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

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2013

or

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

Commission file number 000-19319

Vertex Pharmaceuticals Incorporated
(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

(Do not check if a smaller reporting company)

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

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

Common Stock, par value $0.01 per share	**233,756,871**
Class	Outstanding at October 31, 2013

VERTEX PHARMACEUTICALS INCORPORATED
FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30, 2013

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

Part I. Financial Information

Item 1. Financial Statements

VERTEX PHARMACEUTICALS INCORPORATED
Condensed Consolidated Statements of Operations
(unaudited)
(in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenues:				
Product revenues, net	$ 186,653	$ 303,501	$ 708,823	$ 1,052,149
Royalty revenues	27,012	25,586	119,705	98,047
Collaborative revenues	8,035	6,919	32,290	42,852
Total revenues	221,700	336,006	860,818	1,193,048
Costs and expenses:				
Cost of product revenues	20,048	30,680	75,698	161,147
Royalty expenses	7,291	7,856	32,315	31,023
Research and development expenses	228,624	200,161	669,174	593,076
Sales, general and administrative expenses	87,754	97,684	287,154	326,344
Restructuring expenses	12,048	696	12,863	1,650
Intangible asset impairment charge	—	—	412,900	—
Total costs and expenses	355,765	337,077	1,490,104	1,113,240
Income (loss) from operations	(134,065)	(1,071)	(629,286)	79,808
Other income (expense), net	4,652	(4,041)	(6,578)	(11,417)
Income (loss) before provision for (benefit from) income taxes	(129,413)	(5,112)	(635,864)	68,391
Provision for (benefit from) income taxes	(751)	21,355	(132,863)	41,450
Net income (loss)	(128,662)	(26,467)	(503,001)	26,941
Net loss (income) attributable to noncontrolling interest (Alios)	4,530	(31,076)	13,688	(57,825)
Net loss attributable to Vertex	$ (124,132)	$ (57,543)	$ (489,313)	$ (30,884)
Net loss per share attributable to Vertex common shareholders:				
Basic	$ (0.54)	$ (0.27)	$ (2.20)	$ (0.15)
Diluted	$ (0.54)	$ (0.27)	$ (2.20)	$ (0.15)
Shares used in per share calculations:				
Basic	230,505	213,767	222,764	211,053
Diluted	230,505	213,767	222,764	211,053

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

VERTEX PHARMACEUTICALS INCORPORATED
Condensed Consolidated Statements of Comprehensive Income (Loss)
(unaudited)
(in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net income (loss)	$ (128,662)	$ (26,467)	$ (503,001)	$ 26,941
Changes in other comprehensive income (loss):				
Unrealized holding gains on marketable securities, net of tax	166	69	7	324
Foreign currency translation adjustment	514	188	(7)	313
Total changes in other comprehensive income (loss)	680	257	—	637
Comprehensive income (loss)	(127,982)	(26,210)	(503,001)	27,578
Comprehensive loss (income) attributable to noncontrolling interest (Alios)	4,530	(31,076)	13,688	(57,825)
Comprehensive loss attributable to Vertex	$ (123,452)	$ (57,286)	$ (489,313)	$ (30,247)

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

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

	September 30, 2013(1)	December 31, 2012(1)
Assets		
Current assets:		
Cash and cash equivalents	$ 583,181	$ 489,407
Marketable securities, available for sale	839,469	831,808
Restricted cash and cash equivalents (Alios)	51,059	69,983
Accounts receivable, net	120,281	143,250
Inventories	13,537	30,464
Prepaid expenses and other current assets	41,104	24,673
Total current assets	1,648,631	1,589,585
Restricted cash	127	31,934
Property and equipment, net	648,924	433,609
Intangible assets	250,600	663,500
Goodwill	30,992	30,992
Other assets	3,474	9,668
Total assets	$ 2,582,748	$ 2,759,288
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 51,533	$ 101,292
Accrued expenses	280,848	264,884
Deferred revenues, current portion	31,007	27,566
Accrued restructuring expenses, current portion	9,858	4,758
Capital lease obligations, current portion	14,429	13,707
Other liabilities, current portion	21,824	20,417
Total current liabilities	409,499	432,624
Deferred revenues, excluding current portion	77,354	96,242
Accrued restructuring expenses, excluding current portion	16,280	18,570
Capital lease obligations, excluding current portion	39,381	15,170
Convertible senior subordinated notes (due 2015)	—	400,000
Deferred tax liability	150,203	280,367
Construction financing lease obligation	392,569	268,031
Other liabilities, excluding current portion	10,782	13,902
Total liabilities	1,096,068	1,524,906
Commitments and contingencies		
Redeemable noncontrolling interest (Alios)	39,624	38,530
Shareholders' equity:		
Preferred stock, $0.01 par value; 1,000,000 shares authorized; none issued and outstanding at September 30, 2013 and December 31, 2012	—	—
Common stock, $0.01 par value; 300,000,000 shares authorized at September 30, 2013 and December 31, 2012; 233,592,201 and 217,286,868 shares issued and outstanding at September 30, 2013 and December 31, 2012, respectively	2,311	2,149
Additional paid-in capital	5,274,307	4,519,448
Accumulated other comprehensive loss	(550)	(550)
Accumulated deficit	(4,011,180)	(3,521,867)
Total Vertex shareholders' equity	1,264,888	999,180
Noncontrolling interest (Alios)	182,168	196,672
Total shareholders' equity	1,447,056	1,195,852
Total liabilities and shareholders' equity	$ 2,582,748	$ 2,759,288

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

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

VERTEX PHARMACEUTICALS INCORPORATED
Condensed Consolidated Statements of Shareholders' Equity and Noncontrolling Interest
(unaudited)
(in thousands)

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Vertex Shareholders' Equity	Noncontrolling Interest (Alios)	Total Shareholders' Equity	Redeemable Noncontrolling Interest (Alios)
	Shares	Amount							
Balance, December 31, 2011	209,304	$ 2,072	$ 4,200,659	$ (1,053)	$ (3,414,835)	$ 786,843	$ 141,633	$ 928,476	$ 37,036
Unrealized holding gains on marketable securities, net of tax				324		324		324	
Foreign currency translation adjustment				313		313		313	
Net income (loss)					(30,884)	(30,884)	57,825	26,941	
Issuance of common stock under benefit plans	7,038	69	182,803			182,872	150	183,022	
Stock-based compensation expense			87,168			87,168	369	87,537	
Tax benefit from equity compensation			1,097			1,097		1,097	
Change in liquidation value of noncontrolling interest							(1,263)	(1,263)	1,263
Balance, September 30, 2012	216,342	$ 2,141	$ 4,471,727	$ (416)	$ (3,445,719)	$ 1,027,733	$ 198,714	$ 1,226,447	$ 38,299
Balance, December 31, 2012	217,287	$ 2,149	$ 4,519,448	$ (550)	$ (3,521,867)	$ 999,180	$ 196,672	$ 1,195,852	$ 38,530
Unrealized holding gains on marketable securities, net of tax				7		7		7	
Foreign currency translation adjustment				(7)		(7)		(7)	
Net loss					(489,313)	(489,313)	(13,688)	(503,001)	
Issuance of common stock under benefit plans	8,029	79	248,207			248,286	(70)	248,216	
Convertible senior subordinated notes (due 2015) conversion	8,276	83	402,182			402,265		402,265	
Stock-based compensation expense			104,470			104,470	348	104,818	
Change in liquidation value of noncontrolling interest							(1,094)	(1,094)	1,094
Balance, September 30, 2013	233,592	$ 2,311	$ 5,274,307	$ (550)	$ (4,011,180)	$ 1,264,888	$ 182,168	$ 1,447,056	$ 39,624

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

VERTEX PHARMACEUTICALS INCORPORATED
Condensed Consolidated Statements of Cash Flows
(unaudited)
(in thousands)

	Nine Months Ended September 30,	
	2013	**2012**
Cash flows from operating activities:		
Net income (loss)	$ (503,001)	$ 26,941
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization expense	30,734	25,818
Stock-based compensation expense	103,933	86,649
Other non-cash based compensation expense	5,856	8,070
Intangible asset impairment charge	412,900	—
Deferred income taxes	(130,164)	35,759
Impairment of property and equipment	6,650	—
Write-down of inventories to net realizable value	10,358	78,000
Other non-cash items, net	(1,393)	(304)
Changes in operating assets and liabilities:		
Accounts receivable, net	20,737	43,538
Inventories	5,212	(32,419)
Prepaid expenses and other current assets	(16,477)	(22,698)
Accounts payable	(46,005)	1,359
Accrued expenses and other liabilities	32,872	12,027
Excess tax benefit from share-based payment arrangements	—	(1,097)
Accrued restructuring expense	2,810	(2,158)
Deferred revenues	(15,447)	(32,203)
Net cash provided by (used in) operating activities	(80,425)	227,282
Cash flows from investing activities:		
Purchases of marketable securities	(1,850,015)	(1,309,044)
Sales and maturities of marketable securities	1,842,361	941,314
Expenditures for property and equipment	(36,922)	(43,094)
Decrease in restricted cash and cash equivalents	31,807	1,923
Decrease (increase) in restricted cash and cash equivalents (Alios)	18,924	(23,075)
Decrease (increase) in other assets	1,094	(997)
Net cash provided by (used in) investing activities	7,249	(432,973)
Cash flows from financing activities:		
Excess tax benefit from share-based payment arrangements	—	1,097
Issuances of common stock from employee benefit plans	242,360	174,950
Payments to redeem secured notes (due 2015)	(158)	—
Payments on capital lease obligations	(14,601)	(2,408)
Payments on construction financing lease obligation	(63,242)	(6,272)
Net cash provided by financing activities	164,359	167,367
Effect of changes in exchange rates on cash	2,591	(110)
Net increase (decrease) in cash and cash equivalents	93,774	(38,434)
Cash and cash equivalents—beginning of period	489,407	475,320
Cash and cash equivalents—end of period	$ 583,181	$ 436,886
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 6,700	$ 6,700
Conversion of convertible senior subordinated notes (due 2015) for common stock	399,842	—
Interest on converted convertible senior subordinated notes (due 2015) offset to additional paid-in capital	6,700	—
Unamortized debt issuance costs of converted convertible subordinated notes (due 2015) offset to additional paid-in capital	4,230	—
Capitalization of construction in-process related to construction financing lease obligation	176,484	167,996
Assets acquired under capital lease	38,520	27,552

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

VERTEX PHARMACEUTICALS INCORPORATED

Notes to Condensed Consolidated Financial Statements

(unaudited)

A. Basis of Presentation and Accounting Policies

Basis of Presentation

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

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

Certain information and footnote disclosures normally included in the Company's annual financial statements have been condensed or omitted. These interim financial statements, in the opinion of management, reflect all normal recurring adjustments necessary for a fair presentation of the financial position and results of operations for the interim periods ended September 30, 2013 and 2012.

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

Use of Estimates and Summary of Significant Accounting Policies

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

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

Recent Accounting Pronouncements

For a discussion of recent accounting pronouncements please refer to Note A, "Nature of Business and Accounting Policies—Recent Accounting Pronouncements," in the 2012 Annual Report on Form 10-K. The Company did not adopt any new accounting pronouncements during the nine months ended September 30, 2013 that had a material effect on the Company's condensed consolidated financial statements.

B. Product Revenues, Net

The Company sells its products principally to a limited number of major and selected regional wholesalers and specialty pharmacy providers in North America as well as government-owned and supported customers in Europe (collectively, its “Customers”). The Company's Customers in North America subsequently resell the products to patients and health care providers. The Company recognizes net revenues from product sales upon delivery as long as (i) there is persuasive evidence

VERTEX PHARMACEUTICALS INCORPORATED

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

that an arrangement exists between the Company and the Customer, (ii) collectibility is reasonably assured and (iii) the price is fixed or determinable.

In order to conclude that the price is fixed or determinable, the Company must be able to (i) calculate its gross product revenues from sales to Customers and (ii) reasonably estimate its net product revenues upon delivery to its Customer's locations. The Company calculates gross product revenues based on the price that the Company charges its Customers. The Company estimates its net product revenues by deducting from its gross product revenues (a) trade allowances, such as invoice discounts for prompt payment and customer fees, (b) estimated government and private payor rebates, chargebacks and discounts, (c) estimated reserves for expected product returns and (d) estimated costs of incentives offered to certain indirect customers, including patients. These estimates, and in particular estimates regarding INCIVEK net product revenues while they decline, require the Company to make significant estimates and judgments that materially affect the Company's recognition of net product revenues.

