5, 2005

Vertex Pharmaceuticals Incorporated
Form 10-Q
For the Quarter Ended March 31, 2005

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Part I. Financial Information

Item 1. Condensed Consolidated Financial Statements

Vertex Pharmaceuticals Incorporated

Condensed Consolidated Balance Sheets

	March 31, 2005	December 31, 2004
	(Unaudited)	
	(In thousands, except share and per share data)	
Assets:		
Current assets:		
Cash and cash equivalents	$ 37,371	$ 55,006
Marketable securities, available for sale	296,961	337,314
Accounts receivable	10,866	11,891
Prepaid expenses	4,831	2,501
Total current assets	350,029	406,712
Restricted cash	49,007	49,847
Property and equipment, net	60,700	64,225
Investments	18,863	18,863
Other assets	5,630	5,806
Total assets	$ 484,229	$ 545,453
Liabilities and Stockholders' Equity/(Deficit):		
Current liabilities:		
Accounts payable	$ 8,474	$ 6,660
Accrued expenses and other current liabilities	29,855	32,951
Accrued interest	1,894	5,862
Deferred revenue	50,889	47,741
Accrued restructuring and other expense	52,305	55,843
Other obligations	4,750	4,688
Total current liabilities	148,167	153,745
Collaborator development loan	19,997	19,997
Other obligations, excluding current portions	2,975	2,925
Deferred revenue, excluding current portion	6,581	18,345
Convertible subordinated notes (due September 2007)	82,552	82,552
Convertible senior subordinated notes (due February 2011)	232,448	232,448
Total liabilities	492,720	510,012
Commitments and contingencies		
Stockholders' equity/(deficit):		
Preferred stock, $0.01 par value; 1,000,000 shares authorized; none issued and outstanding at March 31, 2005 and December 31, 2004, respectively	—	—
Common stock, $0.01 par value; 200,000,000 shares authorized; 81,203,170 and 80,764,904 shares issued and outstanding at March 31, 2005 and December 31, 2004, respectively	812	807
Additional paid-in capital	838,531	833,832
Deferred compensation, net	(14,354)	(11,657)
Accumulated other comprehensive loss	(2,593)	(1,374)
Accumulated deficit	(830,887)	(786,167)
Total stockholders' equity/(deficit)	(8,491)	35,441
Total liabilities and stockholders' equity/(deficit)	$ 484,229	$ 545,453

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

Vertex Pharmaceuticals Incorporated

Condensed Consolidated Statements of Operations

	Three Months Ended March 31,	
	2005	2004
	(Unaudited)	
	(In thousands, except per share data)	
Revenues:		
Royalties	$ 6,153	$ 2,582
Collaborative research and development revenues	22,453	14,931
Total revenues	28,606	17,513
Costs and expenses:		
Royalty payments	2,030	846
Research and development	57,435	41,675
Sales, general and administrative	9,627	9,722
Restructuring and other expense	1,914	1,818
Total costs and expenses	71,006	54,061
Loss from operations	(42,400)	(36,548)
Interest income	2,319	2,990
Interest expense	(4,639)	(4,427)
Charge for retirement of convertible subordinated notes	—	(2,453)
Net loss	$ (44,720)	$ (40,438)
Basic and diluted net loss per common share	$ (0.56)	$ (0.52)
Basic and diluted weighted average number of common shares outstanding	79,428	78,094

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

Vertex Pharmaceuticals Incorporated

Condensed Consolidated Statements of Cash Flows

	Three Months Ended March 31,	
	2005	2004
	(Unaudited) (In thousands)	
Cash flows from operating activities:		
Net loss	$ (44,720)	$ (40,438)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	6,840	7,125
Non-cash based compensation expense	1,435	778
Realized loss/(gain) on marketable securities	22	(171)
Loss on disposal of property and equipment	190	—
Charge for retirement of convertible subordinated notes	—	2,453
Changes in operating assets and liabilities:		
Accounts receivable	1,025	(613)
Prepaid Expenses	(2,330)	(1,609)
Accounts payable	1,814	(4,565)
Accrued expenses and other current liabilities	(2,984)	(2,581)
Accrued restructuring and other expense	(3,538)	(9,590)
Accrued interest	(3,968)	(3,019)
Deferred revenue	(8,616)	358
Net cash used in operating activities	(54,830)	(51,872)
Cash flows from investing activities:		
Purchase of marketable securities	(24,770)	(58,026)
Sales and maturities of marketable securities	63,964	76,490
Expenditures for property and equipment	(3,239)	(2,876)
Restricted cash	840	(8,509)
Investments and other assets	(90)	(441)
Net cash provided by investing activities	36,705	6,638
Cash flows from financing activities:		
Issuances of common stock, net	572	2,913
Principal payments on notes payable, capital leases and other obligations	—	(77)
Issuance costs related to convertible senior subordinated notes (due February 2011)	—	(2,897)
Net cash provided by (used in) financing activities	572	(61)
Effect of changes in exchange rates on cash	(82)	143
Net decrease in cash and cash equivalents	(17,635)	(45,152)
Cash and cash equivalents—beginning of period	55,006	98,159
Cash and cash equivalents—end of period	$ 37,371	$ 53,007
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 8,341	$ 7,109

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

Vertex Pharmaceuticals Incorporated

Notes to Condensed Consolidated Financial Statements

1. Basis of Presentation

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

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

Certain information and footnote disclosures normally included in the Company's annual financial statements have been condensed or omitted. The interim financial statements, in the opinion of management, reflect all adjustments (including normal recurring accruals) necessary for a fair statement of the financial position and results of operations for the interim periods ended March 31, 2005 and 2004.

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

2. Accounting Policies

Basic and Diluted Net Loss per Common Share

Basic net loss per share is based upon the weighted average number of common shares outstanding during the period. Diluted net loss per share is based upon the weighted average number of common shares outstanding during the period plus additional weighted average common equivalent shares outstanding during the period when the effect is not anti-dilutive. Common equivalent shares result from the 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 March 31,	
	2005	2004
Stock Options	16,538	16,815
Weighted-average exercise price, per share	$ 21.93	$ 22.99
Convertible Notes	16,454	12,004
Weighted-average conversion price, per share	$ 19.15	$ 26.24
Unvested restricted shares	1,685	316

Stock-Based Compensation

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

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

At March 31, 2005, the Company had one Employee Stock Purchase Plan ("ESPP") and three stock-based employee compensation plans: the 1991 Stock Option Plan, the 1994 Stock and Option Plan and the 1996 Stock and Option Plan (collectively, the "Plans"). No stock-based employee compensation cost related to stock options is reflected in the Company's reported net loss, as all options granted under the Plans had an exercise price equal to the market value of the underlying common stock on the date of grant.

At March 31, 2005, the Company had approximately 1,685,000 restricted shares unvested and outstanding. During the three months ended March 31, 2005, the Company issued approximately 321,000 shares of restricted stock, net of cancellations, to employees. The price per share of restricted stock granted to employees is equal to, $0.01, the par value of the Company's common stock. In general, restricted share awards vest over four years in four equal annual installments, although different vesting schedules are applied in certain circumstances. The Company has recorded deferred compensation, net of cancellations, of approximately $3,446,000 and $1,856,000 related to the issuance of restricted shares during the three months ended March 31, 2005 and 2004, respectively.

The Company recorded compensation expense related to restricted stock of approximately $1,031,000 and $89,000 for the three months ended March 31, 2005 and 2004, respectively. Compensation expense of $1,031,000 recorded for the three months ended March 31, 2005 included approximately $282,000 of expense related to the acceleration of vesting of restricted stock awards in accordance with an officer's employment agreement, and approximately $749,000 related to restricted shares outstanding during the period.

The following table illustrates the effect on net loss and net loss per common share if the fair value recognition provision of SFAS 123 had been applied to the Company's stock-based employee compensation. Employee stock-based compensation expense is amortized on a straight-line basis, since the Company's valuation of options subject to SFAS 123 assumes a single weighted average expected

life for each award. Included in employee stock-based compensation expense is expense related to the modification of certain stock awards in accordance with an officer's employment agreement.

	For the Three Months Ended March 31,	
	2005	2004
	(In thousands)	
Net loss attributable to common stockholders, as reported	$ (44,720)	$ (40,438)
Add: Employee stock-based compensation expense included in net loss, net of tax	1,031	89
Deduct: Total stock-based employee compensation expense determined under the fair value based method for all awards, net of tax	(10,730)	(10,371)
Pro forma net loss	$ (54,419)	$ (50,720)
Basic and diluted net loss per common share, as reported	$ (0.56)	$ (0.52)
Basic and diluted net loss per common share, pro forma	$ (0.69)	$ (0.65)

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. The Company's collaborators have agreed to fund portions of the Company's research and development programs related to specific drug candidates. The following table details the collaborator- and Company-sponsored research and development expenses for the three months ended March 31, 2005 and 2004 (in thousands):

	For the Three Months Ended March 31, 2005			For the Three Months Ended March 31, 2004		
	Research	Development	Total	Research	Development	Total
Collaborator-sponsored	$ 16,452	$ 11,617	$ 28,069	$ 14,954	$ 2,919	$ 17,873
Company-sponsored	13,550	15,816	29,366	11,458	12,344	23,802
Total	$ 30,002	$ 27,433	$ 57,435	$ 26,412	$ 15,263	$ 41,675

Restructuring and Other Expense

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

Debt Issuance Costs

Debt issuance costs related to expenses incurred in connection with Vertex's convertible subordinated note offerings are deferred and included in other assets on the 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 statements of operations.

