

VERTEX PHARMACEUTICALS INC / MA
Form DEF 14A
April 04, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant x

Filed by a Party other than the Registrant o

Check the appropriate box:

- o Preliminary Proxy Statement
- o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- x Definitive Proxy Statement
- o Definitive Additional Materials
- o Soliciting Material under §240.14a-12

Vertex Pharmaceuticals Incorporated
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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-

April 4, 2013

DEAR FELLOW SHAREHOLDER:

We cordially invite you to attend our 2013 annual meeting of shareholders. We will hold our meeting on Wednesday, May 8, 2013, at 9:30 a.m. at our headquarters at 130 Waverly Street, Cambridge, Massachusetts.

At this year's meeting, you will be asked to vote on the election of directors, to approve our 2013 Stock and Option Plan, to ratify Ernst & Young LLP as our auditors and to provide your advisory views on our executive compensation program.

Whether or not you attend the meeting in person, we encourage you to vote by completing, signing and returning the enclosed proxy prior to the meeting. Every shareholder vote is important. To ensure your vote is counted at the annual meeting, please vote as promptly as possible.

Thank you for giving these materials your careful consideration.

Sincerely,

Jeffrey M. Leiden, M.D., Ph.D.
Chairman, Chief Executive Officer and President

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NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

DATE: May 8, 2013
TIME: 9:30 a.m.
Vertex's Headquarters
PLACE: 130 Waverly Street
Cambridge, Massachusetts 02139

AGENDA:

• Election of the four director nominees that are set forth in the attached proxy statement to the class of directors whose term will expire in 2016;

• Approval of our 2013 Stock and Option Plan;

• Ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for the year ending December 31, 2013;

• Advisory vote to approve the compensation program for our named executive officers; and

• Transaction of other business that may properly come before the annual meeting or any adjournment or postponement of the annual meeting.

RECORD DATE: You can vote if you were a shareholder of record on March 11, 2013.

Your vote matters. Whether or not you plan to attend the annual meeting, please ensure that your shares are represented by voting, signing, dating and returning your proxy in the enclosed envelope, which requires no postage if mailed in the United States.

By Order of the Board of Directors

Kenneth L. Horton
Secretary
April 4, 2013

IMPORTANT NOTICE REGARDING AVAILABILITY OF PROXY MATERIALS. This proxy statement and our Annual Report on Form 10-K for the year ended December 31, 2012 are available to holders of record of our common stock at www.envisionreports.com/vrtx and to beneficial holders of our common stock at www.edocumentview.com/vrtx.

SUMMARY INFORMATION

To assist you in reviewing the proposals to be acted upon, we call your attention to the following business and compensation highlights. The following description is only a summary. For more complete information on these topics, please review our Annual Report on Form 10-K for the year ended December 31, 2012, or 2012 Annual Report, and this proxy statement in full.

BUSINESS HIGHLIGHTS

2012 was a successful year for us. Since the end of 2011, we:

Obtained approval to market KALYDECO™ (ivacaftor) from the FDA in January 2012, which was more than two months ahead of the FDA target date, the European Commission in July 2012 and Health Canada in November 2012. KALYDECO, a cystic fibrosis transmembrane conductance regulator, or CFTR, potentiator, is the first drug to treat the underlying cause of cystic fibrosis, was the recipient of the Wall Street Journal's 2012 Technology Innovation Award in the Medicine and Biotech category and received praise from the FDA as an excellent example of the promise of personalized medicine and a breakthrough therapy for the cystic fibrosis community.

Successfully launched KALYDECO:

Most eligible patients in the United States have initiated and are receiving treatment with KALYDECO.

KALYDECO is now available in England, France, Germany and Ireland, the four European countries with the highest number of patients with cystic fibrosis who are eligible to receive KALYDECO.

Maintained our INCIVEK™ (telaprevir) leading market share in direct competition with Merck & Co., Inc.'s VICTRELIS™ (boceprevir).

Increased net product revenues by 40% and total revenues by 8% in 2012 as compared to 2011. The following chart shows net product revenues and total revenues over the past three years (in millions):

Received Breakthrough Therapy designations from the FDA for both ivacaftor monotherapy and the combination regimen of our investigational CFTR corrector VX-809 (lumacaftor) with ivacaftor.