The following table summarizes activity in each of the product revenue allowance and reserve categories for the nine months ended September 30, 2013:

	Trade Allowances	Rebates, Chargebacks and Discounts	Product Returns	Other Incentives	Total
			(in thousands)		
Balance at December 31, 2012	$ 5,416	$ 63,560	$ 2,852	$ 3,565	$ 75,393
Provision related to current period sales	26,584	155,269	3,687	8,161	193,701
Adjustments related to prior period sales	348	4,433	11,125	(228)	15,678
Credits/payments made	(29,960)	(153,035)	(3,649)	(9,641)	(196,285)
Balance at September 30, 2013	$ 2,388	$ 70,227	$ 14,015	$ 1,857	$ 88,487

C. Collaborative Arrangements

Janssen Pharmaceutica, N.V.

In 2006, the Company entered into a collaboration agreement with Janssen Pharmaceutica, N.V. ("Janssen") for the development, manufacture and commercialization of telaprevir, which Janssen began marketing under the brand name INCIVO in certain of its territories in September 2011. Under the collaboration agreement, Janssen agreed to be responsible for 50% of the drug development costs incurred under the development program for the parties' territories (North America for the Company, and the rest of the world, other than specified countries in Asia, for Janssen) and has exclusive rights to commercialize telaprevir in its territories including Europe, South America, the Middle East, Africa and Australia.

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

Janssen made a $165.0 million up-front license payment to the Company in 2006. The up-front license payment is being amortized over the Company's estimated period of performance under the collaboration agreement. As of September 30, 2013, there were $34.2 million in deferred revenues related to this up-front license payment that the Company expects to recognize over the remaining estimated period of performance. The Company's estimates regarding the period of performance under the Janssen agreement have changed in the past, and due to the evolving nature of the landscape for treatments for HCV infection, the estimated period of performance may change in the future.

Under the collaboration agreement, Janssen agreed to make contingent milestone payments for successful development, approval and launch of telaprevir as a product in its territories. At the inception of the agreement, the Company determined that all of these contingent milestones were substantive and would result in revenues in the period in which the milestone was

achieved. The Company has earned $350.0 million of these contingent milestone payments and does not expect to receive any further milestone payments under this agreement.

Under the Janssen collaboration agreement, each party incurs internal and external reimbursable expenses related to the telaprevir development program and is reimbursed by the other party for 50% of these expenses. The Company recognizes the full amount of the reimbursable costs it incurs as research and development expenses on its condensed consolidated statements of operations. The Company recognizes the amounts that Janssen is obligated to pay the Company with respect to reimbursable expenses, net of reimbursable expenses incurred by Janssen, as collaborative revenues. In the three and nine months ended September 30, 2013, the Company incurred more reimbursable costs than Janssen, and the net amounts payable by Janssen to reimburse the Company were recorded as collaborative revenues.

Each of the parties is responsible for drug supply in its territories. During the nine months ended September 30, 2013 and 2012, the Company provided Janssen certain services through the Company's third-party manufacturing network for telaprevir. Reimbursements from Janssen for these manufacturing services were recorded as collaborative revenues.

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

During the three and nine months ended September 30, 2013 and 2012, the Company recognized the following revenues attributable to the Janssen collaboration:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(in thousands)		(in thousands)	
Royalty revenues (INCIVO)	$ 20,994	$ 19,957	$ 104,108	$ 80,811
Collaborative revenues:				
Amortized portion of up-front payment	$ 3,107	$ 3,107	$ 9,321	$ 9,321
Net reimbursement (payment) for telaprevir development costs	1,413	(503)	1,422	(2,569)
Reimbursement for manufacturing services	—	—	10,299	4,449
Total collaborative revenues attributable to the Janssen collaboration	$ 4,520	$ 2,604	$ 21,042	$ 11,201
Total revenues attributable to the Janssen collaboration	$ 25,514	$ 22,561	$ 125,150	$ 92,012

Mitsubishi Tanabe Pharma Corporation

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

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

VERTEX PHARMACEUTICALS INCORPORATED

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

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

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

The Company recognized no collaborative revenues attributable to the Mitsubishi Tanabe collaboration in 2013 or the three months ended September 30, 2012, and $18.9 million in collaborative revenues attributable to the Mitsubishi Tanabe collaboration in the nine months ended September 30, 2012.

Cystic Fibrosis Foundation Therapeutics Incorporated

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

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

During the three and nine months ended September 30, 2013 and 2012, the Company recognized the following revenues attributable to the CFFT collaboration:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(in thousands)		(in thousands)	
Collaborative revenues attributable to the CFFT collaboration	$ 3,515	$ 4,315	$ 11,318	$ 12,772

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

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

Alios BioPharma, Inc.

License and Collaboration Agreement

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

Under the terms of the Alios Agreement, the Company received exclusive worldwide rights to ALS-2200 (VX-135) and ALS-2158, a second HCV nucleotide analogue discovered by Alios that was only developed pursuant to the Alios Agreement through the third quarter of 2012. Upon entering into the Alios Agreement, the Company paid Alios a $60.0 million up-front payment. As of September 30, 2013, Alios had earned an aggregate of $60.0 million in development milestone payments pursuant to the Alios Agreement. The Alios Agreement provides for development milestone payments to Alios of up to an additional $312.5 million if VX-135 is approved and commercialized. In addition, Alios is eligible to receive commercial milestone payments of up to $750.0 million, as well as tiered royalties on net sales of approved drugs.

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

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

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

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

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Noncontrolling Interest (Alios)

The Company records noncontrolling interest (Alios) on two lines on its condensed consolidated balance sheets. The noncontrolling interest (Alios) is reflected on two separate lines because Alios has both common shareholders and preferred shareholders that are entitled to redemption rights in certain circumstances. The Company records net loss (income) attributable to noncontrolling interest (Alios) on its condensed consolidated statements of operations, reflecting Alios' net loss (income) for the reporting period, adjusted for changes in the fair value of contingent milestone and royalty payments, which is evaluated each reporting period. A summary of net loss (income) attributable to noncontrolling interest (Alios) for the three and nine months ended September 30, 2013 and 2012 is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(in thousands)		(in thousands)	
Loss before provision for (benefit from) income taxes	$ 9,056	$ 5,090	$ 21,177	$ 14,581
Decrease (increase) in fair value of contingent milestone and royalty payments	(1,220)	(57,560)	1,600	(112,760)
Provision for (benefit from) income taxes	(3,306)	21,394	(9,089)	40,354
Net loss (income) attributable to noncontrolling interest (Alios)	$ 4,530	$ (31,076)	$ 13,688	$ (57,825)

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

In the three and nine months ended September 30, 2013, the fair value of the contingent milestone payments and royalties payable by the Company to Alios related to the HCV nucleotide analogue program increased by $1.2 million and decreased by $1.6 million, respectively. An increase in the fair value of the contingent milestone payments and royalties payable by the Company increases net loss attributable to Vertex by a corresponding amount.

In the three and nine months ended September 30, 2012, the fair value of contingent milestone and royalty payments increased by $57.6 million and $112.8 million, respectively, primarily because the Company received positive clinical data from a Phase 1 clinical trial evaluating ALS-2200 (VX-135), which increased the probability that Alios would earn future payments from the Company under the Alios Agreement.

If VX-135 continues to advance in clinical development, the Company expects it will record increases in the fair value of the contingent milestone and royalty payments in future periods. Changes in the fair value of these contingent milestone and royalty payments, and the effects of these changes on net loss attributable to Vertex, may be material in future periods.

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Alios Balance Sheet Information

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

	As of September 30, 2013	As of December 31, 2012
	(in thousands)	
Restricted cash and cash equivalents (Alios)	$ 51,059	$ 69,983
Prepaid expenses and other current assets	8,821	672
Property and equipment, net	1,374	1,728
Intangible assets	250,600	250,600
Goodwill	4,890	4,890
Other assets	153	861
Accounts payable	1,251	1,054
Accrued expenses	6,689	6,099
Deferred tax liability	150,203	152,781
Other liabilities, excluding current portion	873	1,625
Redeemable noncontrolling interest (Alios)	39,624	38,530
Noncontrolling interest (Alios)	182,168	196,672

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

D. Net Loss Per Share Attributable to Vertex Common Shareholders

Basic net loss attributable to Vertex per common share is based upon the weighted-average number of common shares outstanding during the period, excluding restricted stock and restricted stock units that have been issued but are not yet vested. Diluted net loss attributable to Vertex per common share is based upon the weighted-average number of common shares outstanding during the period plus additional weighted-average common equivalent shares outstanding during the period when the effect is dilutive.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(in thousands)		(in thousands)	
Stock options	16,807	20,226	16,807	20,226
Convertible senior subordinated notes	—	8,192	—	8,192
Unvested restricted stock and restricted stock units	2,838	2,222	2,838	2,222

E. Fair Value Measurements

The fair value of the Company's financial assets and liabilities reflects the Company's estimate of amounts that it would have received in connection with the sale of the assets or paid in connection with the transfer of the liabilities in an orderly transaction between market participants at the measurement date. In connection with measuring the fair value of its assets

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and liabilities, the Company seeks to maximize the use of observable inputs (market data obtained from sources independent from the Company) and to minimize the use of unobservable inputs (the Company's assumptions about how market participants would price assets and liabilities). The following fair value hierarchy is used to classify assets and liabilities based on the observable inputs and unobservable inputs used in order to value the assets and liabilities:

Level 1:	Quoted prices in active markets for identical assets or liabilities. An active market for an asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
Level 2:	Observable inputs other than Level 1 inputs. Examples of Level 2 inputs include quoted prices in active markets for similar assets or liabilities and quoted prices for identical assets or liabilities in markets that are not active.
Level 3:	Unobservable inputs based on the Company's assessment of the assumptions that market participants would use in pricing the asset or liability.

The Company's investment strategy is focused on capital preservation. The Company invests in instruments that meet the credit quality standards outlined in the Company's investment policy. This policy also limits the amount of credit exposure to any one issue or type of instrument. As of September 30, 2013, the Company's investments were in money market funds, short-term U.S. Treasury securities, short-term government-sponsored enterprise securities, corporate debt securities and commercial paper.

As of September 30, 2013, all of the Company's financial assets that were subject to fair value measurements were valued using observable inputs. The Company's financial assets valued based on Level 1 inputs consisted of money market funds, U.S. Treasury securities and government-sponsored enterprise securities. The Company's financial assets valued based on Level 2 inputs consisted of corporate debt securities and commercial paper, which consist of investments in highly-rated investment-grade corporations. During the three and nine months ended September 30, 2013 and 2012, the Company did not record an other-than-temporary impairment charge related to its financial assets. The Company's noncontrolling interest (Alios) includes the fair value of the contingent milestone and royalty payments, which is valued based on Level 3 inputs. Please refer to Note C, "Collaborative Arrangements," for further information.

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

	Fair Value Measurements as of September 30, 2013			
		Fair Value Hierarchy		
	Total	Level 1	Level 2	Level 3
	(in thousands)			
Financial assets carried at fair value:				
Cash equivalents:				
Money market funds	$ 308,981	$ 308,981	$ —	$ —
Government-sponsored enterprise securities	2,895	2,895	—	—
Marketable securities:				
Government-sponsored enterprise securities	555,527	555,527	—	—
Commercial paper	125,264	—	125,264	—
Corporate debt securities	158,678	—	158,678	—
Total	$ 1,151,345	$ 867,403	$ 283,942	$ —

Alios' cash equivalents of $48.7 million as of September 30, 2013 consisted of money market funds, which were valued based on Level 1 inputs.

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F. Marketable Securities

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in thousands)		
As of September 30, 2013				
Cash and cash equivalents:				
Cash and money market funds	$ 580,286	$ —	$ —	$ 580,286
Government-sponsored enterprise securities	2,895	—	—	2,895
Total cash and cash equivalents	$ 583,181	$ —	$ —	$ 583,181
Marketable securities:				
U.S. Treasury securities (due within 1 year)	$ —	$ —	$ —	$ —
Government-sponsored enterprise securities (due within 1 year)	555,502	35	(10)	555,527
Commercial paper (due within 1 year)	125,073	191	—	125,264
Corporate debt securities (due within 1 year)	148,672	21	(38)	148,655
Corporate debt securities (due after 1 year through 5 years)	10,019	5	(1)	10,023
Total marketable securities	$ 839,266	$ 252	$ (49)	$ 839,469
Total cash, cash equivalents and marketable securities	$ 1,422,447	$ 252	$ (49)	$ 1,422,650
As of December 31, 2012				
Cash and cash equivalents:				
Cash and money market funds	$ 489,407	$ —	$ —	$ 489,407
Government-sponsored enterprise securities	—	—	—	—
Total cash and cash equivalents	$ 489,407	$ —	$ —	$ 489,407
Marketable securities:				
U.S. Treasury securities (due within 1 year)	$ 111,350	$ 2	$ (2)	$ 111,350
Government-sponsored enterprise securities (due within 1 year)	440,181	49	(5)	440,225
Commercial paper (due within 1 year)	225,294	155	—	225,449
Corporate debt securities (due within 1 year)	15,429	1	(1)	15,429
Corporate debt securities (due after 1 year through 5 years)	39,358	10	(13)	39,355
Total marketable securities	$ 831,612	$ 217	$ (21)	$ 831,808
Total cash, cash equivalents and marketable securities	$ 1,321,019	$ 217	$ (21)	$ 1,321,215

Alios' $51.1 million and $70.0 million, respectively, of cash and money market funds as of September 30, 2013 and December 31, 2012, recorded on the Company's condensed consolidated balance sheets in "Restricted cash and cash equivalents (Alios)," are not included in the above table.