3. Comprehensive Loss

For the three months ended March 31, 2005 and 2004, comprehensive loss was as follows (in thousands):

	Three Months Ended March 31,	
	2005	2004
Net loss	$ (44,720)	$ (40,438)
Changes in other comprehensive income (loss):		
Unrealized holding gains (losses) on marketable securities, net of tax	(1,137)	854
Foreign currency translation adjustment	(82)	143
Total change in other comprehensive income (loss)	(1,219)	997
Total comprehensive loss	$ (45,939)	$ (39,441)

4. Restructuring and Other Expense

On June 10, 2003, Vertex adopted a plan to restructure its operations to coincide with its increasing internal emphasis on advancing drug candidates through clinical development to commercialization. The restructuring was designed to re-balance the Company's relative investment in research and development, to better support the Company's long-term objective of becoming a profitable pharmaceutical company with industry-leading 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 approximately 290,000 square feet of specialized laboratory and office space in Cambridge, Massachusetts under lease to Vertex (the "Kendall Square Lease"). The Kendall Square Lease commenced in January 2003 and has a 15-year term. The Company is actively seeking to sublease the facility to third parties, to minimize its ongoing lease obligations. To date, the Company has subleased approximately 45,000 square feet of the facility.

During the three months ended March 31, 2005, the Company recorded an additional $1.9 million of restructuring and other expense, which was primarily related to the imputed interest cost of the restructuring and other expense accrual. Additionally, in the first quarter of 2005, $5.4 million of cash payments for rent and build-out were recorded against the accrual. The accrual balance at March 31, 2005 of $52.3 million represents the present value of the Company's estimate of its net ongoing obligations under the Kendall Square Lease. In the three months ended March 31, 2004, the Company recorded $1.8 million of restructuring and other expense related to the Kendal Square Lease obligation, which was primarily related to the imputed interest costs of the restructuring and other expense accrual.

In accordance with SFAS 146, the Company's initial estimate of its liability for its net ongoing costs associated with the Kendall Square Lease obligation was recorded 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 estimated sublease rentals, offset by related sublease costs.

In estimating the expense and liability under its Kendall Square Lease obligation, the Company estimated the costs that would be incurred to satisfy its build-out commitments under the lease, the time necessary to sublease the space, the projected sublease rental rates and the anticipated 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 approximately 10% to discount the estimated cash flows. The Company will review its estimates and assumptions on at least a quarterly basis, until the outcome is finalized, and make whatever modifications management believes necessary, based on the Company's best judgment, to reflect any changed circumstances. The Company's estimates have changed in the past, and may change in the future, resulting in additional adjustments to the estimate of liability, and the effect of any such adjustments could be material. Because the Company's estimate of the liability includes the application of a discount rate to reflect the time-value of money, the estimate of the liability will increase as a result of the passage of time. Any 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 $52.3 million is dependent upon the ultimate terms of any sublease(s) that the Company may ultimately enter.

5. Convertible Subordinated Notes

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

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

The 2007 Notes are convertible, at the option of the holder, into common stock at a price equal to $92.26 per share, subject to adjustment under certain circumstances. The 2007 Notes bear interest at the rate of 5% per annum, and the Company is required to make semi-annual interest payments on the outstanding principal balance of the notes on March 19 and September 19 of each year. The 2007 Notes are redeemable by the Company at any time at specific redemption prices if the closing price of the Company's common stock exceeds 120% of the conversion price then in effect for at least 20

trading days within a period of 30 consecutive trading days. The deferred issuance costs associated with the original sale of the 2007 Notes was $9,297,000. At March 31, 2005, the amount remaining in Other assets related to the 2007 Notes was $847,000.

At March 31, 2005, approximately $82.6 million in principal amount of the 2007 Notes and approximately $232.4 million in principal amount of the 2011 Notes outstanding. As a result of the exchanges, the Company recorded a charge on the retirement of $153.1 million of the 2007 Notes in February 2004 in the amount of $2,453,000, and a charge on the retirement of $79.3 million of the 2007 Notes in September 2004 in the amount of $993,000. These charges represent that portion of the unamortized deferred issuance costs applicable to the amount of 2007 Notes retired. The deferred issuance costs associated with the issuance of the 2011 Notes, which are classified as long-term other assets, were $2,970,000 for the February 2011 Notes and $1,895,000 for the September 2011 Notes. For the quarter ended March 31, 2005, $265,000 was amortized to interest expense for the issuance costs of the remaining 2007 Notes and the 2011 Notes.

6. Guarantees

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

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

would enable it in many cases to recover a portion of any future amounts paid. The Company has never paid any material amounts to defend lawsuits or settle claims related to these indemnification provisions. Accordingly, the Company believes the estimated fair value of these indemnification arrangements is immaterial.

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

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

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

7. Legal Proceedings

On February 23, 2005, the United States District Court for the District of Massachusetts entered judgment in favor of Vertex pursuant to an order of the trial judge granting the Company's motion to dismiss a purported class action lawsuit against the Company and certain of its officers and a former employee. In the lawsuit, the plaintiffs claimed 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) and Rule 10(b)(5) of the Securities Exchange Act. The plaintiffs sought certification as a class action, compensatory damages in an unspecified amount, and unspecified equitable or injunctive relief. The plaintiffs' right to appeal that order lapsed without further action on the part of the plaintiffs on March 25, 2005. As a result, that litigation has been completed and the Company is not a party to any material legal proceedings.

8. New Accounting Pronouncements

In December 2004, the FASB issued FASB Statement No. 123(R), "Share-Based Payments" ("FASB 123(R)"). FASB 123(R) revises FASB Statement No. 123, "Accounting for Stock-Based Compensation," supercedes APB Opinion No. 25, "Accounting for Stock Issued to Employees," and amends FASB Statement No. 95, "Statement of Cash Flows." FASB 123(R) requires companies to expense the fair value of employee stock options and other forms of stock-based compensation over the employees' service period. Compensation cost is measured at the fair value of the award at the grant date and adjusted to reflect actual forfeitures and the outcome of certain conditions. The fair value of an award is not re-measured after its initial estimation on the grant date. In December 2004, the FASB determined that the effective date of FASB 123(R) should be the first interim or annual reporting period that begins after June 15, 2005. In April 2005, the SEC amended the effective compliance date to be the first annual reporting period beginning on or after June 15, 2005. Therefore, Vertex is required to be compliant beginning January 1, 2006. The impact of adopting SFAS No. 123(R) cannot be accurately estimated at this time, as it will depend on the market value and the amount of share based awards granted in future periods. However, had the Company adopted SFAS No. 123(R) in prior periods, the impact of the standard would have approximated the impact of SFAS No. 123 as described in the disclosure of pro forma net loss and net loss per share in Note 2. The Company is currently evaluating the two prescribed transition methods for accounting for and reporting stock options, and will select one prior to the adoption of FASB 123(R).

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

Overview

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

Drug Discovery and Development

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

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

Business Strategy

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

proceeds from the disposition of assets, investment income and the issuance of stock under our employee benefit programs. At March 31, 2005 we had $334.3 million of cash, cash equivalents and marketable securities, $82.6 million in principal amount of 5% Convertible Subordinated Notes due 2007 (the "2007 Notes") and $232.4 million in principal amount of 5.75% Convertible Senior Subordinated Notes due 2011 (the "2011 Notes"). Also, on March 31, 2005, we filed with the Securities and Exchange Commission a registration statement covering the sale of up to $200.0 million in debt or equity securities of the Company on a delayed or continuous basis (referred to as a "universal shelf registration"), which was declared effective by the Securities and Exchange Commission on April 25, 2005. We believe that the shelf registration statement will allow us the flexibility to obtain additional funding through capital market transactions if that funding should prove advantageous in the implementation of our business strategy.

Collaborative Revenue

Collaborations have been and will continue to be an important component of our business strategy. A significant portion of our total research effort is being conducted under our research collaborations with Novartis Pharma AG, Merck & Co., Inc. and Cystic Fibrosis Foundation Therapeutics Incorporated, all of which are scheduled to conclude, along with our research funding, in the period between December 2005 and June 2006. Based on the value that we believe we have built through research and development investments in certain of our drug discovery and development programs, and our perception of the level of interest in certain of our programs among some potential collaborators, we believe that we could enter into additional collaborative agreements in 2005 that would be material to our business. Our business development priorities include new collaborations to support development and commercialization of our HCV infection clinical candidates and our oral cytokine inhibitors. Our product development pipeline also includes drug candidates such as VX-409 (pain) and VX-692 (bacterial infection) that we may choose to develop with a collaborator. In 2005 and future periods, we expect to identify collaborative development and commercialization opportunities for some or all of these drug candidates in order to continue their clinical advancement, as we maintain focus on controlling clinical development of certain drug candidates in the United States. We may also seek collaborators for our ion channels and other research programs.