Advanced our development programs in cystic fibrosis and hepatitis C virus, or HCV, infection, including:

Initiating clinical trials of ivacaftor monotherapy in additional patient populations that, if successful, could increase the number of patients eligible for treatment with ivacaftor monotherapy to more than 10% of patients with cystic fibrosis.

Initiating an international Phase 3 development program to evaluate combinations of ivacaftor and VX-809 for patients with the most prevalent genetic mutation that causes cystic fibrosis.

Completing a clinical trial of ALS-2200 (now formulated as VX-135), enabling us to plan for multiple clinical trials of potential all-oral interferon-free combination regimens for the treatment of HCV infection that incorporate VX-135 both with ribavirin and with collaborators' HCV drug candidates.

Maintained our high research productivity:

Advanced our cystic fibrosis research program to identify additional corrector compounds that could be included in future dual- and/or triple- combination treatment regimens.

Progressed multiple other research programs, including programs designed to develop treatments for Huntington's disease, multiple sclerosis and cancer.

Significantly expanded our commercial infrastructure and international capabilities to support the launch of KALYDECO in the United States and Europe.

Recognized a share price increase of 26% from \$33.21 at the end of 2011 to \$41.90 at the end of 2012, increasing our market capitalization from approximately \$7.0 billion to approximately \$9.1 billion.

SUMMARY INFORMATION (continued)

COMPENSATION HIGHLIGHTS

Our compensation program is designed to attract and motivate talented and experienced individuals across all areas of our business and align the interests of our executive officers with the interests of our shareholders as we seek to create value through the discovery, development and commercialization of transformative medicines. 2012 was a successful year for Vertex, and our 2012 executive compensation decisions were made by applying our pay-for-performance compensation philosophy and principles, as follows:

- Our executive officers' total compensation is comprised of a mix of base salary, annual cash incentives and long-term incentive awards that include both time-based stock options and performance-based restricted stock awards, and reflects a balance of elements so that a significant portion is performance-contingent, to better align our executives' financial interests with the interests of our shareholders.
- 82% of the total compensation in 2012 for Dr. Jeffrey M. Leiden, our chairman, chief executive officer and president, was incentive-based in the form of annual cash bonus and equity compensation.
- We awarded our eligible officers annual cash bonuses and long-term equity grants at above-target levels to reward them for the company's and their individual 2012 successes.

Our compensation for our named executive officers has been supported by a majority of the "Say-on-Pay" advisory votes cast by our shareholders since proxy voting on named executive officer compensation began in 2011. The support of our shareholders for our compensation program declined from 97% of the "Say-on-Pay" advisory votes cast by shareholders at our 2011 annual meeting to 51% at our 2012 annual meeting. In 2012, we had discussions with approximately 25 of our largest shareholders regarding, among other matters, our executive compensation program and dilution caused by our broad-based equity compensation program. During these discussions we listened to their perspectives and gained insight into how we could further align the interests of the company with the interests of our shareholders.

Our board of directors and management development and compensation committee reviewed our compensation programs and governance practices in light of our evolving business and made a number of changes for 2013, including:

- Modifying the mix of cash and equity compensation for all employees to increase cash incentive bonuses and reduce the target number of shares at each performance level;
- Adopting a compensation recoupment ("claw-back") policy for our executive officers;
- Implementing stock ownership guidelines for our chief executive officer; and
- Adopting a policy prohibiting all employees from hedging or pledging company securities.

The total compensation for 2012 for our named executive officers is set forth in the following table under the caption "Total Compensation." To supplement this information, we have included a column entitled "Total Realized Compensation," which subtracts the grant-date fair value of equity awards granted in 2012 and substitutes the actual value realized on the exercise of stock options and the vesting of restricted stock awards during 2012.