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G. Accumulated Other Comprehensive Loss

The following table summarizes the changes in accumulated other comprehensive loss by component, net of tax:

	Foreign Currency Translation Adjustment	Unrealized Holding Gains on Marketable Securities, Net of Tax	Total
	(in thousands)		
Balance at December 31, 2012	$ (746)	$ 196	$ (550)
Other comprehensive income (loss) before reclassifications	(7)	7	—
Amounts reclassified from accumulated other comprehensive loss	—	—	—
Net current period other comprehensive income (loss)	(7)	7	—
Balance at September 30, 2013	$ (753)	$ 203	$ (550)

For the nine months ended September 30, 2013, there were no amounts reclassified from accumulated other comprehensive income (loss). Amounts reclassified for unrealized gains (losses) on available-for-sale securities are recorded as part of other income (expense), net on the Company's condensed consolidated statements of operations.

H. Inventories

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

	As of September 30, 2013	As of December 31, 2012
	(in thousands)	
Raw materials	$ 232	$ 3,754
Work-in-process	7,980	11,317
Finished goods	5,325	15,393
Total	$ 13,537	$ 30,464

In the three and nine months ended September 30, 2013, the Company recorded within cost of product revenues $5.3 million and $10.4 million, respectively, of write-offs for excess and obsolete inventories. In the three and nine months ended September 30, 2012, the Company recorded within cost of product revenues $0.0 million and $78.0 million, respectively, of write-offs for excess and obsolete inventories.

I. Intangible Assets and Goodwill

Intangible Assets

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

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

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In connection with its preparation of its financial statements for the three months ended March 31, 2013, the Company determined that there were indicators that the value of the VX-222 intangible asset had become impaired. This determination was based on (a) preliminary safety, tolerability and efficacy data from a Phase 2 clinical trial of VX-222, telaprevir and ribavirin, which was received in March 2013 and analyzed through April 2013 and (b) a review of the existing and emerging data regarding all-oral regimens for HCV infection being developed by the Company's competitors that appear to be generally well tolerated with high sustained viral response ("SVR") rates for treatment-naïve patients with genotype 1 HCV infection. After evaluating the data from this Phase 2 clinical trial, the Company determined that regimens containing VX-222 were unlikely to be competitive with the treatment regimens being developed by the Company's competitors. The Company evaluated the fair value of VX-222 from the perspective of a market participant and based on this analysis determined that the fair value of VX-222 was zero as of March 31, 2013. Accordingly, the Company recorded a $412.9 million impairment charge in the nine months ended September 30, 2013. In connection with this impairment charge, the Company recorded a credit of $127.6 million in its provision for income taxes. In the nine months ended September 30, 2013, the increase to the Company's net loss attributable to Vertex related to this impairment charge, net of the tax credit, was $285.3 million, and the net increase to the Company's net loss per share attributable to Vertex common shareholders was $1.28 per share.

The field of HCV infection treatment is highly competitive and characterized by rapid technological advances and the development of drug candidates for the treatment of HCV infection is subject to numerous risks. Two of the Company's competitors have filed applications seeking approval for potentially competitive treatment regimens that include pegylated-interferon and ribavirin, and several of the Company's competitors are conducting Phase 3 clinical trials evaluating all-oral combinations of their drug candidates for the treatment of genotype 1 HCV infection.

In July 2013, U.S. Food and Drug Administration ("FDA") placed a partial clinical hold on VX-135, which is being evaluated in a Phase 2 clinical trial in combination with ribavirin. The partial clinical hold prevents the Company from evaluating a 200 mg dose of VX-135 in the United States following observation of reversible elevated liver enzymes in patients who received 400 mg of VX-135 in combination with ribavirin in a Phase 2 clinical trial in Europe. The Company has completed dosing of 100 mg of VX-135 in combination with ribavirin as part of the 12-week Phase 2 clinical trial in the United States. The 100 mg dose was well tolerated, no serious adverse events were reported and no liver or cardiac safety issues were identified. The Company recently completed dosing of 100 mg and 200 mg of VX-135 in combination with ribavirin as part of the 12-week Phase 2 clinical trial in Europe. Both the 100 mg and 200 mg doses were well tolerated, no serious adverse events were reported and no liver or cardiac safety issues were identified. The Company also is evaluating VX-135 in combination with daclatasvir, an NS5A replication complex inhibitor being developed by Bristol-Myers Squibb, in a Phase 2 clinical trial in New Zealand. The Company evaluated this data and the related partial clinical hold and has concluded that it does not represent an indicator of impairment. The Company will continue to evaluate VX-135 for impairment each reporting period.

If the fair value of the HCV nucleotide analogue program becomes impaired as the result of unfavorable safety or efficacy data from any ongoing or future clinical trial or because of any other information regarding the prospects of successfully developing or commercializing VX-135, the Company would incur significant charges in the period in which the impairment occurs.

Goodwill

As of September 30, 2013 and December 31, 2012, goodwill of $31.0 million was recorded on the Company's condensed consolidated balance sheets. There was no change to goodwill recorded during the three and nine months ended September 30, 2013 or 2012.

J. Convertible Senior Subordinated Notes

In 2010, the Company completed an offering of $400.0 million in aggregate principal amount of 3.35% convertible senior subordinated notes due 2015 (the "2015 Notes"). This offering resulted in $391.6 million of net proceeds to the Company. The underwriting discount and other expenses of $8.4 million were recorded as debt issuance costs and were included in other assets on the Company’s condensed consolidated balance sheets.

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The 2015 Notes were convertible at any time, at the option of the holder, into common stock at a price equal to approximately $48.83 per share, or 20.4794 shares of common stock per $1,000 principal amount of the 2015 Notes. If the closing price of the Company's common stock exceeded 130% of the conversion price for at least 20 trading days within a period of 30 consecutive trading days, the Company had the right to redeem the 2015 Notes at its option at a redemption price equal to 100% of the principal amount of the 2015 Notes to be redeemed.

In the second quarter of 2013, the Company's common stock exceeded 130% of the conversion price of the 2015 Notes for at least 20 trading days within a period of 30 consecutive trading days, and the Company notified the holders of the 2015 Notes that it would redeem the 2015 Notes on June 17, 2013. In response to the Company's call of the 2015 Notes for redemption, in accordance with the provisions of the 2015 Notes, the holders of $399.8 million in aggregate principal amount of 2015 Notes elected to convert their 2015 Notes into the Company's common stock at the conversion price of approximately $48.83 per share. As a result of these conversions, the Company issued 8,188,448 shares of common stock. The remaining $0.2 million in aggregate principal amount of 2015 Notes was redeemed on June 17, 2013.

Pursuant to the terms of the 2015 Notes, the Company made an additional payment of $16.75 per $1,000 principal amount, payable in shares of the Company's common stock, to the holders of the 2015 Notes that converted or redeemed their 2015 Notes after the Company called the 2015 Notes for redemption. These payments resulted in the issuance of an additional 87,109 shares of the Company's common stock. In the second quarter of 2013, the Company recognized an aggregate of $6.7 million in interest expense related to the 2015 Notes. Unamortized debt issuance costs for the 2015 Notes of $4.2 million were recorded as an offset to additional paid-in capital.

K. Long-term Obligations

Fan Pier Leases

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

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

Property and equipment, net, included $467.6 million and $290.7 million as of September 30, 2013 and December 31, 2012, respectively, related to construction costs for the Buildings at Fan Pier in Boston, Massachusetts. The construction financing lease obligation related to the Buildings at Fan Pier was $392.6 million and $268.0 million as of September 30, 2013 and December 31, 2012, respectively. As of September 30, 2013 and December 31, 2012, the primary difference between the amounts recorded in property and equipment, net and the construction financing lease obligation represented the cost of finish work and structural elements of the Buildings that the Company was responsible for paying to date.

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

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The Company expects that upon completion of construction of the Buildings the Fan Pier Leases will not meet the “sale-leaseback” criteria. If the Fan Pier Leases do not meet “sale-leaseback” criteria, the Company will treat the Fan Pier Leases as a financing obligation and will depreciate the asset over its estimated useful life.

The Company expects to incur restructuring liabilities related to lease obligations that extend beyond the cease use date for certain Cambridge, Massachusetts facilities for several years after it relocates to Fan Pier. Please refer to "Note O: Restructuring Liabilities" for further information.

Capital Leases

The Company has outstanding capital leases for equipment, leasehold improvements and software licenses with terms through 2019. The capital leases bear interest at rates ranging from 3% to 7% per year. The following table sets forth the Company’s future minimum payments due under capital leases as of September 30, 2013:

Year	(in thousands)
2013	$ 1,883
2014	18,077
2015	15,608
2016	8,924
2017	8,481
2018	7,877
2019	409
Total payments	61,259
Less: amount representing interest	(7,449)
Present value of payments	$ 53,810

Financing Arrangements

In the second quarter of 2013, the Company began supporting $31.9 million in irrevocable stand-by letters of credit issued in support of property leases and other similar agreements with an unsecured credit facility with a one-year term. The Company previously had cash-collateralized these stand-by letters of credit. As a result of this credit facility, the restricted cash reflected on the Company's condensed consolidated balance sheets decreased by $31.8 million net of other activity recorded during the nine months ended September 30, 2013 and the Company's cash and cash equivalents increased by a corresponding amount during the nine months ended September 30, 2013.

L. Stock-based Compensation Expense

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

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The effect of stock-based compensation expense during the three and nine months ended September 30, 2013 and 2012 was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(in thousands)		(in thousands)	
Stock-based compensation expense by type of award:				
Stock options	$ 19,010	$ 18,869	$ 68,633	$ 59,774
Restricted stock and restricted stock units	10,998	7,104	30,108	21,643
ESPP share issuances	1,504	1,948	6,077	6,120
Less stock-based compensation expense capitalized to inventories	(204)	(339)	(885)	(888)
Total stock-based compensation expense included in costs and expenses	$ 31,308	$ 27,582	$ 103,933	$ 86,649
Stock-based compensation expense by line item:				
Research and development expenses	$ 19,223	$ 17,444	$ 64,312	$ 54,425
Sales, general and administrative expenses	12,085	10,138	39,621	32,224
Total stock-based compensation expense included in costs and expenses	$ 31,308	$ 27,582	$ 103,933	$ 86,649

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

	As of September 30, 2013	
	Unrecognized Expense, Net of Estimated Forfeitures	Weighted-average Recognition Period
	(in thousands)	(in years)
Type of award:		
Stock options	$ 184,969	2.74
Restricted stock and restricted stock units	103,454	2.61
ESPP share issuances	830	0.31

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The following table summarizes information about stock options outstanding and exercisable at September 30, 2013:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted-average Remaining Contractual Life	Weighted-average Exercise Price	Number Exercisable	Weighted-average Exercise Price
	(in thousands)	(in years)	(per share)	(in thousands)	(per share)
$ 9.07–$20.00	462	2.64	$15.27	462	$15.27
$20.01–$30.00	1,076	5.98	$29.37	801	$29.19
$30.01–$40.00	7,253	5.59	$36.58	4,525	$35.93
$40.01–$50.00	4,552	9.10	$46.33	570	$46.73
$50.01–$60.00	1,840	7.61	$53.72	805	$54.49
$60.01–$70.00	44	8.64	$63.23	11	$63.19
$70.01-$80.00	85	9.67	$77.73	4	$77.73
$80.01-$88.18	1,495	9.81	$83.13	166	$81.54
Total	16,807	7.09	$44.47	7,344	$37.87

M. Sale of HIV Protease Inhibitor Royalty Stream

In 2008, the Company sold to a third party its rights to receive royalty payments from GlaxoSmithKline plc, net of royalty amounts to be earned by and due to a third party, for a one-time cash payment of $160.0 million. These royalty payments relate to net sales of HIV protease inhibitors, which had been developed pursuant to a collaboration agreement between the Company and GlaxoSmithKline plc. As of September 30, 2013, the Company had $71.5 million in deferred revenues related to the one-time cash payment, which it is recognizing over the life of the collaboration agreement with GlaxoSmithKline plc based on the units-of-revenue method. In addition, the Company continues to recognize royalty revenues equal to the amount of the third-party subroyalty and an offsetting royalty expense for the third-party subroyalty payment.