Kendall Square Lease

We currently lease approximately 290,000 square feet of office and laboratory space in Kendall Square, Cambridge, Massachusetts (the "Kendall Square Lease"), which we have decided not to occupy. We have subleased approximately 45,000 square feet of that space and are seeking subtenants for the unoccupied portion. For the three months ended March 31, 2005, we recorded restructuring and other expense relating to the Kendall Square Lease of $1.9 million. Our estimate of the net ongoing obligation under the Kendall Square Lease at March 31, 2005 was approximately $52.3 million on a discounted net present-value basis, which relates to the remaining Kendall Square Lease obligations, net of estimated sublease revenue. This estimate represents our best judgment of the assumptions and estimates most appropriate in measuring the ongoing obligation. Our estimates in this regard have changed in the past, and may change in the future, resulting in additional adjustments to the estimate of liability. Also, because our estimate of the liability includes the application of a discount rate to reflect the time-value of money, the estimate will increase simply as a result of the passage of time, even if all other factors remain unchanged.

Financial Guidance

The key financial measures for which we have provided guidance in 2005 are as follows:

- **Loss:** We expect that the Company's full year loss in 2005 will be in the range of $125 million to $135 million, before certain charges and gains, including any additional credits or charges associated with the Kendall Square Lease.

- **Revenues:** We expect that total revenue will be in the range of $150 million to $160 million in 2005. This is expected to be comprised of approximately $100 million of collaborative R&D revenues from existing collaborations, including $90 million in contracted collaborative R&D funding and approximately $10 million of revenue from milestone payments under existing collaborations, $25 million to $29 million from HIV product royalties, and an anticipated additional $20 million to $30 million from new research and product development agreements.

- **Research and Development (R&D) Expense:** We project that R&D expense will be in the range of $225 million to $240 million for 2005. The forecasted increase over the 2004 R&D expense level of $192 million is mainly driven by increased clinical development investment in our Vertex-controlled programs.

- **Sales, General and Administrative (SG&A) Expense:** We expect SG&A expense to be in the range of $42 million to $46 million for 2005.

- **Cash, Cash Equivalents and Available for Sale Securities:** We expect cash, cash equivalents and marketable securities to be in excess of $250 million at the end of 2005.

The financial measures set forth above are forward looking and are subject to risks and uncertainties that could cause our actual results to vary materially, as referenced in the section entitled "Forward-Looking Statements," which appears on page 20 of this Quarterly Report on Form 10-Q.

In this Quarterly Report on Form 10-Q, our guidance for the full year 2005, 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 have a net stockholders' deficit. Historically we have financed our operations principally through public stock offerings, private placements of our equity and debt securities, strategic collaborative agreements that include research and development funding, development milestones and royalties on the sales of products, proceeds from the disposition of assets of our Discovery Tools and Services business which we sold in 2003, investment income and proceeds from the issuance of stock under our employee benefit programs.

At March 31, 2005, we had cash, cash equivalents and marketable securities of $334.3 million, which is a decrease of $58.0 million from $392.3 million at December 31, 2004. The decrease is primarily due to the net cash used in operations of $54.8 million, which included cash payments of $5.4 million made in connection with the restructuring and other expense accrual. Expenditures for property and equipment during the three months ended March 31, 2005 were $3.2 million.

At March 31, 2005, the Company had approximately $232.4 million in principal amount of 2011 Notes and approximately $82.6 million in principal amount of 2007 Notes. The 2011 Notes are convertible, at the option of the holder, into common stock at a price equal to $14.94 per share, subject to adjustment under certain circumstances. The 2007 Notes are convertible, at the option of the holder,

into common stock at a price equal to $92.26 per share, subject to adjustment under certain circumstances.

The actual amount and timing of the payment of the remaining restructuring accrual liability of approximately $52.3 million related to our decision not to occupy our facility in Kendall Square is dependent upon the ultimate terms of any sublease(s) that we may ultimately enter into. We review our estimates underlying the restructuring accrual on at least a quarterly basis, and the accrual, and consequently any expected future payment, could change with any change in our estimates.

We expect to continue to make significant investments in our pipeline, particularly in clinical trials for certain of our product candidates, in our ion channel and kinase discovery efforts and in our effort to prepare for potential registration, regulatory approval and commercial launch of our existing and future product candidates. Consequently, we expect to incur losses on a quarterly and annual basis for the foreseeable future. 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.

In the first quarter of 2005, we entered into a commitment to purchase $4.8 million of drug substance to be used for future clinical studies and formulation development. The obligation will be fulfilled in 2005. At March 31, 2005, approximately $1.7 million was recorded in accrued expenses and other current liabilities on our condensed consolidated balance sheet. There have been no other significant changes to our commitments and obligations as reported in our 2004 Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 16, 2005.

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

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

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

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements prepared in accordance with generally accepted accounting principles in the United States of America. The preparation of these financial statements requires us to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expense during the reported periods. These items are 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 past experience or other assumptions do not turn out to be substantially accurate.

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

Restructuring and Other Expense

We record liabilities associated with restructuring activities based on estimates of fair value in the period the liabilities are incurred, in accordance with SFAS 146. These estimates are reviewed and may be adjusted in subsequent periods. Adjustments are based, among other things, on management's assessment of changes in factors underlying the estimates, the impact of which is measured using the credit-adjusted risk-free discount rate of approximately 10% applied in the period when we first incurred the liability.

In June 2003, we restructured our operations in preparation for increased investment in the clinical development and commercialization of our drug candidates. We designed the restructuring to rebalance our relative investment in research and development, to better support our long-term objective of becoming an integrated pharmaceutical company. The restructuring included a workforce reduction, write-offs of certain assets and a decision not to occupy the facility subject to the Kendall Square Lease. We have subleased approximately 45,000 square feet of this facility and are actively seeking to sublease the unoccupied portion to offset our ongoing lease obligations.

In accordance with SFAS 146, we recorded an initial estimate of the fair value of the estimated liability in the second quarter of 2003. We have reviewed our assumptions and estimates quarterly and have updated the estimated amount of the liability as changes in circumstances have required. For the three months ended March 31, 2005, we recorded restructuring and other expenses of $1.9 million, which is primarily the result of an imputed interest charge for the related restructuring liability. The remaining restructuring accrual relating to the estimated net ongoing obligations under the Kendall Square Lease was $52.3 million at March 31, 2005.

We are required to make significant judgments and assumptions when estimating the liability for our net ongoing obligations under the Kendall Square Lease. In accordance with SFAS 146, we use a probability-weighted discounted cash-flow analysis to calculate the amount of the liability. We applied a discount rate of approximately 10%. The probability-weighted discounted cash-flow analysis is based on management's assumptions and estimates of our ongoing lease obligations, including contractual rental and build-out commitments, and sublease rentals, including estimates of sublease timing and sublease rental terms. We validate our estimates and assumptions through consultations with independent third parties having relevant expertise.

It is possible that our estimates and assumptions will change in the future, resulting in additional adjustments to the amount of the estimated liability, and the effect of any adjustments could be material. For example, if sublease rental rates differ from our assumption by approximately 10% in either direction, our recorded liability will be negatively or positively adjusted by approximately $6.0 million. If our estimated subleasing timetable is delayed by six months, the impact could be as high as approximately $5.0 million in additional estimated liability, or more, if there is further delay. We will review our assumptions and judgments related to the potential lease restructuring on at least a quarterly basis, until the outcome is finalized, and make whatever modifications we believe are necessary, based on our best judgment, to reflect any changed circumstances.

Revenue Recognition

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

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

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

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

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

Research and Development Costs

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

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

Altus Investment

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

Results of Operations

Three Months Ended March 31, 2005 Compared with Three Months Ended March 31, 2004

Net Loss

Our net loss for the three months ended March 31, 2005 was $44,720,000, or $0.56 per basic and diluted common share, compared to net loss of $40,438,000 or $0.52 per basic and diluted common share, for the three months ended March 31, 2004. Included in the net loss for the quarter ended March 31, 2005 is restructuring and other expense of $1,914,000. Our net loss for the quarter ended March 31, 2004 includes restructuring and other expense of $1,818,000, and a charge for retirement of convertible subordinated notes of $2,453,000.

Revenues

Total revenues increased $11,093,000 to $28,606,000, for the three months ended March 31, 2005, compared to $17,513,000 for the three months ended March 31, 2004. In the first quarter of 2005, revenue was comprised of $6,153,000 in royalties and $22,453,000 in collaborative research and development revenue, as compared with $2,582,000 in royalties and $14,931,000 in collaborative research and development revenue in the first quarter of 2004.

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

Collaborative research and development revenue increased $7,522,000, or 50%, for the three months ended March 31, 2005 as compared with the same period in 2004. The increase in collaborative research and development revenue is primarily due to the execution of three new collaboration agreements in mid-2004. Research funding under our collaboration with Serono S.A. concluded on September 30, 2004.