Named Executive Officer	Title	Salary	Annual Cash Bonus	Grant-Date Fair Value of Equity Awards	Total Compensation	Total Realized Compensation
Jeffrey M. Leiden	Chairman, CEO & President	\$1,000,000	\$2,088,000	\$2,556,234	\$ 5,656,684	\$ 3,100,450
Ian F. Smith	EVP & Chief Financial Officer	\$539,241	\$376,577	\$2,180,925	\$ 3,109,193	\$ 4,370,731
		\$169,615	\$117,600	\$3,863,000	\$ 4,808,697	\$ 945,697

Stuart A. Arbuckle	EVP & Chief Commercial Officer						
Kenneth L. Horton	EVP & Chief Legal Officer	\$259,327	\$169,260	\$2,362,227	\$2,802,735	\$440,508	
Peter Mueller	EVP, Global R&D & CSO	\$598,980	\$418,296	\$2,585,164	\$3,614,890	\$6,853,675	
Matthew W. Emmens	Former Chairman, CEO & President	\$467,514	\$—	\$6,398,848	\$6,896,029	\$8,186,479	
David T. Howton, Jr.	Former SVP & Chief Legal Officer	\$347,231	\$—	\$2,231,814	\$3,447,898	\$2,055,623	

For information regarding our named executive officers' compensation, as calculated under Securities and Exchange Commission, or SEC, rules, see the narrative and notes accompanying the Summary Compensation Table set forth beginning on page 49. For more information regarding the calculation of "Total Realized Compensation" see the narrative accompanying the Total Realized Compensation Table on page 51. Stuart A. Arbuckle and Kenneth L. Horton joined us during 2012 and, as a result, each received a pro-rated cash bonus for 2012.

SUMMARY INFORMATION (continued)

VOTING MATTERS

Our board of directors recommends that our shareholders vote FOR the director nominees and FOR each of the proposals.

ELECTION OF DIRECTORS (Item 1 – Page 9)

Joshua Boger, our founder and former chief executive officer, Terrence C. Kearney, chair of our audit and finance committee, Yuchun Lee, who joined our board in September 2012, and Elaine S. Ullian, our co-lead independent director and chair of our corporate governance and nominating committee, have been nominated for re-election at the 2013 annual meeting of shareholders. You will find important information about the qualifications and experience of each of our director nominees and each of our continuing directors in the section of this proxy statement captioned “Item 1: Election of Directors.”

APPROVAL OF OUR 2013 STOCK AND OPTION PLAN (Item 2 – Page 22)

We are asking our shareholders to approve our 2013 Stock and Option Plan, or 2013 Plan. We have adopted, subject to shareholder approval, the 2013 Plan, which utilizes a “fungible share” concept, in conjunction with our decision to shift our overall compensation balance toward more cash and less equity. The fungible share approach allows us to issue a higher percentage of restricted shares relative to options than is permitted under our 2006 Stock and Option Plan, which is intended to result in the issuance of a lower number of overall shares. The 2013 Plan has a pool of up to 3,300,000 shares of our common stock eligible for issuance, with each share of issued restricted stock reducing the pool by 1.66 shares.

We believe that our equity compensation program has been fundamental to our success, and that the requested 3,300,000 shares are necessary in order to continue to attract and retain the right employees to achieve our short- and long-term business objectives.

We expect to continue to review our compensation programs in future periods in light of the market for talented employees in our industry and our business and financial profile.

RATIFICATION OF THE APPOINTMENT OF OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM (Item 3 – Page 29)

We are asking our shareholders to ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for 2013.

“SAY-ON-PAY” ADVISORY VOTE (Item 4 – Page 32)

We are asking our shareholders to approve, on an advisory basis, the compensation program for our named executive officers. We believe that our compensation program has been and will continue to be successful in attracting, retaining and motivating the right executive team to lead our company. After consideration of the evolution of our business and the views expressed by our shareholders, we have changed the amounts payable under our incentive compensation programs, and modified certain of our compensation and equity-related policies. For a further discussion of these actions see "Item 4: Advisory Vote to Approve Named Executive Officer Compensation."

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PROXY STATEMENT

This proxy statement, with the enclosed proxy card, is being furnished to shareholders of Vertex Pharmaceuticals Incorporated in connection with the solicitation by our board of directors of proxies to be voted at our 2013 annual meeting of shareholders and at any postponements or adjournments thereof. The annual meeting will be held on Wednesday, May 8, 2013, at 9:30 a.m. at our headquarters, which are located at 130 Waverly Street, Cambridge, Massachusetts.

This proxy statement and the enclosed proxy card are first being mailed or otherwise furnished to our shareholders on or about April 8, 2013. Our 2012 Annual Report on Form 10-K and other materials regarding our company are being mailed to the shareholders with this proxy statement, but are not part of the proxy statement.

FREQUENTLY ASKED QUESTIONS REGARDING THE ANNUAL MEETING

WHAT IS THE PURPOSE OF THE ANNUAL MEETING?