N. Income Taxes

For the three and nine months ended September 30, 2013, the Company recorded a net benefit from income taxes of $0.8 million and $132.9 million, respectively. For the three months ended September 30, 2013, the benefit from income taxes was due to a benefit from income taxes of $3.3 million attributable to noncontrolling interest (Alios) offset by a provision for income taxes of $2.6 million attributable to Vertex. For the nine months ended September 30, 2013, the benefit from income taxes was due to a benefit from income taxes of $9.1 million attributable to noncontrolling interest (Alios) and a benefit from income taxes of $123.8 million attributable to Vertex. In the first quarter of 2013, the Company determined that the fair value of VX-222 was zero, which resulted in an impairment charge of $412.9 million in the nine months ended September 30, 2013. In connection with this impairment charge, the Company wrote-off the associated deferred tax liability of $127.6 million resulting in a benefit from income in its condensed consolidated statements of operations for the nine months ended September 30, 2013. Please refer to Note I, "Intangible Assets and Goodwill," for further information regarding the impairment charge.

For the three and nine months ended September 30, 2012, the Company recorded a benefit from and a provision for income taxes attributable to Vertex of $0.0 million and $1.1 million, respectively. These were due to state income taxes. For the three and nine months ended September 30, 2012, the Company recorded a provision for income taxes attributable to noncontrolling interest (Alios) of $21.4 million and $40.4 million, respectively.

The Company has no liability for taxes payable by Alios. As such, the portion of the income tax provision (benefit) related to Alios has been allocated to noncontrolling interest (Alios). As of September 30, 2013 and December 31, 2012,

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Alios had a deferred tax liability of $150.2 million and $152.8 million reflected on the Company's condensed consolidated balance sheets, respectively.

As of September 30, 2013 and December 31, 2012, the Company had no material unrecognized tax benefits and no adjustments to liabilities or operations were required. The Company does not expect that its unrecognized tax benefits will materially increase within the next twelve months. The Company did not recognize any material interest or penalties related to uncertain tax positions as of September 30, 2013 and December 31, 2012.

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

The Company files U.S. federal income tax returns and income tax returns in various state, local and foreign jurisdictions. The Company is no longer subject to any tax assessment from an income tax examination in the United States before 2007 and any other major taxing jurisdiction for years before 2005, except where the Company has net operating losses or tax credit carryforwards that originated before 2005. The Company is currently under examination by Revenue Quebec for the year ended March 11, 2009 and the year ended December 31, 2007. No adjustments have been reported. The Company is not under examination by any other jurisdictions for any tax year.

The Company currently intends to reinvest the total amount of its unremitted earnings, which have not been significant to date, in the local international jurisdiction or to repatriate the earnings only when tax-effective. As a result, the Company has not provided for U.S. federal income taxes on the unremitted earnings of its international subsidiaries. Upon repatriation of those earnings, in the form of dividends or otherwise, the Company would be subject to U.S. federal income taxes (subject to an adjustment for foreign tax credits) and withholding taxes payable to the various foreign countries. At September 30, 2013, foreign earnings, which were not significant, have been retained indefinitely by foreign subsidiary companies for reinvestment; therefore, no provision has been made for income taxes that would be payable upon the distribution of such earnings, and it would not be practicable to determine the amount of the related unrecognized deferred income tax liability.

O. Restructuring Liabilities

Kendall Restructuring

In 2003, the Company adopted a plan to restructure its operations to coincide with its increasing internal emphasis on advancing drug candidates through clinical development to commercialization. The restructuring liability relates to specialized laboratory and office space that is leased to the Company pursuant to a 15-year lease that terminates in 2018, and that the Company has not used since it adopted the plan to restructure its operations in 2003. This laboratory and office space currently is subleased to third parties.

In estimating the expense and liability under its lease obligations, the Company estimated (i) the costs to be incurred to satisfy rental and build-out commitments under the lease (including operating costs), (ii) the lead-time necessary to sublease the space, (iii) the projected sublease rental rates and (iv) the anticipated durations of subleases. The Company uses a credit-adjusted risk-free rate of approximately 10% to discount the estimated cash flows. The Company reviews its estimates and assumptions on at least a quarterly basis, intends to continue such reviews until the termination of the applicable lease, and will make whatever modifications the Company believes necessary, based on the Company’s best judgment, to reflect any changed circumstances.

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The activities related to the restructuring liability for the three and nine months ended September 30, 2013 and 2012 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(in thousands)			
Liability, beginning of the period	$ 22,051	$ 24,830	$ 23,328	$ 26,313
Cash payments	(3,901)	(3,726)	(11,323)	(11,137)
Cash received from subleases	2,670	2,355	8,000	7,329
Restructuring expense	524	696	1,339	1,650
Liability, end of the period	$ 21,344	$ 24,155	$ 21,344	$ 24,155

Strategic Restructuring

In October 2013, the Company adopted a restructuring plan. The restructuring plan included (i) a workforce reduction primarily related to the support of INCIVEK following the continued and rapid decline in the number of patients being treated with INCIVEK as new medicines for the treatment of HCV infection near approval, and (ii) the write-off of certain assets. This action resulted from the Company's decision to focus its investment on future opportunities in cystic fibrosis and other research and development programs.

The Company estimates that it will incur aggregate restructuring charges of approximately $35.0 million to $45.0 million, including $20.0 million to $25.0 million for employee severance and benefit costs, $6.0 million to $8.0 million in assets associated with this restructuring that have become impaired and $9.0 million to $12.0 million for other costs. The Company recorded $11.4 million of these restructuring charges in the third quarter of 2013. The Company expects the vast majority of this restructuring to be completed during the fourth quarter of 2013.

The restructuring charges recorded during the three months ended September 30, 2013 and the related liability balance as of September 30, 2013 for each major type of cost associated with this restructuring plan are as follows:

	Restructuring Expense	Cash Payments	Non-cash Expense	Restructuring Liability at September 30, 2013
			(in thousands)	
Employee severance, benefits and related costs	$ 409	$ —	$ —	$ 409
Asset impairments	6,650	—	(6,650)	—
Contract termination and other associated costs	4,385	—	—	4,385
Liability, end of the period	$ 11,444	$ —	$ (6,650)	$ 4,794

Fan Pier Move Restructuring

In connection with transitioning its Massachusetts operations to Fan Pier in Boston, Massachusetts, the Company expects to incur restructuring charges related to its remaining lease obligations at its current facilities in Cambridge, Massachusetts starting in the fourth quarter of 2013 and continuing through April 30, 2018. Most of these restructuring charges will relate to cease use charges that will be incurred during the fourth quarter of 2013 and the first half of 2014. In addition, the Company will continue to incur restructuring charges related to several buildings in Cambridge through December 31, 2015 and the Kendall Square building through April 30, 2018. The continuing charges will relate to the difference between the Company’s estimated future cash flows related to its lease obligations and the actual cash flows that it incurs.

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P. Legal Proceedings

On September 6, 2012, a purported shareholder class action, *City of Bristol Pension Fund v. Vertex Pharmaceuticals Incorporated, et al.*, was filed in the United States District Court for the District of Massachusetts, naming the Company and certain of the Company's current and former officers and directors as defendants. The lawsuit alleges that the Company made material misrepresentations and/or omissions of material fact in the Company's disclosures during the period from May 7, 2012 through June 28, 2012, all in violation of Section 10(b) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 promulgated thereunder. By order dated December 12, 2012, the court appointed the City of Bristol lead plaintiff and appointed the City of Bristol's attorneys lead counsel. The plaintiffs filed an amended complaint on February 11, 2013. The Company filed a motion to dismiss the complaint on April 12, 2013. On May 28, 2013, the plaintiffs filed an opposition to the Company's motion to dismiss the complaint. On June 27, 2013, the Company filed a reply in further support of the Company's motion to dismiss the plaintiffs' complaint. The court has scheduled a hearing on the Company's motion to dismiss for November 25, 2013. The plaintiffs seek unspecified monetary damages on behalf of the putative class and an award of costs and expenses, including attorney's fees, as well as disgorgement of the proceeds from certain individual defendants' sales of the Company's common stock. The Company believes that this action is without merit and intends to defend it vigorously. As of September 30, 2013, the Company has not recorded any reserves for this purported class action.

Q. Contingencies

The Company has certain contingent liabilities that arise in the ordinary course of its business activities. The Company accrues a reserve for contingent liabilities when it is probable that future expenditures will be made and such expenditures can be reasonably estimated. There were no material contingent liabilities accrued as of September 30, 2013 or December 31, 2012.

R. Guarantees

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

The Company customarily agrees in the ordinary course of its business to indemnification provisions in agreements with clinical trial investigators and sites in its drug development programs, sponsored research agreements with academic and not-for-profit institutions, various comparable agreements involving parties performing services for the Company, and its real estate leases. The Company also customarily agrees to certain indemnification provisions in its drug discovery, development and commercialization collaboration agreements. With respect to the Company’s clinical trials and sponsored research agreements, these indemnification provisions typically apply to any claim asserted against the investigator or the investigator’s institution relating to personal injury or property damage, violations of law or certain breaches of the Company’s contractual obligations arising out of the research or clinical testing of the Company’s compounds or drug candidates. With respect to lease agreements, the indemnification provisions typically apply to claims asserted against the landlord relating to personal injury or property damage caused by the Company, to violations of law by the Company or to certain breaches of the Company’s contractual obligations. The indemnification provisions appearing in the Company’s collaboration agreements are similar to those for the other agreements discussed above, but in addition provide some limited indemnification for its collaborator in the event of third-party claims alleging infringement of intellectual property rights. In each of the cases above, the indemnification obligation generally survives the termination of the agreement for some extended period, although the Company believes the obligation typically has the most relevance during the contract term and for a short period of time thereafter. The maximum potential amount of future payments that the Company could be required to make under these provisions is generally unlimited. The Company has purchased insurance policies covering personal injury, property damage and general liability that reduce its exposure for indemnification and would enable it in many cases to recover all or a portion of any future amounts paid. The Company has never paid any material amounts to defend lawsuits

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

The Company entered into an underwriting agreement with Merrill Lynch, Pierce, Fenner & Smith Incorporated dated September 23, 2010 (the "Underwriting Agreement"), relating to the public offering and sale of the 2015 Notes. The Underwriting Agreement requires the Company to indemnify the underwriter against any loss it may suffer by reason of the Company's breach of any representation or warranty relating to the public offering, the Company's failure to perform certain covenants in the Underwriting Agreement, the inclusion of any untrue statement of material fact in the prospectus used in connection with the offering, the omission of any material fact needed to make those materials not misleading, and any actions taken by the Company or its representatives in connection with the offering. The representations, warranties, covenants and indemnification provisions in the Underwriting Agreement are of a type customary in agreements of this sort. The Company believes the estimated fair value of this indemnification arrangement is minimal.

S. Subsequent Events

On October 29, 2013, the Company adopted a strategic restructuring plan. As a result of the actions to be taken under this restructuring plan, including those taken in the third quarter of 2013, the Company estimates that it will incur aggregate restructuring charges of approximately $35.0 million to $45.0 million, $11.4 million of which was recorded in the third quarter of 2013. Please refer to Note O, "Restructuring Liabilities," for further information.

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

OVERVIEW

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

Our third quarter 2013 revenues included KALYDECO net product revenues of $101.1 million and INCIVEK net product revenues of $85.6 million. As of September 30, 2013, we had cash, cash equivalents and marketable securities of $1.4 billion. Our net product revenues from sales of INCIVEK have declined rapidly over the course of 2013, including a 45% decline in INCIVEK net product revenues in the third quarter of 2013 as compared to the second quarter of 2013. We expect this trend to continue due to reduced demand for current therapies for HCV infection, the anticipated introduction of new competitive therapies in the fourth quarter of 2013 and the reduction in our promotion and support for INCIVEK as a result of the restructuring plan that we implemented in October 2013. In the future, we expect that our net product revenues will be dependent on continued sales of KALYDECO as a monotherapy, the outcomes of ongoing label-expansion programs for ivacaftor monotherapy and the Phase 3 clinical trials of ivacaftor and VX-809 (lumacaftor), and the potential introduction of one or more of our other drug candidates to the market.

We invest in scientific innovation to create transformative medicines for patients with serious diseases, with a focus on specialty markets. Our strategy is to make focused investments to invent and develop innovative drugs, while seeking to maintain a strong financial position. We are focusing most of our drug development investment on the following key programs:

Cystic Fibrosis - Our goal is to develop treatment regimens that will provide benefits to as many patients with CF as possible and to maximize those benefits. We are conducting Phase 3 label-expansion clinical trials and a proof-of-concept clinical trial of ivacaftor monotherapy in patients with certain mutations in their cystic fibrosis transmembrane conductance regulator, or *CFTR*, gene that were not studied in prior Phase 3 clinical trials. We have submitted a supplemental New Drug Application, or sNDA, to the U.S. Food and Drug Administration, or FDA, and a Marketing Authorization Application, or MAA, variation in the European Union for the use of ivacaftor monotherapy in patients six years of age and older with gating mutations other than the G551D mutation. We have completed enrollment in an international pivotal Phase 3 development program to evaluate combinations of ivacaftor and our investigational CFTR corrector lumacaftor for patients with two copies of the most prevalent genetic mutation that causes CF.