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

Costs and Expenses

Research and development expenses increased $15,760,000, or 38%, to $57,435,000 for the three months ended March 31, 2005 from $41,675,000 for the same period in 2004. Development expenses accounted for 77% or $12,170,000 of the total increase in research and development expenses. During the first quarter of 2005, we continued clinical studies of our compounds for the treatment of HCV infection, a Phase IIb study (called the "METRO" study) of merimepodib in combination with Pegasys® (peginterferon alfa-2a) and Copegus® (ribavirin) and a Phase Ib study of VX-950. Additionally, we continued a Phase II clinical study of VX-765 in psoriasis.

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 March 31, 2005 and 2004 (in thousands):

	Three Months Ended, March 31,			
	2005	2004	$ Change	% Change
Research Expenses:				
Salary and benefits	$ 10,077	$ 9,215	$ 862	9%
Laboratory supplies and other direct expenses	5,594	3,845	1,749	45%
Contractual services	1,761	1,491	270	18%
Infrastructure costs	12,570	11,861	709	6%
Total research expenses	$ 30,002	$ 26,412		
Development Expenses:				
Salary and benefits	$ 6,259	$ 4,389	$ 1,870	43%
Laboratory supplies and other direct expenses	2,066	1,397	669	48%
Contractual services	12,898	4,220	8,678	206%
Infrastructure costs	6,210	5,257	953	18%
Total development expenses	$ 27,433	$ 15,263		
Total Research and Development Expenses:				
Salary and benefits	$ 16,336	$ 13,604	$ 2,732	20%
Laboratory supplies and other direct expenses	7,660	5,242	2,418	46%
Contractual services	14,659	5,711	8,948	157%
Infrastructure costs	18,780	17,118	1,662	10%
Total research and development expenses	$ 57,435	$ 41,675		

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

	For the Three Months Ended March 31, 2005			For the Three Months Ended March 31, 2004		
	Research	Development	Total	Research	Development	Total
Collaborator-sponsored	$ 16,452	$ 11,617	$ 28,069	$ 14,954	$ 2,919	$ 17,873
Company-sponsored	13,550	15,816	29,366	11,458	12,344	23,802
Total	$ 30,002	$ 27,433	$ 57,435	$ 26,412	$ 15,263	$ 41,675

Sales, general and administrative expenses decreased slightly to $9,627,000 for the three months ended March 31, 2005, compared to $9,722,000 for the same period in 2004. We expect sales, general and administrative expenses to remain at similar levels throughout 2005.

Restructuring and other expense for the three months ended March 31, 2005 was $1,914,000, compared to $1,818,000 for the three months ended March 31, 2004. Additionally, in the first quarter of 2005, $5,400,000 of cash payments for rent and build-out were charged against the accrual. The restructuring accrual balance at March 31, 2005 was $52,305,000. 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. The expense and liability related to our estimated net ongoing obligations under the Kendall Square Lease 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 $671,000, or 22%, to $2,319,000 for the three months ended March 31, 2005 from $2,990,000 for the three months ended March 31, 2004. The decrease is a result of a lower average balance of funds invested and lower portfolio yields.

New Accounting Pronouncements

In December 2004, the FASB issued FASB Statement No. 123(R), "Share-Based Payments" ("FASB 123(R)"). FASB 123(R) revises FASB Statement No. 123, "Accounting for Stock-Based Compensation," supercedes APB Opinion No. 25, "Accounting for Stock Issued to Employees," and amends FASB Statement No. 95, "Statement of Cash Flows." FASB 123(R) requires companies to expense the fair value of employee stock options and other forms of stock-based compensation over the employees' service period. Compensation cost is measured at the fair value of the award at the grant date and adjusted to reflect actual forfeitures and the outcome of certain conditions. The fair value of an award is not re-measured after its initial estimation on the grant date. In December 2004, the FASB determined that the effective date should be the first interim or annual reporting period that begins after June 15, 2005. In April 2005, the SEC amended the effective compliance date to be the first annual reporting period beginning on or after June 15, 2005. Therefore, Vertex is required to be compliant beginning January 1, 2006. The impact of adopting SFAS No. 123(R) cannot be accurately estimated at this time, as it will depend on the market value and the amount of share based awards granted in future periods. However, had the Company adopted SFAS No. 123(R) in prior periods, the impact of the standard would have approximated the impact of SFAS No. 123 as described in the disclosure of pro forma net loss and net loss per share in Note 2 to the Notes to Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q. We are currently evaluating the two prescribed transition methods for accounting for and reporting stock options, and will select one prior to the adoption of FASB 123(R).

Forward-looking Statements

This report contains forward-looking statements about our business, including our expectation that (i) we are positioned to commercialize multiple products in the coming years; (ii) future development candidates may include therapeutics for the treatment of a wide variety of diseases and conditions, including cancer, cystic fibrosis, bacterial infection and pain, but we will continue to focus our development activities on product candidates in the areas of HCV infection and inflammatory and autoimmune disorders; (iii) we and our collaborators will advance clinical trials on a number of our development stage drug candidates during 2005; (iv) our financial results for 2005 will be as set forth in this Quarterly Report on 10-Q; (v) research and development expenses will increase; (vi) our net liability under the Kendall Square Lease will be as we have estimated; and (vii) we will enter into new collaborations that will provide additional funding for our research and development efforts, including possibly our ion channels program, VX-409 (for the treatment of pain) and VX-692 (for the treatment of bacterial infection).

While management makes its best efforts to be accurate in making forward-looking statements, such statements are subject to risks and uncertainties that could cause our actual results to vary materially. These risks and uncertainties include, among other things, our inability to further identify, develop and achieve commercial success for new products and technologies; the possibility of delays in the research and development necessary to select drug development candidates; the possibility of delays in the commencement or completion of clinical trials; the risk that clinical activities planned for 2005 may not commence as scheduled; the risk that clinical trials may not result in marketable products; the risk that we may be unable to successfully finance and secure regulatory approval of and market our drug candidates; our dependence upon existing and new pharmaceutical and biotechnology collaborations; the levels and timing of payments under our collaborative agreements; uncertainties about our ability to obtain new corporate collaborations on satisfactory terms, if at all; the development of competing systems; our ability to protect our proprietary technologies; patent-infringement claims; risks of new, changing and competitive technologies; the risk that there may be changing and new regulations in the U.S. and internationally; and uncertainty about our ability to sublease to third parties space covered by the Kendall Square Lease. Please see the "Risk Factors" appearing in Item 1 of our Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 16, 2005, for more details regarding these and other risks. We disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Interest Rate Risk

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

Item 4. Controls and Procedures

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

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

Part II. Other Information

Item 1. Legal Proceedings

See Note 7 to the condensed consolidated financial statements.

Item 6. Exhibits

10.1	Severance Agreement and Release, dated February 7, 2005, between Vertex Pharmaceuticals Incorporated and Vicki L. Sato (filed herewith).*
10.2	Employment Agreement, dated as of February 15, 2005, between Vertex Pharmaceuticals Incorporated and Victor Hartmann (filed herewith).*
10.3	Restricted Stock Agreement, dated as of February 15, 2005 between Vertex Pharmaceuticals Incorporated and Victor Hartmann (filed herewith).*
31.1	Certification of the Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
31.2	Certification of the Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32.1	Certification of the Chief Executive Officer and the Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).

* Compensatory arrangement.

Signatures

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

VERTEX PHARMACEUTICALS INCORPORATED

May 9, 2005

By: /s/ IAN F. SMITH

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

Exhibit Index

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QuickLinks -- Click here to rapidly navigate through this document

Exhibit 10.1

Executed on February 7, 2005

VIA HAND DELIVERY

Vicki L. Sato
43 Larch Road
Cambridge, MA 02138

Re: Severance Agreement and Release

Dear Vicki:

This letter summarizes the terms of your separation from employment with Vertex Pharmaceuticals Incorporated (the "*Company*") and the severance agreement and release between you and the Company (the "*Agreement*"). The purpose of this Agreement is to establish an amicable arrangement for ending our employment relationship, to provide for a smooth transition of your responsibilities, to release the Company from any claims and to permit you to receive severance pay and related benefits. With this understanding, and in exchange for your promises and those of the Company as set forth below, you and the Company agree as follows.

1. Employment Status and Final Payments:

(a) Your employment as President of the Company shall continue until May 11, 2005 (the "*Termination Date*"). During this period of continued employment, you will to devote your full time and best efforts to the business of the Company and faithfully perform such duties and responsibilities consistent with your position as President, as the Company's Chief Executive Officer or Board of Directors, or any of its designees, may direct from time to time.

(b) Effective as of the Termination Date, your employment with the Company shall cease, and you shall no longer hold any positions or offices with the Company or any of its subsidiaries, including, without limitation, the positions of President and member of the Scientific Advisory Board of the Company, and all duties and obligations associated therewith shall cease. As of the Termination Date, your salary will cease, and any entitlement you have or might have under a Company-provided benefit plan, program, contract or practice will terminate, except as required by federal or state law, or as otherwise described below.