At the annual meeting, shareholders will act upon the matters outlined in the Notice of Annual Meeting of Shareholders. These include the election of directors, the approval our 2013 Stock and Option Plan, which authorizes for issuance 3,300,000 shares of our common stock, the ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm and the approval on an advisory basis of the compensation program for our named executive officers. Management, chairs of each committee of our board and representatives of Ernst & Young LLP are expected to attend the annual meeting and be available to respond to questions from shareholders.

WHAT IS A PROXY?

It is your legal designation of another person to vote the stock you own in the manner you direct. That other person is called a proxy. If you designate someone as your proxy in a written document, that document also is called a proxy or a proxy card. We have designated Jeffrey M. Leiden, Ian F. Smith and Kenneth L. Horton to serve as proxies at the annual meeting.

WHAT IS A PROXY STATEMENT?

It is a document that provides certain information about a company and matters to be voted upon at a meeting of shareholders. The SEC requires us to give you, as a shareholder, the information in this proxy statement when we are soliciting your vote.

WHAT IS THE DIFFERENCE BETWEEN A SHAREHOLDER OF RECORD AND A SHAREHOLDER WHO HOLDS STOCK IN STREET NAME?

Shareholders of Record. If your shares are registered in your name with our transfer agent, Computershare, you are a shareholder of record with respect to those shares, and these proxy materials were sent directly to you by Computershare.

Street Name Holders. If you hold your shares in an account at a bank or broker, then you are the beneficial owner of shares held in "street name." The proxy materials were forwarded to you by your bank or broker, who is considered the shareholder of record for purposes of voting at the annual meeting. As a beneficial owner, you have the right to direct your bank or broker how to vote the shares held in your account.

HOW MANY SHARES MUST BE REPRESENTED IN ORDER TO HOLD THE ANNUAL MEETING?

In order for us to conduct the annual meeting, holders of a majority of the shares entitled to vote as of the close of business on the record date must be present in person or by proxy. This constitutes a quorum. If you are a shareholder of record, your shares are counted as present if you properly return a proxy card or voting instruction form by mail or if you attend the annual meeting and vote in person. If you are the beneficial owner of shares held in "street name" you must follow the instructions of your bank or broker in order to direct them how to vote the shares held in your account. Abstentions and broker non-votes will be counted as present for purposes of establishing a quorum. If a quorum is not present, we will adjourn the annual meeting until a quorum is obtained.

HOW CAN I VOTE AT THE ANNUAL MEETING IF I OWN SHARES IN STREET NAME?

If you are a street name holder, you may not vote your shares at the annual meeting unless you obtain a legal proxy from your bank or broker. A legal proxy is a bank's or broker's authorization for you to vote the shares it holds in its name on your behalf.

WHAT IS THE RECORD DATE AND WHAT DOES IT MEAN?

The record date for the annual meeting is March 11, 2013 and was established by our board of directors. On the record date, there were 218,298,909 shares of our common stock entitled to vote. Owners of record of common stock at the close of business on the record date are entitled to:

- receive notice of the annual meeting; and
- vote at the annual meeting and any adjournment or postponement of the annual meeting.

IF I SUBMIT A PROXY, MAY I LATER REVOKE IT AND/OR CHANGE MY VOTE?

Shareholders may revoke a proxy and/or change their vote prior to the completion of voting at the annual meeting by:

- signing another proxy card with a later date and delivering it to our Secretary, Kenneth L. Horton, 130 Waverly Street, Cambridge, Massachusetts 02139, before the annual meeting; or
-

voting at the annual meeting, if you are a shareholder of record or hold your shares in street name and have obtained a legal proxy from your bank or broker.

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FREQUENTLY ASKED QUESTIONS REGARDING THE ANNUAL MEETING (continued)

WHAT IF I DO NOT SPECIFY A CHOICE FOR A MATTER WHEN RETURNING A PROXY?

Shareholders should specify their choice for each matter following the directions described on their proxy card. If no specific instructions are given, proxies that are signed and returned will be voted:

FOR the election of all director nominees;

FOR approval of our 2013 Stock and Option Plan;

FOR ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for the year ending December 31, 2013; and

FOR our executive compensation program.

ARE MY SHARES VOTED IF I DO NOT PROVIDE A PROXY?