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

Autoimmune Diseases - We are evaluating our JAK3 inhibitor, VX-509, in a fully-enrolled Phase 2 clinical trial. In October 2013, we announced that this clinical trial had met its primary endpoints, which were measured after 12 weeks of treatment. We expect 24-week data from this clinical trial in early 2014.

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

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

CF

KALYDECO (ivacaftor) is approved in the United States, Australia, Canada and the European Union for the treatment of patients with CF six years of age and older who have the G551D mutation on at least one allele of the *CFTR* gene. KALYDECO is currently available to eligible patients in the United States, England, Scotland, Northern Ireland, Wales, the Republic of Ireland, France, Germany, the Netherlands, Austria, Denmark, Sweden, Norway and Greece. We are in active discussions with relevant agencies in Australia and Canada regarding public reimbursement of KALYDECO in these countries. In October 2013, we presented data from an ongoing rollover clinical trial of patients six years of age and older who have the G551D mutation on at least one allele of the *CFTR* gene. The data from this clinical trial showed that 144 weeks of continuous treatment with KALYDECO provided durable treatment effects in lung function (FEV_1), weight and other measures and a consistent safety profile to what was observed in the 48-week Phase 3 clinical trials that supported approval of KALYDECO.

We are continuing our work in CF to identify and develop treatment regimens that will provide benefits to as many patients with CF as possible and to maximize those benefits. We have multiple ongoing clinical development programs to evaluate our CF treatment regimens, and our research group is working to identify additional corrector compounds that could be included in future dual-corrector regimens in combination with ivacaftor in patients with one or two copies of the F508del mutation.

Ivacaftor (monotherapy)

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

- We are evaluating ivacaftor in patients six years of age and older with CF with gating mutations other than the G551D mutation in a Phase 3 clinical trial. In July 2013, we reported that patients in this clinical trial had statistically significant improvements in their lung function (FEV_1) and other measures of disease. The safety and tolerability results from this clinical trial were consistent with those observed in prior Phase 3 clinical trials of ivacaftor monotherapy in patients with CF who have the G551D mutation. We submitted an sNDA to the FDA in September 2013 and an MAA variation in the European Union in October 2013 for the use of ivacaftor monotherapy in patients with CF six years of age and older who have gating mutations other than the G551D mutation. We estimate that in North America, Europe and Australia approximately 400 patients with CF six years of age and older have at least one non-G551D gating mutation.

- We are conducting a fully-enrolled Phase 3 clinical trial evaluating ivacaftor in patients six years of age and older with CF who have the R117H mutation in the *CFTR* gene on at least one allele. We expect data from this clinical trial to be available at the end of 2013. If this clinical trial is successful, we plan to submit an sNDA to the FDA in early 2014 and an MAA variation in the European Union in the second quarter of 2014 for the use of ivacaftor monotherapy in patients with CF who are six years of age and older who have the R117H mutation in the *CFTR* gene on at least one allele. We estimate that in North America, Europe and Australia approximately 1,100 patients with CF six years of age and older have at least one copy of the R177H mutation in their *CFTR* gene. Patients diagnosed with CF who have the R117H mutation exhibit a range of severity and signs and symptoms of the disease, with an average life expectancy in the 50s.

- We are conducting a fully-enrolled Phase 3 clinical trial in which we are evaluating a pediatric formulation of ivacaftor as a treatment for children with CF two to five years of age with gating mutations in the *CFTR* gene, including the G551D mutation. We expect data from this clinical trial in the second quarter of 2014. If this clinical trial is successful, we plan to submit an sNDA in the second half of 2014. We estimate that in North America, Europe and Australia approximately 300 patients with CF two to five years of age have a gating mutation.

- We are conducting a fully-enrolled proof-of-concept Phase 2 clinical trial in which we are evaluating ivacaftor in patients with CF who have clinical evidence of residual CFTR function. We expect data from this clinical trial in the second quarter of 2014. We estimate that in North America, Europe and Australia more than 3,000 patients with CF six years of age and older have non-R117H CFTR mutations that result in residual function.

Lumacaftor in Combination with Ivacaftor

We have completed enrollment of patients in an international pivotal Phase 3 clinical program to evaluate combinations of lumacaftor and ivacaftor in patients with CF who have two copies of the F508del mutation in their *CFTR* gene (homozygous). We are conducting two 24-week Phase 3 clinical trials, which are referred to as TRAFFIC and TRANSPORT, that are designed to support approval of the combination of lumacaftor and ivacaftor for patients 12 years of age and older. Each Phase 3 clinical trial was designed to enroll approximately 500 patients with CF who are homozygous for the F508del mutation, for a total of approximately 1,000 patients. TRAFFIC and TRANSPORT have the same design and together are being conducted at approximately 200 clinical trial sites in North America, Europe and Australia. We expect data from TRAFFIC and TRANSPORT in mid-2014. If these clinical trials are successful, we plan to submit a New Drug Application, or NDA, to the FDA and an MAA in the European Union in the second half 2014.

We also are enrolling patients in a Phase 2 clinical trial to evaluate lumacaftor in combination with ivacaftor in children with CF six to eleven years of age who have two copies of the F508del mutation. If this Phase 2 clinical trial is successful, we plan to use the data from this clinical trial, along with data from the two Phase 3 clinical trials, for registration in the United States and European Union in patients six to eleven years of age, following registration in patients 12 years of age and older.

We recently began enrollment in an 8-week exploratory Phase 2 clinical trial of lumacaftor in combination with ivacaftor in patients with CF who are 18 years of age and older and who have one copy of the F508del mutation in their *CFTR* gene and one copy of a mutation in their *CFTR* gene that is not expected to respond to either ivacaftor or lumacaftor alone. This clinical trial will evaluate a twice-daily administration of lumacaftor (400 mg) and ivacaftor (250 mg) and is designed to provide additional safety and lung function data on the combination of ivacaftor and lumacaftor in heterozygous patients.

We estimate that in North America, Europe and Australia more than 28,000 patients with CF six years of age and older have two copies of the F508del mutation, and more than 17,000 patients with CF six years of age and older have one copy of the F508del mutation and one copy of a non-F508del mutation that is not expected to respond to ivacaftor monotherapy treatment.

VX-661

We recently began enrollment in a Phase 2 clinical trial to evaluate a four-week regimen of VX-661 in combination with ivacaftor in patients with CF who have one copy of the F508del mutation and one copy of the G551D mutation. The evaluation of this regimen is supported by *in vitro* data presented at the European Cystic Fibrosis Society Conference by our researchers that showed increased chloride transport in human bronchial epithelial cells with one copy of the F508del mutation and one copy of the G551D mutation, with the combination of a corrector compound and ivacaftor as compared to the use of ivacaftor alone. This clinical trial is intended to evaluate whether the addition of a corrector to treatment with KALYDECO can further enhance the clinical benefit received from KALYDECO alone in patients with the G551D and F508del mutation in their *CFTR* genes. We expect data from this clinical trial in the first quarter of 2014.

We are preparing to conduct a 12-week clinical trial of VX-661 in combination with ivacaftor to evaluate the combination in patients with CF who have two copies of the F508del following recent discussions with regulatory authorities. This clinical trial is designed to provide safety, efficacy and dose-response information to characterize VX-661 for further clinical development. We expect to begin enrollment in this clinical trial in the first quarter of 2014 pending protocol approval from regulatory agencies.

VX-983

Based on the emerging profiles for VX-661 and VX-983, we have prioritized VX-661 and do not intend to further develop VX-983.

Dual-Correctors in Combination with Ivacaftor

We have an active research program focused on identifying additional corrector compounds that could be included in future dual-corrector regimens in combination with ivacaftor in patients with one or two copies of the F508del mutation. The potential use of a dual-corrector regimen in combination with ivacaftor is supported by *in vitro* data presented at the European Cystic Fibrosis Society Conference that showed a combination of two CFTR correctors and ivacaftor increased chloride transport in human bronchial epithelial cells with one or two copies of the F50del mutation, as compared to the use of a single CFTR corrector in combination with ivacaftor. Our goal is to advance a second-generation CFTR corrector compound into clinical development by the end of 2014.

HCV

Janssen and we currently market INCIVEK/INCIVO (telaprevir) in competition with Merck & Co., Inc.'s VICTRELIS™ (boceprevir), another HCV protease inhibitor that was approved for sale in the United States and Europe in 2011. We expect that a number of new therapies for HCV infection will become available to patients over the next several years. The most advanced competitive drug candidates are Gilead Sciences, Inc.'s, or Gilead's, sofosbuvir (GS-7977) and Janssen's simeprevir (TMC435). Gilead and Janssen have filed NDAs for sofosbuvir and simeprevir, respectively, and FDA advisory committees have unanimously recommended approval of both sofosbuvir and simeprevir. It is anticipated that each of these drug candidates will be approved as a treatment for genotype 1 HCV infection in combination with pegylated-interferon, or peg-IFN, and ribavirin, or RBV, in the fourth quarter of 2013. The top-line results reported by Gilead and Janssen from Phase 3 clinical trials suggest that the safety and efficacy profiles of sofosbuvir and simeprevir will position them, if approved, to take a significant portion of the market for HCV therapies.

We plan to compete in the HCV infection market as it shifts away from current treatment regimens (including our INCIVEK triple-combination therapy) to regimens that incorporate new drugs with improved safety, efficacy and/or tolerability, by pursuing development of all-oral, interferon-free regimens or 12 weeks or less in duration incorporating our HCV nucleotide analogue VX-135. A number of pharmaceutical companies are investigating combination regimens that incorporate one or more of an HCV protease inhibitor, an HCV nucleotide analogue, an HCV non-nucleotide polymerase inhibitor or an NS5A inhibitor. Clinical trials of these investigational combination regimens are being conducted in a wide variety of patient populations, including treatment-naïve and treatment-failure patients, and across all HCV genotypes, which respond differently to different combinations of molecules employing different mechanisms. We expect that the market for any specific HCV treatment regimen, including INCIVEK triple-combination therapy, will be affected by the introduction of new competitive drugs or drug combinations, sales from currently approved drugs, adverse information regarding the safety characteristics or efficacy of the regimen, significant new information regarding potential treatment regimens being evaluated in clinical trials and enrollment of patients in clinical trials being conducted by us or our competitors. We expect that treatment regimens that include the administration of peg-IFN by injection will command a relatively small portion of the overall market.

We are evaluating potential all-oral treatment regimens that include our HCV nucleotide analogue VX-135 in planned and ongoing Phase 2 clinical trials in order to determine which regimen or regimens appear likely to provide benefits to patients and to advance into Phase 3 clinical development. In July 2013, the FDA placed a partial clinical hold on VX-135 in the United States, which is being evaluated in a Phase 2 clinical trial in combination with RBV in patients with genotype 1 HCV infection. The partial clinical hold prevents us from evaluating a 200 mg dose of VX-135 in the United States following observation of reversible elevated liver enzymes in patients who received 400 mg of VX-135 in combination with RBV in a Phase 2 clinical trial in Europe. Further evaluation of VX-135 in the United States is subject to the resolution of the partial clinical hold. We intend to provide further data to the FDA, including sustained viral response data from the ongoing clinical trials described below of VX-135 and RBV and VX-135 and daclatasvir, through the first half of 2014.

We, in collaboration with BMS, are evaluating VX-135 in combination with daclatasvir, an NS5A replication complex inhibitor being developed by BMS, in a Phase 2 clinical trial in New Zealand. Safety and efficacy data from the first part of this clinical trial are expected to be available in early 2014 to inform future development plans for this combination regimen.

We have completed dosing of VX-135 in combination with RBV in two clinical trials that were conducted to generate safety data for VX-135 in combination with RBV and were not intended to evaluate the combination of VX-135 and RBV as a therapeutic regimen.

- We recently completed dosing of 100 mg and 200 mg of VX-135 in combination with RBV as part of a 12-week Phase 2 clinical trial in Europe. This clinical trial enrolled 10 patients with genotype 1 HCV infection in each 100 mg and 200 mg dose group, and all 20 patients completed 12 weeks of treatment. Both the 100 mg and 200 mg doses were well tolerated, no serious adverse events were reported and no liver or cardiac safety issues were identified. 70 percent and 80 percent of patients in the 100 mg and 200 mg dosing arms, respectively, had undetectable HCV RNA

levels within four weeks of initiating treatment. Sustained viral response rates 12 weeks after completion of treatment, or SVR12 rates, were 10 percent and 50 percent for the 100 mg and 200 mg groups, respectively. This clinical trial also evaluated a 400 mg dose of VX-135 in combination with RBV in 10 patients, which was discontinued following the observation of elevated liver enzymes in 3 of 10 patients in this dose group.