(c) On the Termination Date, the Company shall pay you all earned but unpaid wages, subject to standard payroll deductions and withholding, and all accrued but unused vacation time. The Company will also reimburse you for all reasonable, business-related expenses incurred by you up to and through the Termination Date, in accordance with the Company's expense reimbursement policy.

2. Consideration: After the seven-day revocation period set forth in Section 13 has expired, and subject to your continued compliance with your obligations under this Agreement, including but not limited to delivery of the supplemental release pursuant to Section 5(ii) of this Agreement, the Company will provide the following benefits in exchange for, and in consideration of, your full execution of this Agreement:

(a) On the Termination Date, the Company will pay you severance equal to 18 months' of your base salary and pro rata Target Bonus, or $995,230.50. This severance payment shall be paid in one installment.

(b) During the period beginning on the Termination Date, you may elect to continue your participation in the Company's group health and dental insurance plans in accordance with the provisions of COBRA, provided you timely pay the full monthly premium for such continued coverage yourself.

(c) Except as otherwise provided herein, you acknowledge and agree that you will not receive nor are entitled to receive any additional compensation or benefits and that no additional benefits are otherwise due or owing to you under any Company employment agreement or policy or practice.

(d) Any and all payments due under this Section 2 shall be subject to all applicable federal, state and/or local withholding and/or payroll taxes.

3. Stock Options: All of your rights and obligations regarding stock options granted to your during your employment with the Company, including without limitation vesting, exercise and expiration, are governed by the terms and conditions of the Company's 1994 and 1996 Stock and Option Plans, as amended, and the stock option agreements between you and the Company, as amended hereby. On the Termination Date, the options issued under each such stock option agreement shall be deemed to have been held by you for the period commencing on the date of its issuance and ending on the Termination Date, plus an additional eighteen (18) months after the Termination Date, for purposes of vesting rights. Any options that are or become vested by reason of the foregoing shall remain exercisable until the earlier of (a) November 11, 2006 or (b) the date the option would otherwise expire at the end of its ten-year term, after which date, unless previously exercised, they will expire. *Schedule 1* to this Agreement lists each stock option granted to you by the Company, together with the number of shares that will be vested on the Termination Date pursuant to the terms of this Section 3. The termination of your employment as President of the Company shall be deemed to be a "Termination of Service" for all purposes under each of the 1994 and 1996 Stock Plans, without regard to any future position you may hold with the Company (as a board member, consultant or otherwise). You acknowledge and agree that the amendments made pursuant to this Section 3 may have the result of causing those stock options eligible for "ISO" treatment under the Internal Revenue Code of 1986, as amended, to lose such eligibility. Any stock options granted to you during your employment which are not vested or which do not become vested pursuant to this Section 3 on the Termination Date shall expire as of the Termination Date and may no longer be exercised in accordance with the terms of the applicable stock option agreement. Upon the effectiveness of this Agreement, all stock option agreements held by you shall be deemed to have been amended to reflect the provisions of this Section 3.

4. Restricted Stock: All of your rights and obligations regarding restricted stock granted to you during your employment with the Company, including without limitation the lapsing of the Company's repurchase rights, are governed by the terms and conditions of the Company's 1996 Stock and Option Plan, as amended, and the restricted stock agreements between you and the Company, as amended hereby. *Schedule 2* to this Agreement lists each restricted stock grant made to you by the Company. On the Termination Date, the Company's lapsing repurchase right shall terminate with respect to the number of shares set forth under the heading "Vested Shares" on *Schedule 2*, and the Company shall exercise its repurchase right with respect to the number of shares set forth under the heading "Shares to be Repurchased by the Company" on *Schedule 2*. On the Termination Date, the Company will withhold from the amounts due to you under this Agreement the amount of taxes the Company is required to withhold upon the termination of its repurchase rights, and you shall make immediate payment to the Company in the amount of any tax required to be withheld by the Company in excess of the amounts available for such withholding.

5. Releases

(a) **Release of Company.** In exchange for the benefits to be provided to you hereunder, and other good and valuable consideration, the sufficiency of which is hereby acknowledged:

(i) you and your representatives, agents, estate, heirs, successors and assigns, absolutely and unconditionally hereby release, remise, discharge, indemnify and hold harmless the Company Releasees (defined to include the Company and/or any of its parents, subsidiaries or affiliates, predecessors, successors or assigns, and its and their respective current and/or former partners,

directors, shareholders/stockholders, officers, employees, attorneys and/or agents, all both individually and in their official capacities), from any and all actions or causes of action, suits, claims, complaints, contracts, liabilities, agreements, promises, contracts, torts, debts, damages, controversies, judgments, rights and demands, whether existing or contingent, known or unknown, suspected or unsuspected, which arise out of your employment with, change in employment status with, and/or separation of employment from, the Company. This release is intended by you to be all encompassing and to act as a full and total release of any claims, whether specifically enumerated herein or not, that you may have or have had against the Company Releasees arising from conduct occurring up to and through the date of execution of this Agreement, including, but not limited to, any claims arising from any federal, state or local law, regulation or constitution dealing with either employment, employment benefits (other than your vested rights under ERISA) or employment discrimination such as those laws or regulations concerning discrimination on the basis of race, color, creed, religion, age, sex, sexual harassment, sexual orientation, national origin, ancestry, genetic carrier status, handicap or disability, veteran status, any military service or application for military service, or any other category protected under federal or state law; any contract, whether oral or written, express or implied; any tort; any claim for stock, stock options, equity or other benefits; any alleged wrongful termination or constructive discharge, intentional or negligent infliction of emotional distress, negligent misrepresentation, intentional misrepresentation, fraud, defamation, violation of public policy; or other statutory or common law cause of action; and

(ii) you agree to execute an additional release in which you waive your right to assert any and all forms of legal claims against the Company Releasees (as defined in Section 5(i) above) of any kind whatsoever, whether known or unknown, arising from the date of this Agreement through the Termination Date. You acknowledge and agree that such release shall be substantially similar in form and substance to Section 5(i) of this Agreement..

Notwithstanding any contrary provisions of this Agreement, you are not hereby releasing and will not, on the Termination Date be releasing, the Company Releasees from (i) any claims for indemnification by the Company pursuant to the Company's by-laws; (ii) any claims to enforce the terms of this Agreement; or (iii) any claims that you may have, or may have had, against any Company Releasee in your capacity as a stockholder of the Company, to the extent that any such claim arises from facts unknown to you at the time the release is made (on the Effective Date and again on the Termination Date).

(b) **Release of Employee.** In exchange for the benefits to be provided to the Company hereunder, and other good and valuable consideration, the sufficiency of which is hereby acknowledged:

(i) the Company hereby releases, remises, discharges, indemnifies and holds you harmless from any and all actions or causes of action, suits, claims, complaints, contracts, liabilities, agreements, promises, contracts, torts, debts, damages, controversies, judgments, rights and demands, whether existing or contingent, which arise out of your employment with, change in employment status with, and/or separation of employment from, the Company. Except as set forth below, this release is intended by the Company to be all encompassing and to act as a full and total release of any claims, whether specifically enumerated herein or not, that the Company may have or have had against you arising from conduct occurring up to and through the date of execution of this Agreement, including, but not limited to, any claims arising from any contract, whether oral or written, express or implied; any tort; intentional or negligent infliction of emotional distress, negligent misrepresentation, intentional misrepresentation, fraud, defamation, violation of public policy; or other statutory or common law cause of action; and

(ii) the Company agrees to execute an additional release in which the Company's waives its right to assert any and all forms of legal claims against you (as defined in Section 5(i) above) of any kind whatsoever, whether known or unknown, arising from the date of this Agreement through the Termination Date. You acknowledge and agree that such release shall be substantially similar in form and substance to Section 5(i) of this Agreement.

Notwithstanding any contrary provisions of this Agreement, the Company is not hereby releasing and will not, on the Termination Date be releasing, you, from (i) any claims made by stockholders of the Company, by means of stockholder derivative action or otherwise; (ii) any claims not actually known to the Company at the time the release is made (on the Effective Date and again on the Termination Date); and (iii) any claims to enforce the terms of this Agreement.

6. Accord and Satisfaction: The amounts set forth above in Sections 1 and 2, and the amendments set forth above in Sections 3 and 4, shall be complete and unconditional payment, settlement, accord and/or satisfaction with respect to all obligations and liabilities of the Company Releasees to you, including, without limitation, all claims for back wages, salary, vacation pay, draws, incentive pay, bonuses, stock and stock options, commissions, severance pay, reimbursement of expenses, any and all other forms of compensation or benefits, attorney's fees, or other costs or sums.