If you are a shareholder of record and do not provide a proxy, you must attend the annual meeting in order to vote. If you hold shares through an account with a bank or broker, your shares may be voted by the bank or broker if you do not provide voting instructions. Banks and brokers have the authority under applicable rules to vote shares on routine matters for which their customers do not provide voting instructions. The ratification of Ernst & Young LLP as our independent registered public accounting firm is considered a routine matter. The election of directors, the approval of our 2013 Stock and Option Plan and the approval of our executive compensation program are not considered routine, and banks and brokers cannot vote shares without instruction on those matters. Shares that banks and brokers are not authorized to vote on those matters are counted as “broker non-votes” and will have no effect on the results of those votes.

WHAT VOTE IS REQUIRED TO APPROVE EACH PROPOSAL AND HOW ARE VOTES COUNTED?

Item 1: Election of Directors

The nominees for director who receive the most votes, also known as a “plurality” of the votes, will be elected.

Abstentions are not counted for purposes of electing directors. You may vote either FOR or WITHHOLD your vote from any one or more of the nominees. Votes that are withheld will not be included in the vote tally for the election of directors.

Item 2: Approval of our 2013 Stock and Option Plan

To be approved, this proposal must receive an affirmative vote from shareholders present in person or represented by proxy at the annual meeting representing a majority of the

votes cast on the proposal. Abstentions will have no effect on the results of this vote.

Item 3: Ratification of the Appointment of Independent Registered Public Accounting Firm

To be approved, this proposal must receive an affirmative vote from shareholders present in person or represented by proxy at the annual meeting representing a majority of the votes cast on the proposal. Abstentions will have no effect on the results of this vote.

Item 4: Advisory Vote to Approve Named Executive Officer Compensation

To be approved, this proposal must receive an affirmative vote from shareholders present in person or represented by proxy at the annual meeting representing a majority of the votes cast on the proposal. Abstentions will have no effect on the results of this vote.

WHERE CAN I FIND MORE INFORMATION ABOUT MY VOTING RIGHTS AS A SHAREHOLDER?

The SEC has an informational website that provides shareholders with general information about how to cast their vote and why voting should be an important consideration for shareholders. You may access that website at sec.gov/spotlight/proxymatters.shtml.

ITEM 1 - ELECTION OF DIRECTORS

Our board of directors has nominated Joshua Boger, our founder and former chief executive officer, Terrence C. Kearney, chair of our audit and finance committee, Yuchun Lee, who joined our board in September 2012, and Elaine S. Ullian, our co-lead independent director and chair of our corporate governance and nominating committee, for re-election at our 2013 annual meeting of shareholders to hold office until our 2016 annual meeting of shareholders. Our board of directors is our company's ultimate decision-making body except with respect to those matters reserved to the shareholders. Our board selects our senior management team, who in turn are responsible for the day-to-day operations of our company. Our board acts as an advisor and counselor to senior management and oversees its performance.

Our board consists of ten directors divided into three classes, with each class holding office for a three-year term. Joshua Boger, Terrence C. Kearney, Yuchun Lee and Elaine S. Ullian, current Class III Directors, have been nominated by our board for re-election at the 2013 annual meeting of shareholders for a three-year term that will expire at the 2016 annual meeting of shareholders. Each of the nominees has agreed to be named in this proxy statement and to serve if elected. We believe that all of the nominees will be able and willing to serve if elected. However, if any nominee should become unable for any reason or unwilling to serve, proxies may be voted for another person nominated as a substitute by our board of directors, or our board may reduce the number of directors.

BOARD STRUCTURE AND COMPOSITION

The corporate governance and nominating committee of our board of directors is responsible for recommending the composition and structure of our board and for developing criteria for board membership. This committee regularly reviews director competencies, qualities and experiences, with the goal of ensuring that our board is comprised of an effective team of directors who function collegially and who are able to apply their experience toward meaningful contributions to general corporate strategy and oversight of corporate performance, risk management, organizational development and succession planning.

Our by-laws provide that the size of our board may range between three and eleven members. Our corporate governance and nominating committee may seek one additional director candidate who meets the criteria below in order to complement the qualifications and experience of our existing board members. Our corporate governance and nominating committee may engage a search firm to recommend candidates who satisfy the criteria.