- We have completed dosing of 100 mg of VX-135 in combination with RBV as part of a 12-week Phase 2 clinical trial in the United States. The 100 mg dose group enrolled 10 patients with genotype 1 HCV infection. All 10 patients completed 12 weeks of treatment. The 100 mg dose was well tolerated, no serious adverse events were reported and no liver or cardiac safety issues were identified. All patients achieved undetectable HCV RNA levels during the 12-week dosing period, and 60 percent of patients had undetectable HCV RNA levels within four weeks of initiating treatment. The sustained viral response rate four weeks after completion of treatment was 10 percent.

A drug-drug interaction clinical trial of VX-135 in combination with Janssen's HCV protease inhibitor simeprevir in healthy volunteers is complete. We are discussing with Janssen the design of additional clinical trials of VX-135 in combination with simeprevir in patients with genotype 1 HCV infection.

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

Autoimmune Diseases

VX-509 is an investigational oral drug candidate intended to inhibit Janus kinase 3, or JAK3, which is involved in the modulation of lymphocyte that are central to autoimmune disease pathology. We are evaluating VX-509 in a double-blind, randomized, placebo-controlled 24-week Phase 2b clinical trial that enrolled and dosed 358 people with rheumatoid arthritis, or RA, who had active disease despite methotrexate treatment. Patients in the clinical trial continued to receive stable doses of methotrexate during the clinical trial. Up to 20 percent of the patients in the clinical trial could have previously been treated with a single tumor necrosis factor (TNF) inhibitor. Patients in the clinical trial were randomized to receive placebo or one of four dose regimens of VX-509 (100 mg once daily (QD), 150 mg once daily, 200 mg once daily or 100 mg given twice daily (BID)) for 24 weeks.

The primary endpoints of the clinical trial were the proportion of patients who achieved a 20 percent improvement in signs and symptoms of RA, as measured by the ACR improvement criteria, or ACR20, response at week 12 and the change from baseline in Disease Activity Score for 28 joints, or DAS28, at week 12. Additional secondary endpoints were used to evaluate the clinical activity of VX-509, including the proportion of patients who achieved 50 percent and 70 percent improvement in signs and symptoms of RA, or ACR50 and ACR70, respectively, at week 12. In all VX-509 treatment arms, the proportion of patients achieving ACR20 and ACR50 and the decrease from baseline in DAS28 were significantly greater than in placebo. The three highest dose groups showed ACR20 responses of between 58 percent and 68 percent, compared to 18 percent for placebo, and statistically significant ACR70 responses versus placebo.

In the clinical trial, adverse events led to discontinuation in 6.6 percent and 8.5 percent of patients in the VX-509 and placebo groups, respectively. Through 12 weeks, adverse event rates were 51.2 percent for the pooled VX-509 treatment group compared to 38.0 percent for those who received placebo, and the majority of adverse events observed in the clinical trial were mild to moderate. The most common adverse events in the pooled VX-509 treatment group were headache (8.0 percent), hypercholesterolemia (3.8 percent) and nasopharyngitis (3.5 percent). The safety profile of VX-509 was comparable across all treatment groups. Serious adverse events occurred in equal proportions of patients across the pooled VX-509 and placebo treatment groups (5.6 percent). Infections occurred in 22.0 percent of patients in the pooled VX-509 treatment group compared to 15.5 percent in the placebo group, and serious infections occurred in 2.8 percent of patients in the VX-509 group compared to 1.4 percent for placebo. One death, deemed unrelated to study drug, occurred in the VX-509 100 mg BID group and was due to cardiac failure. Elevations in transaminase levels and decreases in median neutrophil and lymphocyte counts were observed in the VX-509 groups and were generally mild.

The clinical trial is ongoing, and we expect 24-week data to be available in early 2014.

Workforce Reduction

On October 29, 2013, we announced a reduction of our workforce primarily related to the support of INCIVEK following the continued and rapid decline in the number of people being treated with INCIVEK as other new medicines for the treatment of HCV infection near approval. This action resulted from our decision to focus our investment on future opportunities in cystic fibrosis and other research and development programs, including VX-135 as part of an all-oral regimen for HCV infection.

As part of this restructuring, we are eliminating approximately 370 full-time positions globally, representing approximately a 15% reduction in our workforce. The eliminated positions included the portion of our U.S. field-based sales force focused on promoting INCIVEK. Approximately 175 positions are being eliminated in Massachusetts. Following the changes, we expect to have approximately 1,800 employees worldwide, including approximately 1,300 in Massachusetts. We estimate that we will incur aggregate restructuring charges of approximately $35.0 million to $45.0 million, including $20.0 million to $25.0 million for employee severance and benefit costs, $6.0 million to $8.0 million in assets associated with this restructuring that have become impaired and $9.0 million to $12.0 million for other costs.

Regulatory Compliance

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

RESULTS OF OPERATIONS

	Three Months Ended September 30,		Increase/ (Decrease)	Increase/ (Decrease)	Nine Months Ended September 30,		Increase/ (Decrease)	Increase/ (Decrease)
	2013	2012	$	%	2013	2012	$	%
	(in thousands)				(in thousands)			
Revenues	$ 221,700	$ 336,006	$ (114,306)	(34)%	$ 860,818	$ 1,193,048	$ (332,230)	(28)%
Operating costs and expenses	355,765	337,077	18,688	6 %	1,490,104	1,113,240	376,864	34 %
Other items, net	5,403	(25,396)	n/a	n/a	126,285	(52,867)	n/a	n/a
Net loss (income) attributable to noncontrolling interest (Alios)	4,530	(31,076)	n/a	n/a	13,688	(57,825)	n/a	n/a
Net loss attributable to Vertex	$ (124,132)	$ (57,543)	$ 66,589	116 %	$ (489,313)	$ (30,884)	$ 458,429	1,484 %

Net Loss Attributable to Vertex

Net loss attributable to Vertex was $(124.1) million in the third quarter of 2013 compared to net loss attributable to Vertex of $(57.5) million in the third quarter of 2012. Our revenues decreased in the third quarter of 2013 as compared to the third quarter of 2012 due to decreased INCIVEK net product revenues partially offset by increased KALYDECO net product revenues. Our operating costs and expenses increased in the third quarter of 2013 as compared to the third quarter of 2012 due to increased research and development expenses and restructuring expenses recorded in the third quarter of 2013 related to the strategic restructuring plan adopted in October 2013, partially offset by decreased cost of product revenues and sales, general and administrative expenses.

In the nine months ended September 30, 2013, net loss attributable to Vertex was $(489.3) million as compared to net loss attributable to Vertex of $(30.9) million in the nine months ended September 30, 2012. Our revenues decreased in the nine months ended September 30, 2013 as compared to the nine months ended September 30, 2012 due to decreased INCIVEK net product revenues partially offset by increased KALYDECO net product revenues and increased INCIVO royalties. Our operating costs and expenses increased from $1.1 billion in the nine months ended September 30, 2012 to $1.5 billion in the nine months ended September 30, 2013. The increase in operating costs and expenses in the nine months ended September 30, 2013 compared to the nine months ended September 30, 2012 was primarily due to a $412.9 million intangible asset impairment charge for VX-222 recorded in the first quarter of 2013 partially offset by a $78.0 million write-off in the second quarter of 2012 for excess and obsolete INCIVEK inventories.

Stock-based compensation expense was $31.3 million and $27.6 million in the third quarter of 2013 and 2012, respectively, and $103.9 million and $86.6 million in the nine months ended September 30, 2013 and 2012, respectively.

Net Loss Attributable to Vertex per Diluted Share

Net loss attributable to Vertex was $(0.54) per diluted share in the third quarter of 2013 as compared to net loss attributable to Vertex of $(0.27) per diluted share in the third quarter of 2012. Net loss attributable to Vertex was $(2.20) per diluted share in the nine months ended September 30, 2013 compared to net loss attributable to Vertex of $(0.15) per diluted share in the nine months ended September 30, 2012.

Common Shares Outstanding

Our shares of outstanding common stock increased by 16.3 million shares from 217.3 million shares on December 31, 2012 to 233.6 million shares on September 30, 2013 due to the approximately 8.3 million shares of common stock we issued in the second quarter of 2013 in connection with the conversions of our 3.35% convertible senior subordinated notes due 2015, or 2015 Notes, and the approximately 8.0 million shares of common stock we issued in the nine months ended September 30, 2013 pursuant to our employee equity programs.

Revenues

	Three Months Ended September 30,		Increase/ (Decrease)	Increase/ (Decrease)	Nine Months Ended September 30,		Increase/ (Decrease)	Increase/ (Decrease)
	2013	2012	$	%	2013	2012	$	%
	(in thousands)				(in thousands)			
Product revenues, net	$ 186,653	$ 303,501	$ (116,848)	(39)%	$ 708,823	$ 1,052,149	$ (343,326)	(33)%
Royalty revenues	27,012	25,586	1,426	6 %	119,705	98,047	21,658	22 %
Collaborative revenues	8,035	6,919	1,116	16 %	32,290	42,852	(10,562)	(25)%
Total revenues	$ 221,700	$ 336,006	$ (114,306)	(34)%	$ 860,818	$ 1,193,048	$ (332,230)	(28)%

Product Revenues, Net

	Three Months Ended September 30,		Increase/ (Decrease)	Increase/ (Decrease)	Nine Months Ended September 30,		Increase/ (Decrease)	Increase/ (Decrease)
	2013	2012	$	%	2013	2012	$	%
	(in thousands)				(in thousands)			
INCIVEK	$ 85,592	$ 254,340	$ (168,748)	(66)%	$ 446,962	$ 939,006	$ (492,044)	(52)%
KALYDECO	101,061	49,161	51,900	106 %	261,861	113,143	148,718	131 %
Total product revenues, net	$ 186,653	$ 303,501	$ (116,848)	(39)%	$ 708,823	$1,052,149	$ (343,326)	(33)%

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

INCIVEK net product revenues have been declining on a quarterly basis since reaching a peak in the fourth quarter of 2011 and declined by 45% in the third quarter of 2013 as compared to the second quarter of 2013. We expect our INCIVEK net product revenues to continue to decline rapidly due to reduced demand for current therapies for HCV infection, the anticipated introduction of new competitive therapies in the fourth quarter of 2013 and the reduction in our promotion and support for INCIVEK as a result of the strategic restructuring plan that we adopted in October 2013.

We began marketing KALYDECO in the United States in the first quarter of 2012 and in certain international markets in the third quarter of 2012. KALYDECO net product revenues were $101.1 million in the three months ended September 30, 2013, including $44.8 million of net product revenues from international markets. KALYDECO net product revenues increased by 2% in the third quarter of 2013 as compared to the second quarter of 2013. We believe that KALYDECO net product revenues in the fourth quarter of 2013 will be similar to KALYDECO net product revenues in the third quarter of 2013.

Royalty Revenues

Our royalty revenues were $27.0 million and $25.6 million in the three months ended September 30, 2013 and 2012, respectively. Our royalty revenues were $119.7 million and $98.0 million in the nine months ended September 30, 2013 and 2012, respectively. Our royalty revenues from INCIVO were $21.0 million and $20.0 million in the three months ended September 30, 2013 and 2012, respectively, and $104.1 million and $80.8 million in the nine months ended September 30, 2013 and 2012, respectively. Mitsubishi Tanabe's license to market telaprevir in Japan is fully paid.

We recognized royalty revenues related to sales by GlaxoSmithKline of an HIV protease inhibitor that was discovered and developed pursuant to a collaboration with GlaxoSmithKline of $6.0 million and $15.4 million in the three and nine months ended September 30, 2013, respectively, compared to $5.6 million and $17.2 million in the three and nine months ended September 30, 2012, respectively. We sold our rights to these HIV royalties in 2008 for a one-time cash payment of $160.0 million.

Collaborative Revenues

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(in thousands)		(in thousands)	
Janssen	$ 4,520	$ 2,604	$ 21,042	$ 11,201
Mitsubishi Tanabe	—	—	—	18,879
CFFT and other	3,515	4,315	11,248	12,772
Total collaborative revenues	$ 8,035	$ 6,919	$ 32,290	$ 42,852

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

In the nine months ended September 30, 2012, we recognized collaborative revenues related to a one-time payment that we received from Mitsubishi Tanabe in 2009 and revenues related to manufacturing services we provided to Mitsubishi Tanabe through our third-party manufacturing network. We did not recognize any collaborative revenues from Mitsubishi Tanabe in the nine months ended September 30, 2013 or the three months ended September 30, 2013 and do not expect to recognize any future collaborative revenues pursuant to our collaboration agreement with Mitsubishi Tanabe.