7. Waiver of Rights and Claims Under the Age Discrimination in Employment Act of 1967:

Since you are 40 years of age or older, you are being informed that you have or may have specific rights and/or claims under the Age Discrimination in Employment Act of 1967 (ADEA) and you agree that:

(a) in consideration for the severance payments and benefits described in Sections 2, 3 and 4 of this Agreement, a portion of which you are not otherwise entitled to receive, you specifically and voluntarily waive such rights and/or claims you might have against the Company Releasees under the ADEA to the extent such rights and/or claims arose prior to the date this Agreement was executed;

(b) you are advised that you have at least 21 days within which to consider the terms of this Agreement and to consult with or seek advice from an attorney of your choice or any other person of your choosing prior to executing this Agreement;

(c) you are advised that, notwithstanding any other contrary provision of this Agreement, consistent with the provisions of the ADEA and other federal discrimination laws, nothing in this Agreement shall be deemed to prohibit you from challenging the validity of the Release under Section 5(i) or the Supplemental Release provided pursuant to Section 5(ii) (together the "*Releases*") under the federal age or other discrimination laws (the "*Federal Discrimination Laws*") or from filing a charge or complaint of age or other employment related discrimination with the Equal Employment Opportunity Commission ("*EEOC*"), or from participating in any investigation or proceeding conducted by the EEOC. Further, nothing in the Releases or this Agreement shall be deemed to limit the Company's right to seek immediate dismissal of such charge or complaint on the basis that your signing of this Agreement constitutes a full release of any individual rights under the Federal Discrimination Laws, or to seek restitution to the extent permitted by law of the economic benefits provided to you under this Agreement if you successfully challenge the validity of either or both of the Releases and prevail in any claim under the Federal Discrimination Laws

(d) you have carefully read and fully understand all of the provisions of this Agreement, and you knowingly and voluntarily agree to all of the terms set forth in this Agreement; and

(e) in entering into this Agreement you are not relying on any representation, promise or inducement made by the Company or its attorneys with the exception of those promises described in this document.

8. Period for Review and Consideration of Agreement:

(a) You acknowledge that you were informed and understand that you have twenty-one (21) days to review this Agreement and consider its terms before signing it.

(b) The 21-day review period will not be affected or extended by any revisions, whether material or immaterial, that might be made to this Agreement.

9. Company Files, Documents and Other Property: You agree that on or before the Termination Date you will return to the Company all Company property and materials, including but not limited to, (if applicable) personal computers, laptops, fax machines, scanners, copiers, Company credit cards and telephone charge cards, manuals, building keys and passes, courtesy parking passes, diskettes, intangible information stored on diskettes, software programs and data compiled with the use of those programs, software passwords or codes, tangible copies of trade secrets and confidential information, sales forecasts, names and addresses of Company customers and potential customers, customer lists, customer contacts, sales information, sales forecasts, memoranda, sales brochures, business or marketing plans, reports, projections, and any and all other information or property previously or currently held or used by you that is or was related to your employment with the Company ("*Company Property*"). You agree that in the event that you discover any other Company Property in your possession after the Termination Date of this Agreement you will immediately return such materials to the Company.

The Company agrees that it will maintain your Company email account for the period of 30 days immediately following the Termination Date and shall automatically forward a copy of all emails sent to you at the Company during such period to your home email address; provided that you immediately return or delete any and all correspondence containing Company trade secrets or confidential information, as referenced above, and any and all correspondence that is not of a personal nature to you. In addition, the Company agrees that it will maintain your Company voicemail account for the period of 30 days immediately following the Termination Date, and you and the Company agree that your current executive assistant shall be given access to your voicemail account and shall be instructed to communicate to you on a regular basis all personal messages left on your voicemail as well as all other communication not containing confidential or proprietary information of the Company.

10. Future Conduct:

(a) *Mutual Nondisparagement:* You will not make disparaging, critical or otherwise detrimental comments to any person or entity concerning the Company, its officers, directors, employees, shareholders or business partners; the products, services or programs provided or to be provided by the Company; the business affairs, operation, management or the financial condition of the Company; or the circumstances surrounding your employment and/or separation of employment from the Company. Likewise, the Company will not, and will take actions designed to ensure that its executive officers and members of its Board of Directors will not make disparaging, critical or otherwise detrimental comments to any person or entity concerning you or the circumstances surrounding your employment and/or separation of employment from the Company. The Company shall instruct all the executive officers and members of its Board of Directors of their respective obligations under this Section 10(a).

(b) *Press Release:* The Company will be required to issue a press release in connection with your execution of this Agreement and your separation from employment. The Company will provide you an opportunity to review the press release and recommend changes to the substance of the press release within the time parameters requested by the Company. However, the timing and substance of the press release rests within the sole discretion of the Company.

(c) *Confidentiality of this Agreement:* Both parties agree that they shall not disclose, divulge or publish, directly or indirectly, any information regarding the substance, terms or existence of

this Agreement and/or any discussion or negotiations relating to this Agreement, to any person or organization other than (i) with respect to the Company, as is required in the course of business and (ii) with respect to you, to (x) your immediate family members or (y) to your accountants or attorneys when such disclosure is necessary to render professional services. Prior to any such disclosure that you may make, you shall secure from your attorney or accountant their agreement to maintain the confidentiality of such matters. If the Company includes this Agreement as part of its public filings, then from and after the date of such disclosure you and the Company shall be permitted to disclose information regarding the substance, terms or existence of this Agreement, but not the discussions or negotiations relating to this Agreement.

(d) *Disclosures:* Nothing herein shall prohibit or bar you or the Company from providing truthful testimony in any legal proceeding or in communicating with any governmental agency or representative or from making any truthful disclosure required, authorized or permitted under law; provided, however, that in providing such testimony or making such disclosures or communications, you and the Company agree to use reasonable efforts to ensure that this Section is complied with to the maximum extent possible. Notwithstanding the foregoing, nothing in this Agreement shall bar or prohibit you from contacting, seeking assistance from or participating in any proceeding before any federal or state administrative agency to the extent permitted by applicable federal, state and/or local law. However, you nevertheless will be prohibited to the fullest extent authorized by law from obtaining monetary damages in any agency proceeding in which you do so participate.

(e) *No Agency Relationship.* From and after the Termination Date, unless otherwise expressly authorized in writing by the Company's Board of Directors, you shall no longer be the agent of the Company and shall no longer have the power or authority to, and you shall no longer attempt to, (i) bind the Company, (ii) incur any liability or obligation on behalf of the Company, or (iii) hold yourself out as authorized to act on behalf of the Company, including, without limitation, participating in any investor calls or communicating with the media regarding the Company.

(f) *Litigation Cooperation.* During your continued employment with the Company and after the Termination Date, you agree to cooperate fully with the Company in any action, proceeding, charge or lawsuit in which the Company is a party as reasonably requested by the Company from time to time or as required by law or legal process. For the twelve-month period immediately following the Termination Date, you agree to provide such litigation assistance without further compensation than the agreements of the Company in this Agreement and reimbursement of reasonable expenses directly incurred by you in connection with such litigation assistance. After the twelve-month anniversary of the Termination Date, the Company shall pay you $150.00 per hour in connection with such litigation assistance (other than your participation as a witness or deponent pursuant to a deposition notice, subpoena, summons or other legal process) and reimburse you for reasonable expenses directly incurred by you in connection with such litigation assistance. For purposes of this Paragraph, the term "expenses" shall not include attorneys' fees.

(g) *Indemnification.* During your continued employment with the Company and after the Termination Date, you shall be eligible for indemnification to the fullest extent permitted under the Company's Amended and Restated By-Laws, and for coverage under the Company's Directors and Officers Liability Insurance Policy in accordance with the terms and conditions set forth therein and provided the Company continues to maintain such insurance coverage.

11. Employee Nondisclosure and Inventions Agreement; Agreement Not to Compete:

You hereby acknowledge the existence and continued validity of the Employee Non-Disclosure Non-Competition and Inventions Agreement that you preciously executed (the "*Inventions Agreement*") and the "Agreement Not to Compete" set forth in Section 8 ("*Non-competition Covenant*") of the Employment Agreement dated November 1, 1994 between you and the Company, as amended to date.

You agree to abide by your obligations contained in the Inventions Agreement and the Noncompetition Covenant for the periods set forth therein.

12. Representations and Governing Law:

(a) This Agreement sets forth the complete and sole agreement between the parties and supersedes any and all other agreements or understandings, whether oral or written, except the Inventions Agreement, the Noncompetition Covenant and the stock option and restricted stock agreements referenced in Sections 3 and 4, each of which shall remain in full force and effect in accordance with their respective terms. This Agreement may not be changed, amended, modified, altered or rescinded except upon the express written consent of the Company and you.

(b) If any provision of this Agreement, or part thereof, is held invalid, void or voidable as against public policy or otherwise, the invalidity shall not affect other provisions, or parts thereof, which may be given effect without the invalid provision or part. To this extent, the provisions and parts thereof of this Agreement are declared to be severable. Any waiver of any provision of this Agreement shall not constitute a waiver of any other provision of this Agreement unless expressly so indicated otherwise. The language of all parts of this Agreement shall in all cases be construed according to its fair meaning and not strictly for or against either of the parties.

(c) This Agreement and any claims arising out of this Agreement (or any other claims arising out of the relationship between the parties) shall be governed by and construed in accordance with the laws of The Commonwealth of Massachusetts and shall in all respects be interpreted, enforced and governed under the internal and domestic laws of Massachusetts, without giving effect to the principles of conflicts of laws of such state. Any claims or legal actions by one party against the other shall be commenced and maintained in state or federal court located in Massachusetts, and you hereby submit to the jurisdiction and venue of any such court.