Operating Costs and Expenses

	Three Months Ended September 30,		Increase/ (Decrease)	Increase/ (Decrease)	Nine Months Ended September 30,		Increase/ (Decrease)	Increase/ (Decrease)
	2013	2012	$	%	2013	2012	$	%
	(in thousands)				(in thousands)			
Cost of product revenues	$ 20,048	$ 30,680	$ (10,632)	(35)%	$ 75,698	$ 161,147	$ (85,449)	(53)%
Royalty expenses	7,291	7,856	(565)	(7)%	32,315	31,023	1,292	4 %
Research and development expenses	228,624	200,161	28,463	14 %	669,174	593,076	76,098	13 %
Sales, general and administrative expenses	87,754	97,684	(9,930)	(10)%	287,154	326,344	(39,190)	(12)%
Restructuring expense	12,048	696	11,352	1,631 %	12,863	1,650	11,213	680 %
Intangible asset impairment charge	—	—	—	n/a	412,900	—	412,900	n/a
Total costs and expenses	$ 355,765	$ 337,077	$ 18,688	6 %	$ 1,490,104	$ 1,113,240	$ 376,864	34 %

Cost of Product Revenues

Our cost of product revenues includes the cost of producing inventories that corresponded to product revenues for the reporting period, plus the third-party royalties payable on our net sales of INCIVEK and KALYDECO. Cost of product revenues decreased in the third quarter of 2013 as compared to the third quarter of 2012 due to decreased product revenues. Cost of product revenues decreased in the nine months ended September 30, 2013 compared to the nine months ended September 30, 2012 primarily due to a $78.0 million write-off of excess and obsolete INCIVEK inventories we recognized in the second quarter of 2012.

Royalty Expenses

Royalty expenses include third-party royalties payable upon net sales of telaprevir by our collaborators and royalty expenses related to a subroyalty payable to a third party on net sales of an HIV protease inhibitor sold by GlaxoSmithKline. Royalty expenses in the third quarter of 2013 decreased by $0.6 million, or 7%, compared to the third quarter of 2012, and increased by $1.3 million, or 4%, in the nine months ended September 30, 2013 compared to the nine months ended September 30, 2012.

Research and Development Expenses

	Three Months Ended September 30,		Increase/ (Decrease)	Increase/ (Decrease)	Nine Months Ended September 30,		Increase/ (Decrease)	Increase/ (Decrease)
	2013	2012	$	%	2013	2012	$	%
	(in thousands)				(in thousands)			
Research expenses	$ 60,246	$ 56,400	$ 3,846	7%	$ 186,329	$ 175,888	$ 10,441	6%
Development expenses	168,378	143,761	24,617	17%	482,845	417,188	65,657	16%
Total research and development expenses	$ 228,624	$ 200,161	$ 28,463	14%	$ 669,174	$ 593,076	$ 76,098	13%

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

To date, we have incurred in excess of $6.1 billion in research and development expenses associated with drug discovery and development. The successful development of our drug candidates is highly uncertain and subject to a number of risks. In addition, the duration of clinical trials may vary substantially according to the type, complexity and novelty of the drug candidate and the disease indication being targeted. The FDA and comparable agencies in foreign countries impose substantial requirements on the introduction of therapeutic pharmaceutical products, typically requiring lengthy and detailed laboratory and clinical testing procedures, sampling activities and other costly and time-consuming procedures. Data obtained from nonclinical and clinical activities at any step in the testing process may be adverse and lead to discontinuation or redirection of development activities. Data obtained from these activities also are susceptible to varying interpretations, which could delay, limit or prevent regulatory approval. The duration and cost of discovery, nonclinical studies and clinical trials may vary significantly over the life of a project and are difficult to predict. Therefore, accurate and meaningful estimates of the ultimate costs to bring our drug candidates to market are not available.

In recent years, costs related to our CF and HCV programs have represented the largest portion of our development costs. Any estimates regarding development and regulatory timelines for our drug candidates are highly subjective and subject to change. In the first half of 2013, we initiated a pivotal Phase 3 clinical program to evaluate lumacaftor in combination with ivacaftor. If these clinical trials are successful, we plan to submit an NDA to the FDA and an MAA in the European Union in the second half of 2014. We cannot make a meaningful estimate when, if ever, our other clinical development programs will generate revenues and cash flows.

Research Expenses

	Three Months Ended September 30,		Increase/ (Decrease)	Increase/ (Decrease)	Nine Months Ended September 30,		Increase/ (Decrease)	Increase/ (Decrease)
	2013	2012	$	%	2013	2012	$	%
	(in thousands)				(in thousands)			
Research Expenses:								
Salary and benefits	$ 20,692	$ 18,714	$ 1,978	11 %	$ 65,287	$ 57,536	$ 7,751	13 %
Stock-based compensation expense	6,577	6,268	309	5 %	21,252	19,218	2,034	11 %
Laboratory supplies and other direct expenses	11,174	8,730	2,444	28 %	33,249	30,943	2,306	7 %
Contractual services	5,500	5,304	196	4 %	16,756	15,983	773	5 %
Infrastructure costs	16,303	17,384	(1,081)	(6)%	49,785	52,208	(2,423)	(5)%
Total research expenses	$ 60,246	$ 56,400	$ 3,846	7 %	$ 186,329	$ 175,888	$ 10,441	6 %

We have maintained a substantial investment in research activities resulting in a 7% increase in research expenses in the third quarter of 2013 as compared to the third quarter of 2012 and a 6% increase in research expenses in the nine months ended September 30, 2013 as compared to the nine months ended September 30, 2012. We expect to continue to invest in our research programs with a focus on identifying drug candidates for specialty markets.

Development Expenses

	Three Months Ended September 30,		Increase/ (Decrease)	Increase/ (Decrease)	Nine Months Ended September 30,		Increase/ (Decrease)	Increase/ (Decrease)
	2013	2012	$	%	2013	2012	$	%
	(in thousands)				(in thousands)			
Development Expenses:								
Salary and benefits	$ 41,984	$ 37,555	$ 4,429	12 %	$ 130,379	$ 106,700	$ 23,679	22%
Stock-based compensation expense	12,646	11,176	1,470	13 %	43,060	35,207	7,853	22%
Laboratory supplies and other direct expenses	11,639	7,953	3,686	46 %	33,166	27,482	5,684	21%
Contractual services	66,386	58,500	7,886	13 %	170,224	157,763	12,461	8%
Drug supply costs	9,773	1,705	8,068	473 %	25,873	10,681	15,192	142%
Infrastructure costs	25,950	26,872	(922)	(3)%	80,143	79,355	788	1%
Total development expenses	$ 168,378	$ 143,761	$ 24,617	17 %	$ 482,845	$ 417,188	$ 65,657	16%

Our development expenses increased by $24.6 million, or 17%, in the third quarter of 2013 as compared to the third quarter of 2012, principally due to increased compensation expenses, contractual services expenses and drug supply costs. Our development expenses increased by $65.7 million, or 16%, in the nine months ended September 30, 2013 as compared to the nine months ended September 30, 2012, principally due to increased compensation expenses, contractual services expenses and drug supply costs. We expect our development expenses to increase in 2013 as compared to 2012 due to ongoing and planned clinical trials in the areas of CF, HCV infection and autoimmune diseases.

Sales, General and Administrative Expenses

	Three Months Ended September 30,		Increase/ (Decrease)	Increase/ (Decrease)	Nine Months Ended September 30,		Increase/ (Decrease)	Increase/ (Decrease)
	2013	2012	$	%	2013	2012	$	%
	(in thousands)				(in thousands)			
Sales, general and administrative expenses	$ 87,754	$ 97,684	$ (9,930)	(10)%	$ 287,154	$ 326,344	$ (39,190)	(12)%

Sales, general and administrative expenses decreased by 10% and 12% in the three and nine months ended September 30, 2013, respectively, as compared to the three and nine months ended September 30, 2012, primarily due to decreased INCIVEK and KALYDECO marketing expenses in the United States, partially offset by increased KALYDECO marketing expenses in international markets.

Restructuring Expense

On October 29, 2013, we announced a reduction of our workforce. As part of this restructuring, we are eliminating approximately 370 full-time positions globally, representing approximately a 15% reduction in our workforce. We estimate that we will incur aggregate restructuring charges of approximately $35.0 million to $45.0 million, including $20.0 million to $25.0 million for employee severance and benefit costs, $6.0 million to $8.0 million in assets associated with this restructuring that have become impaired and $9.0 million to $12.0 million for other costs. We recorded $11.4 million of these restructuring charges in the third quarter of 2013. Prior to this workforce reduction, our restructuring expense primarily related to remaining lease obligations for space that we do not occupy following restructuring activities in 2003.

In the three months ended September 30, 2013 and 2012, we recorded restructuring expense of $12.0 million and $0.7 million, respectively. In the nine months ended September 30, 2013 and 2012, we recorded restructuring expense of $12.9 million and $1.7 million, respectively.

Intangible Asset Impairment Charge

In the first quarter of 2013, we evaluated for impairment VX-222, an HCV polymerase inhibitor that we acquired through our acquisition of ViroChem Pharma Inc. in 2009. We evaluated the fair value of VX-222 from the perspective of a market participant and, based on our analysis, determined that the fair value of VX-222 was zero as of March 31, 2013. Accordingly, we recorded a $412.9 million impairment charge in the nine months ended September 30, 2013. In connection with this impairment charge, we recorded a credit of $127.6 million in our provision for income taxes, resulting in a net effect on net loss attributable to Vertex related to this impairment charge of $285.3 million in the nine months ended September 30, 2013.

Other Items, net

Other income (expense), net

Other income (expense), net was $4.7 million and $(6.6) million in the three and nine months ended September 30, 2013, respectively, compared to $(4.0) million and $(11.4) million in the three and nine months ended September 30, 2012, respectively. Other income (expense), net consists of interest income, interest expense and realized foreign exchange gain (loss).

Income Taxes

In the three months ended September 30, 2013, we recorded a net benefit from income taxes of $0.8 million. This benefit from income taxes was due to a benefit from income taxes of $3.3 million attributable to noncontrolling interest (Alios) offset by a provision for income taxes of $2.6 million attributable to Vertex. In the first quarter of 2013, we determined that the fair value of VX-222 was zero, which resulted in an impairment charge of $412.9 million in the nine months ended September 30, 2013. In connection with this impairment charge, we wrote-off the associated deferred tax liability of $127.6 million as a benefit in our condensed consolidated statements of operations in the nine months ended September 30, 2013.

For the three and nine months ended September 30, 2012, we recorded a benefit from and a provision for income taxes attributable to Vertex of $0.0 million and $1.1 million, respectively, and a provision for income taxes attributable to noncontrolling interest (Alios) of $21.4 million and $40.4 million, respectively.

Noncontrolling Interest (Alios)

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

A summary of net loss (income) attributable to noncontrolling interest (Alios) in the three and nine months ended September 30, 2013 and 2012 is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(in thousands)		(in thousands)	
Loss before provision for (benefit from) income taxes	$ 9,056	$ 5,090	$ 21,177	$ 14,581
Decrease (increase) in fair value of contingent milestone and royalty payments	(1,220)	(57,560)	1,600	(112,760)
Provision for (benefit from) income taxes	(3,306)	21,394	(9,089)	40,354
Net loss (income) attributable to noncontrolling interest (Alios)	$ 4,530	$ (31,076)	$ 13,688	$ (57,825)

In the three and nine months ended September 30, 2013, the fair value of the contingent milestone payments and royalties payable by us to Alios related to the HCV nucleotide analogue program increased by $1.2 million and decreased by $1.6 million, respectively.

In the three and nine months ended September 30, 2012, the fair value of contingent milestone and royalty payments increased by $57.6 million and $112.8 million, respectively, primarily because we received positive clinical data from a Phase 1 clinical trial evaluating ALS-2200, now being developed as VX-135, which increased the probability that Alios would earn future payments from us under the license and collaboration agreement we entered into with Alios in June 2011.

Since June 2011, the fair value of the contingent milestone and royalty payments payable by us to Alios has increased by $183.3 million as a result of the advances in the clinical development program for VX-135. Increases in the fair value of the contingent milestone payments and royalties payable by us to Alios result in an increase in net loss attributable to Vertex (or a decrease in net income attributable to Vertex) on a dollar-for-dollar basis. If VX-135 continues to advance in clinical development, we expect to record additional increases in the fair value of these contingent milestone and royalty payments. Changes in the fair value of these contingent milestone and royalty payments and the effects of these changes on net loss were material in the periods presented and may be material in future periods.

LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 2013, we had cash, cash equivalents and marketable securities, excluding Alios' cash and cash equivalents, of $1.4 billion, which was an increase of $101.4 million from $1.3 billion as of December 31, 2012. This increase was due to cash receipts from product sales and royalties and $242.4 million in cash we received from issuances of common stock pursuant to employee benefit plans, partially offset by cash expenditures we made during the nine months ended September 30, 2013 related to, among other things, research and development expenses and sales, general and administrative expenses, as well as $114.8 million for capital expenditures for property and equipment. In addition, in the nine months ended September 30, 2013, we began supporting $31.9 million in irrevocable stand-by letters of credit issued in support of property leases and other similar agreements with an unsecured credit facility with a one-year term. We previously had cash-collateralized these stand-by letters of credit. As a result of this credit facility, our restricted cash decreased by $31.8 million net of other activity recorded during the nine months ended September 30, 2013 and our cash and cash equivalents increased by a corresponding amount.

As of December 31, 2012, we had $400.0 million in aggregate principal amount of 2015 Notes. In addition to the $400.0 million in aggregate principal amount, which was scheduled to mature on October 1, 2015, we were scheduled to make interest payments in an aggregate amount of $33.5 million during the period from June 30, 2013 through October 1, 2015. In the second quarter of 2013, we called the 2015 Notes for redemption pursuant to a soft-call provision in the 2015 Notes that permitted us to call the 2015 Notes if the price of our common stock exceeded 130% of the conversion price over a specified period. In response to our call of the 2015 Notes for redemption, the holders of the 2015 Notes converted the 2015 Notes into 8.2 million shares of our common stock and received an additional 0.1 million shares of our common stock to compensate them for the semi-annual interest payment that would have been payable on October 1, 2013. As a result of these conversions, as of September 30, 2013, we had no remaining 2015 Notes and our future cash commitments related to the 2015 Notes had been reduced by $400.0 million in aggregate principal amount of 2015 Notes plus the associated future interest payments.

Sources of Liquidity

We intend to rely on cash flows from product sales as our primary source of liquidity and cash flows from royalties as a secondary source of liquidity. Our cash flows from product sales have been decreasing in recent periods, and our future cash flows from product sales will be dependent on continued sales of KALYDECO as a monotherapy, the outcomes of ongoing label-expansion programs for ivacaftor monotherapy and the Phase 3 clinical trials of ivacaftor and VX-809 (lumacaftor), and the potential introduction of one or more of our other drug candidates to the market. In recent periods, we also have received significant proceeds from the issuance of common stock under our employee benefit plans, but the amount and timing of future proceeds from employee benefits plans is uncertain. Other possible sources of liquidity include commercial debt, public and private offerings of our equity and debt securities, strategic collaborative agreements that include research and/or development funding, development milestones and royalties on the sales of products, software and equipment leases, strategic sales of assets or businesses and financial transactions.

Future Capital Requirements

We are incurring substantial expenses on our research and development programs and to commercialize KALYDECO. In addition, we have substantial facility and capital lease obligations, including leases for two buildings at Fan Pier that continue through 2028.

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

Financing Strategy

Although we do not have any plans to do so in the near term, we may raise additional capital through public offerings or private placements of our securities. In addition, we may raise additional capital through securing new collaborative agreements or other methods of financing. We will continue to manage our capital structure and to consider all financing opportunities, whenever they may occur, that could strengthen our long-term liquidity profile. There can be no assurance that any such financing opportunities will be available on acceptable terms, if at all.

CONTRACTUAL COMMITMENTS AND OBLIGATIONS

Our commitments and obligations were reported in our Annual Report on Form 10-K for the year ended December 31, 2012, which was filed with the Securities and Exchange Commission, or SEC, on March 1, 2013. There have been no material changes from the contractual commitments and obligations previously disclosed in that Annual Report on Form 10-K, except that as of September 30, 2013 none of our 2015 Notes remained outstanding and as a result our total commitments and obligations for 2013-2015 decreased by $400.0 million in aggregate principal amount of 2015 Notes plus the associated future interest payments.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our discussion and analysis of our financial condition and results of operations is based upon our condensed consolidated financial statements prepared in accordance with generally accepted accounting principles in the United States. The preparation of these financial statements requires us to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reported periods. These items are monitored and analyzed by management for changes in facts and circumstances, and material changes in these estimates could occur in the future. Changes in estimates are reflected in reported results for the period in which the change occurs. We base our estimates on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from our estimates if past experience or other assumptions do not turn out to be substantially accurate. During the three months ended September 30, 2013, there were no material changes to our critical accounting policies as reported in our Annual Report on Form 10-K for the year ended December 31, 2012, which was filed with the SEC on March 1, 2013.

RECENT ACCOUNTING PRONOUNCEMENTS

Refer to Note A, "Basis of Presentation and Accounting Policies," in the accompanying notes to the condensed consolidated financial statements for a discussion of recent accounting pronouncements. There were no new accounting pronouncements adopted during the three and nine months ended September 30, 2013 that had a material effect on our financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Interest Rate Risk

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

Foreign Exchange Market Risk

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

In the fourth quarter of 2013, we plan to implement a foreign currency management program with the objective of reducing the volatility of exchange rate fluctuations on our operating results and to increase the visibility of the foreign exchange impact on forecasted revenues.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our chief executive officer and chief financial officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this Quarterly Report on Form 10-Q, have concluded that, based on such evaluation, as of September 30, 2013 our disclosure controls and procedures were effective and designed to provide reasonable assurance that the information required to be disclosed is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. In designing and evaluating our disclosure controls and procedures, our management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Changes in Internal Controls Over Financial Reporting

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended) occurred during the three months ended September 30, 2013 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. Other Information

Item 1. Legal Proceedings

On September 6, 2012, a purported shareholder class action, *City of Bristol Pension Fund v. Vertex Pharmaceuticals Incorporated, et al.*, was filed in the United States District Court for the District of Massachusetts, naming us and certain of our current and former officers and directors as defendants. The lawsuit alleges that we made material misrepresentations and/or omissions of material fact in our public disclosures during the period from May 7, 2012 through June 28, 2012, all in violation of Section 10(b) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 promulgated thereunder. By order dated December 12, 2012, the court appointed the City of Bristol lead plaintiff and appointed the City of Bristol's attorneys lead counsel. The plaintiffs filed an amended complaint on February 11, 2013. We filed a motion to dismiss the complaint on April 12, 2013. On May 28, 2013, the plaintiffs filed an opposition to our motion to dismiss the complaint. On June 27, 2013, we filed a reply in further support of our motion to dismiss the plaintiffs' complaint. The court has scheduled a hearing on our motion to dismiss for November 25, 2013.

The plaintiffs seek unspecified monetary damages on behalf of the putative class and an award of costs and expenses, including attorney's fees, as well as disgorgement of the proceeds from certain individual defendants' sales of our common stock. We believe that this action is without merit and intend to defend it vigorously.

Item 1A. Risk Factors

Information regarding risk factors appears in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2012, which was filed with the SEC on March 1, 2013. There have been no material changes from the risk factors previously disclosed in that Annual Report on Form 10-K except as set forth in Item 1A of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2013.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

- expectations regarding the amount of, timing of and trends with respect to our revenues, costs and expenses and other gains and losses, including those related to net product revenues from sales of INCIVEK and KALYDECO and royalty revenues from net sales of INCIVO and to the intangible assets associated with the Alios collaboration;
- our expectations regarding clinical trials, development timelines and regulatory authority filings and submissions for ivacaftor, lumacaftor, VX-135, VX-509 and VX-661;
- our expectations regarding the timing of data from our clinical trials of ivacaftor monotherapy and lumacaftor in combination with ivacaftor, the possibility of using that data to support regulatory submissions and the timing of those potential submissions;
- our ability to successfully market INCIVEK and/or KALYDECO or any of our other drug candidates for which we obtain regulatory approval;
- our expectations regarding the timing and structure of clinical trials of our drugs and drug candidates, including, ivacaftor, lumacaftor, VX-135, VX-509 and VX-661, and the expected timing of our receipt of data from our ongoing and planned clinical trials;
- our intent to provide further data to the FDA, including sustained viral response data from our ongoing clinical trials of VX-135 and RBV and VX-135 and daclatasvir, through the first half of 2014;
- the data that will be generated by ongoing and planned clinical trials and the ability to use that data to advance molecules, continue development or support regulatory filings;

- our beliefs regarding the support provided by clinical trials and preclinical and nonclinical studies of our drug candidates for further investigation, clinical trials or potential use as a treatment;
- the focus of our drug development efforts and our financial and management resources and our plan to continue investing in our research and development programs and our strategy to develop our drug candidates, alone or with third party-collaborators;
- the establishment, development and maintenance of collaborative relationships;
- potential business development activities;
- our estimates regarding the charges associated with the October 2013 workforce reduction and restructuring activities;
- our ability to use our research programs to identify and develop new drug candidates to address serious diseases and significant unmet medical needs;
- our estimates regarding obligations associated with a lease of a facility in Kendall Square, Cambridge, Massachusetts; and
- our liquidity and our expectations regarding the possibility of raising additional capital.

Any or all of our forward-looking statements in this Quarterly Report on Form 10-Q may turn out to be wrong. They can be affected by inaccurate assumptions or by known or unknown risks and uncertainties. Many factors mentioned in this Quarterly Report on Form 10-Q will be important in determining future results. Consequently, no forward-looking statement can be guaranteed. Actual future results may vary materially from expected results. We also provide a cautionary discussion of risks and uncertainties under “Risk Factors” in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2012, which was filed with the SEC on March 1, 2013 and was supplemented by Item 1A of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, which was filed with the SEC on August 2, 2013. These are factors and uncertainties that we think could cause our actual results to differ materially from expected results. Other factors and uncertainties besides those listed there could also adversely affect us.

Without limiting the foregoing, the words “believes,” “anticipates,” “plans,” “intends,” “expects” and similar expressions are intended to identify forward-looking statements. There are a number of factors and uncertainties that could cause actual events or results to differ materially from those indicated by such forward-looking statements, many of which are beyond our control. In addition, the forward-looking statements contained herein represent our estimate only as of the date of this filing and should not be relied upon as representing our estimate as of any subsequent date. While we may elect to update these forward-looking statements at some point in the future, we specifically disclaim any obligation to do so to reflect actual results, changes in assumptions or changes in other factors affecting such forward-looking statements.

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

Issuer Repurchases of Equity Securities

The table set forth below shows all repurchases of securities by us during the three months ended September 30, 2013:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs
July 1, 2013 to July 31, 2013	19,506	$ 0.01	—	—
August 1, 2013 to August 31, 2013	38,061	$ 0.01	—	—
September 1, 2013 to September 30, 2013	29,099	$ 0.01	—	—

The repurchases were made under the terms of our Amended and Restated 2006 Stock and Option Plan. Under this plan, we award shares of restricted stock to our employees that typically are subject to a lapsing right of repurchase by us. We may exercise this right of repurchase if a restricted stock recipient’s service to us is terminated. If we exercise this right, we are required to repay the purchase price paid by or on behalf of the recipient for the repurchased restricted shares, which typically

is the par value per share of $0.01. Repurchased shares are returned to the Amended and Restated 2006 Stock and Option Plan and are available for future awards under the terms of that plan.

Item 6. Exhibits

Exhibit Number	Exhibit Description
31.1	Certification of the Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Chief Executive Officer and the Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation
101.LAB	XBRL Taxonomy Extension Labels
101.PRE	XBRL Taxonomy Extension Presentation
101.DEF	XBRL Taxonomy Extension Definition

SIGNATURES

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

Vertex Pharmaceuticals Incorporated

November 7, 2013 By: /s/ Ian F. Smith

Ian F. Smith

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

Exhibit 31.1

CERTIFICATION

I, Jeffrey M. Leiden, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Vertex Pharmaceuticals Incorporated;

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

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

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

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

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

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

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

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

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

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

Date: November 7, 2013 /s/ Jeffrey M. Leiden

Jeffrey M. Leiden
Chief Executive Officer and President

Exhibit 31.2

CERTIFICATION

I, Ian F. Smith, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Vertex Pharmaceuticals Incorporated;

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

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

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

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

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

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

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

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

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

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

Date: November 7, 2013 /s/ Ian F. Smith

Ian F. Smith
Executive Vice President and Chief Financial Officer

Exhibit 32.1

SECTION 906 CEO/CFO CERTIFICATION

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) each of the undersigned officers of Vertex Pharmaceuticals Incorporated, a Massachusetts corporation (the "Company"), does hereby certify, to such officer's knowledge, that the Quarterly Report on Form 10-Q for the quarter ended September 30, 2013 (the "Form 10-Q") of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 7, 2013

/s/ Jeffrey M. Leiden

Jeffrey M. Leiden
Chief Executive Officer and President

Date: November 7, 2013

/s/ Ian F. Smith

Ian F. Smith
Executive Vice President and Chief Financial Officer

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