(d) You may not assign any of your rights or delegate any of your duties under this Agreement. The rights and obligations of the Company shall inure to the benefit of, and shall be binding upon, the Company's successors and assigns.

13. Revocation Period: You may revoke this Agreement at any time during the seven-day period immediately following your execution hereof. As a result, this Agreement shall not become effective or enforceable until the seven-day revocation period has expired.

14. Deferred Compensation Amendments You acknowledge and agree that certain compensation arrangements under this Agreement may be subject to the requirements of Section 409A of the Code. The parties further acknowledge that the U.S. Department of Treasury and the Internal Revenue Service are expected to issue additional future guidance as to how Code Section 409A affects all deferred compensation arrangements, possibly including the arrangements under this Agreement. As soon as practicable following the issuance of any such guidance, the parties agree to negotiate in good faith and amend all applicable provisions of this Agreement on a timely basis to the extent necessary to comply with Code Section 409A, in a manner that preserves, as near as possible, the economic benefits to you which you and the Company negotiated in good faith when entering into this Agreement.

If this letter correctly states the agreement and understanding we have reached, please indicate your acceptance by countersigning the enclosed copy and returning it to me.

Very truly yours,

VERTEX PHARMACEUTICALS INCORPORATED

By: /s/ JOSHUA S. BOGER

Joshua S. Boger
Chief Executive Officer

I REPRESENT THAT I HAVE READ THE FOREGOING AGREEMENT, THAT I FULLY UNDERSTAND THE TERMS AND CONDITIONS OF SUCH AGREEMENT AND THAT I AM KNOWINGLY AND VOLUNTARILY EXECUTING THE SAME. IN ENTERING INTO THIS AGREEMENT, I DO NOT RELY ON ANY REPRESENTATION, PROMISE OR INDUCEMENT MADE BY THE COMPANY OR ITS REPRESENTATIVES WITH THE EXCEPTION OF THE CONSIDERATION DESCRIBED IN THIS DOCUMENT.

Accepted and Agreed to:

/s/ VICKI L. SATO

Vicki L. Sato

Date: February 7, 2005

IF YOU DO NOT WISH TO USE THE 21-DAY PERIOD,
PLEASE CAREFULLY REVIEW AND SIGN THIS DOCUMENT

I, Vicki L. Sato, acknowledge that I was informed and understand that I have 21 days within which to consider the attached Severance Agreement and Release, have been advised of my right to consult with an attorney regarding such Agreement and have considered carefully every provision of the Agreement, and that after having engaged in those actions, I prefer to and have requested that I enter into the Agreement prior to the expiration of the 21 day period.

Dated: February 7, 2005	/s/ VICKI L. SATO
	Vicki L. Sato

QuickLinks

Exhibit 10.2

EMPLOYMENT AGREEMENT

AGREEMENT, made and entered into as of the 15th day of February, 2005 by and between Vertex Pharmaceuticals Incorporated, a Massachusetts corporation (together with its successors and assigns, the "*Company*"), and Victor Hartmann (the "*Executive*").

W I T N E S S E T H

WHEREAS, the Company has offered to employ the Executive as the Executive Vice President—Strategic and Corporate Development of the Company;

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

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

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

1. DEFINITIONS.

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

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

(c) "*Cause*" shall mean (i) the Executive is convicted of a crime involving moral turpitude, or (ii) the Executive commits a material breach of any provision of this Agreement, or (iii) the Executive, in carrying out his duties, acts or fails to act in a manner which is determined, in the sole discretion of the Board, after written notice of any such act or failure to act and a reasonable opportunity to cure the deficiency has been provided to the Executive, to be (A) willful gross neglect or (B) willful gross misconduct resulting, in either case, in material harm to the Company unless such act, or failure to act, was believed by the Executive, in good faith, to be in the best interests of the Company.

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

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

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

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

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

(f) "*Competitive Activity*" shall mean engagement directly or indirectly, individually or through any corporation, partnership, joint venture, trust, limited liability company or person, as an officer, director, employee, agent, consultant, partner, proprietor, shareholder or otherwise, in any business associated with the biopharmaceutical or pharmaceutical industry which, in the sole discretion of the Company, is determined to compete with the business 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 ("Code") Section 22(e)(3); provided that, for purposes of any arrangement subject to or deemed subject to the provisions of Code Section 409A, the following definition of "*Disability*" or "*Disabled*" shall apply: an individual is *"Disabled"* or has a "*Disability*" if he or she is unable to engage in any substantial gainful activity because of any medically determinable physical or mental impairment which can be expected to result in death or last for a continuous period of no less than 12 months. Alternatively, an individual is considered disabled if he or she is, because of any medically determinable physical or mental impairment which can be expected to result in death or last for a continuous period of at least 12 months, receiving income replacement benefits for a period of not less than three months under the Company's long-term disability plan.

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

(i) "*Effective Date*" shall mean 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, commencing on the Effective Date and continuing until termination in accordance with the terms of this Agreement. The period during which the Executive is employed hereunder is referred to in this Agreement as "*term of employment*" or the "t*erm 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 Executive Vice President, Strategic & Corporate Development of the Company, and shall be responsible for portfolio management of the Company's development-stage product portfolio and for management of the Company's business and corporate development activities. The Executive will be a member of the senior management team, which oversees operations for the pharmaceutical business worldwide. The Executive shall represent and serve the Company faithfully, conscientiously and to the best of the Executive's ability and shall promote the interests, reputation and current and long term plans, objectives and policies of the Company. 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.

The Executive's initial annualized Base Salary shall be $429,000, 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 $150,000 payable (with appropriate deductions as required by law) to the Executive at the first regular pay date applicable to the Executive after the Effective Date. 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, the Executive shall repay the sign-on cash bonus to the Company within thirty (30) days of such termination.

(c) **Sign-On Stock Option Grant**: The Executive shall be granted a stock option under the Company's existing stock option plan to purchase 150,000 shares of the Company's common stock at a price equal to the Fair Market Value of Vertex's shares, as defined in the Company's 1996 Stock and Option Plan, on the Effective Date. The option will vest and become exercisable as to equal numbers of shares of stock quarterly in arrears over the 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.

(d) **Sign-On Restricted Stock Grant**: The Executive will purchase, in accordance with the terms of a Restricted Stock Agreement executed and delivered to the Company by the Executive on the Effective Date, 70,000 shares of the Company's Common Stock, at a purchase price per share of $0.01. The Company will retain the right to repurchase these shares at $.01 per share purchase price should the Executive cease to be employed by the Company either voluntarily or through "for cause" termination, but this repurchase right will lapse, as to 20,000 shares of the stock, on the first anniversary of the Effective Date, and as to 25,000 shares of the stock on the third anniversary of the Effective Date. The repurchase right will lapse as to the remaining 25,000 shares of the stock at the earlier of the fifth anniversary of the Effective Date, or achievement of Company Profitability (as defined in the Restricted Stock Agreement) for four consecutive financial quarters, all as set forth in the Restricted Stock 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. RELOCATION REIMBURSEMENT:

The Executive will be promptly reimbursed for out-of-pocket expenses reasonably and necessarily incurred by him from the commencement date of his employment through July 01, 2005 in connection with the following items:

- Temporary housing for the Executive in the greater Boston metropolitan area reasonably acceptable to the Executive and the Company, pending a permanent move to Boston.

- Travel expenses associated with commuting from time to time, to and from the Executive's current home in France, prior to the Executive's permanent move to the Boston area, but no more than one round-trip per month.

- One-time moving and transportation costs associated with the relocation of the Executive's household goods (the "*Relocation Cost*") to the Boston metropolitan area. The Company will continue to make Relocation Cost reimbursement available after July 01, 2005 (but in any event no longer than one year after the Effective Date) in the event the Executive is engaged beyond that time in actual and substantial efforts to relocate his household to the Boston metropolitan area (for example, in the event that the purchase of the Executive's Boston-area home is delayed by the seller beyond July 01, 2005).

- Such other relocation benefits as described in the Company's Relocation Policy previously delivered to the Executive, to the extent not inconsistent with the provisions of this Agreement.

All reimbursement amounts will be "grossed up" as necessary to provide the Executive with the expense benefit on a post-tax basis.

In the event the Executive voluntarily terminates his employment or if his employment is terminated by the Company for Cause during the twelve-month period following the Effective Date, the Executive will be required to repay the aggregate relocation benefit provided to him by the Company within thirty (30) days of the termination date. Termination of employment for Good Reason (as defined below), or death or for disability or as a result of a Change of Control (as defined below) shall be deemed an involuntary termination.

10. 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 then in effect, but in any event he shall be entitled to not less than four weeks paid vacation per year.

11. 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 11(a);

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

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

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

(v) all exercisable stock options held by the Executive as of the date of termination under this Section 11(a) shall remain exercisable until the earlier of (1) the end of the 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 11(A) occurred; and

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

(b) **Termination by the Company for Cause; or Termination by the Executive without Good Reason.** In the event the Company terminates the Executive's employment for Cause, or if Executive terminates his employment without Good Reason, the term of employment shall end as of the date specified below, and the Executive shall be entitled to the following:

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

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

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

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

(iii) Twelve months of Severance Pay, commencing on the first day of the month following the month during which the Executive's employment is terminated under this Section 11(c); *provided*, *however*, that if the Executive dies while receiving benefits under this Section, all payments shall immediately cease, 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 11(c), as determined in its sole discretion by the Board of Directors;

(v) all exercisable stock options held by the Executive as of the date of the termination of his employment under this Section 11(c) 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 termination under this Section 11(c) that are not exercisable as of that date shall be deemed to have been held by the Executive for an additional 18 months, for purposes of vesting and exercise rights, and any stock options which become exercisable as a result thereof shall remain exercisable as provided in Section 11(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 11(c), until the earlier of:

(A) the end of the period during which Severance Pay is payable under Section 11(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 11(c)(viii) because Executive is not an employee of the Company, and (ii) not receiving equivalent coverage and benefits through a subsequent employer, Executive shall be provided with the after-tax economic equivalent of the benefits provided under the plan, program or arrangement in which Executive is unable to participate for the period specified in Section 11(c)(viii). The economic equivalent of any benefit foregone shall be deemed to be the lowest cost that would be incurred by the Executive in obtaining an equivalent

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

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

Notwithstanding anything to the contrary in this Section 11, the terms of any Option Agreement or Restricted Stock Agreement shall govern the acceleration, if any, of vesting or lapsing of the Company's repurchase rights, as applicable, except to the extent that the terms of this Employment Agreement are more favorable to the Executive. To the extent any of the payments provided in this Section 11 are deemed to constitute nonqualified deferred compensation for purposes of Internal Revenue Code Section 409A, payment of any portion thereof that otherwise would be paid to the Executive prior to the date that is six months after the date on which the Executive's employment is terminated under this Section 11 (the "Deferred Payment Date") shall be paid to the Executive on the Deferred Payment Date.

12. 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 11 any remuneration earned by the Executive during that period and attributable to any subsequent employment or engagement that the Executive may obtain. Executive shall provide Company written notice of subsequent employment or engagement no later than five (5) business days after commencement by Executive of such employment or engagement.

13. CONFIDENTIALITY; ASSIGNMENT OF RIGHTS.

(a) During the term of employment and thereafter, the Executive shall not disclose to anyone or make use of any trade secret or proprietary or confidential information of the Company, including such trade secret or proprietary or confidential information of any customer of the company or other entity that has provided such information to the Company, 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 13(a).

(b) The Executive hereby sells, assigns and transfers to the Company all of his right, title and interest in and to all inventions, discoveries, improvements and copyrightable subject matter (the "rights") which during the term of employment are made or conceived by him, alone or with others, and which are within or arise out of any general field of the Company's business or arise out of any work Executive performs or information Executive receives regarding the business of the Company while employed by the Company. The Executive shall fully disclose to the Company as promptly as available all information known or possessed by him concerning the rights referred to in the preceding sentence, and upon request by the Company and without any further remuneration in any form to him by the Company, but at the expense of the Company, execute all applications for patents and for copyright registration, assignments thereof and other instruments and do all things which the Company may deem necessary to vest and maintain in it the entire right, title and interest in and to all such rights.

14. NONCOMPETITION; NONSOLICITATION.

(a) Notwithstanding any of the provisions herein to the contrary, 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 law. The Company may, at its election, waive its rights of enforcement under this Section 14(a).

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

15. ASSIGNABILITY; BINDING NATURE.

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

16. REPRESENTATIONS.

The Company represents and warrants that it is fully authorized and empowered to enter into this Agreement and that the performance of its obligations under this Agreement will not violate any agreement between it and any other person, firm or organization. The Executive represents and warrants that no agreement exists between him and any other person, firm or organization that would be violated by the performance of his obligations under this Agreement.

17. 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.

18. 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.

19. 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.

20. 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.

21. 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.

22. 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.

23. 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.

24. NOTICES.

All notices which are required or permitted hereunder shall be in writing and sufficient if delivered personally, sent by facsimile (and promptly confirmed by personal delivery, registered or certified mail

or overnight courier), sent by nationally-recognized overnight courier or sent by registered or certified mail, postage prepaid, addressed as follows:

If to the Company:	Vertex Pharmaceuticals Incorporated 130 Waverly Street Cambridge, MA 02139-4242 Attn: Chairman of the Board with copies to: General Counsel Vice President of Human Resources
If to the Executive:	Victor Hartmann at his home address then listed in the Company's payroll records

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

25. 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.

26. COUNTERPARTS.

This Agreement may be executed in two or more counterparts.

27. SPECIAL AMENDMENT.

It is the intention of the Company and the Executive that this Agreement and the payments provided for herein meet the requirements of Internal Revenue Code Section 409A, to the extent applicable to the Agreement and such payments. Recognizing such intent and the lack of guidance currently available under Section 409A, the Company and the Executive agree to cooperate in good faith in preparing and executing, at such time as sufficient guidance is available under Section 409A and from time to time thereafter, such amendments to this Agreement as the Executive may reasonably request solely for the purpose of assuring that this Agreement and the payments provided hereunder meet the requirements of Section 409A.

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 & Chief Executive Officer

Executive

/s/ VICTOR HARTMANN

Victor Hartmann

QuickLinks

Exhibit 10.3

RESTRICTED STOCK AGREEMENT
VERTEX PHARMACEUTICALS INCORPORATED

AGREEMENT made as of the 15th day of February, 2005 (the "*Grant Date*") between Vertex Pharmaceuticals Incorporated (the "*Company*"), a Massachusetts corporation having its principal place of business in Cambridge, Massachusetts and Victor Hartmann (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 "*Disability*" shall mean a disability as determined under the Company's long-term disability plan or program in effect at the time the disability first occurs, or if no such plan or program exists at the time of disability, then a "disability" as defined under Internal Revenue Code Section 22(e)(3).

1.4 "*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.

1.5 "*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, 70,000 shares of the Company's Common Stock (such shares, subject to adjustment pursuant to Section 17 of the Plan and Subsection 3(g) hereof, the "*Granted Shares*") at a purchase price per share of $0.01 (the "*Purchase Price*"), receipt of which is hereby acknowledged by the Company.

3. *Company's Lapsing Repurchase Right*.

(a) *Lapsing Repurchase Right*. Except as set forth in Subsection 3(b) hereof, and subject to subsections (i), (ii), (iii), (iv), and (v) 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) If such termination is prior to the first anniversary of the Grant Date, the Company shall have the option to repurchase all of the Granted Shares;

(ii) If such termination is on or after the first anniversary of the Grant Date and before the earlier of the Acceleration Date or the third anniversary of the Grant Date, the Company shall have the option to repurchase 50,000 of the Granted Shares;

(iii) If such termination is on or after the first anniversary of the Grant Date and after the Acceleration Date, but before the third anniversary of the Grant Date, the Company shall have the option to repurchase 25,000 of the Granted Shares;

(iv) If such termination is on or after the third anniversary of the Grant Date, but before the earlier of the Acceleration Date or the fifth anniversary of the Grant Date, the Company shall have the option to repurchase 25,000 of the Granted Shares;

(v) If such termination is on or after the third anniversary of the Grant Date and after the earlier of the Acceleration Date, or the fifth anniversary of the Grant Date, the Company shall have no right to purchase any of the Granted Shares;

(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.

4. *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 February 15, 2005 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."

5. *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.

6. *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.

7. *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.

8. *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 then-current home address
as 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: /s/ JOSHUA S. BOGER

Name: Joshua S. Boger
Title: Chairman and Chief Executive Officer

PARTICIPANT:

/s/ VICTOR HARTMANN

Victor Hartmann

EXHIBIT A

CONSENT OF SPOUSE

I, , spouse of Victor Hartmann acknowledge that I have read the RESTRICTED STOCK AGREEMENT dated as of February 15, 2005 (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 10th day of March, 2005.

/s/ ANA HARTMANN

Print name: Ana Hartmann

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

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

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

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

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

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

Date: May 9, 2005

/s/ JOSHUA S. BOGER

Joshua S. Boger
Chairman and Chief Executive Officer

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

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

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

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

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

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

Date: May 9, 2005

/s/ IAN F. SMITH

Ian F. Smith
Chief Financial Officer

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Exhibit 32.1

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

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), each of the undersigned officers of Vertex Pharmaceuticals Incorporated, a Massachusetts corporation (the "Company"), does hereby certify, to such officer's knowledge, that the Quarterly Report on Form 10-Q for the quarter ended March 31, 2005 (the "Form 10-Q") of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operation of the Company.

Date: May 9, 2005

/s/ JOSHUA S. BOGER

Joshua S. Boger
Chairman and Chief Executive Officer

Date: May 9, 2005

/s/ IAN F. SMITH

Ian F. Smith
Chief Financial Officer

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