Director Criteria, Qualifications and Experience; Diversity. The corporate governance and nominating committee seeks to recommend for nomination directors of stature who have a substantive knowledge of our business and industry or who can bring to the board specific and valuable strategic or management capabilities acquired in other industries. The committee expects each of our directors to have proven leadership, sound judgment, integrity and a commitment to the success of our company. We also seek personal qualities that foster a respectful environment in which our directors listen to one another and are engaged and constructive. These goals for our board composition presuppose a diverse range of viewpoints, experiences and specific expertise. The corporate governance and nominating committee considers a nominee's personal characteristics and business experience relative to those of our existing board members, including the type of prior management experience, levels of expertise relevant to our business and its growth stage, prior board service, reputation in the business community, personal characteristics such as gender and race and other factors that the committee believe to be important at the specific point in time when choices for board membership are being made. At this time, our commitment to racial and gender diversity is demonstrated by the make-up of our board, which includes two members who are women and one member who is African-American.

The key experience, qualifications, attributes and skills brought by our directors to our board that are important to our business include:

Corporate leadership experience. We believe that directors who have held significant corporate leadership positions over extended periods of time provide our company with special insights. These people generally have a practical understanding of organizational processes and strategy that is valuable during periods of organizational change and growth.

Industry knowledge. We seek to have directors with substantive knowledge of the biotechnology, pharmaceutical or related industries. We believe that having a substantial portion of our board of directors comprised of individuals with

ITEM 1 - ELECTION OF DIRECTORS (continued)

experience as executives or directors in these industries provides our board with the background necessary to counsel our management regarding the issues facing our company.

Financial expertise. We believe that an understanding of finance is important for our board of directors, and our budgeting processes and financial and strategic transactions require our directors to be financially knowledgeable. In addition, we seek to have a number of directors qualified to serve on our audit and finance committee and at least one director with in-depth knowledge of financial statements and financial reporting processes sufficient to qualify as an audit committee financial expert under applicable regulatory standards.

Scientific experience. As a biopharmaceutical company that seeks to develop transformative medicines for patients with serious diseases, we look for directors with backgrounds in science and technology and in particular the research and development of pharmaceutical products.

Commitment to company values and goals. We seek directors who are committed to our company and its values and goals and who value the contributions that can be provided by individuals who believe in our company and its prospects for success.

SHAREHOLDER-RECOMMENDED DIRECTOR CANDIDATES

The corporate governance and nominating committee will consider director candidates recommended by shareholders in accordance with the criteria for director selection described above under Director Criteria, Qualifications and Experience; Diversity. Shareholders recommending candidates for consideration should submit any pertinent information regarding the candidate, including biographical information and a statement by the proposed candidate that he or she is willing to serve if nominated and elected, by mail to our corporate secretary at our offices at 130 Waverly Street, Cambridge, Massachusetts 02139. If a shareholder wishes to nominate a candidate to be considered for election as a director at the 2014 annual meeting of shareholders using the procedures set forth in our by-laws, the shareholder must follow the procedures described in Other Information—Shareholder Proposals for the 2014 Annual Meeting and Nominations for Director on page 68 of this proxy statement.

MAJORITY VOTE POLICY

Under our by-laws, directors are elected by a plurality of votes. However, our board's policy is that any nominee for director in an uncontested election who receives a greater number of votes "withheld" than votes "for" the nominee's election should promptly tender his or her resignation to the chair of our board following certification of the shareholder vote. Our corporate governance and nominating committee will promptly consider the tendered resignation. Based on all factors it deems in its discretion to be relevant, the committee will recommend that our board either accept or reject the resignation and may recommend that the board adopt measures designed to address any issues perceived to underlie the election results. Our board will then act on the corporate governance and nominating committee's recommendation. We will promptly disclose our board's decision, including, if applicable, the reasons for rejecting the tendered resignation. Any director whose resignation is being considered under this policy will not participate in the corporate governance and nominating committee or board considerations, recommendations or actions with respect to the tendered resignation.

OUR BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE FOR EACH OF THE NOMINEES.

ITEM 1 - DIRECTOR NOMINEES

In each of the director nominee and continuing director biographies that follow, we highlight the specific experience, qualifications, attributes and skills that led the board of directors to conclude that the director nominee or continuing director should serve on our board of directors at this time.

DIRECTOR NOMINEES

CLASS III DIRECTORS—PRESENT TERMS EXPIRING IN 2013 AND PROPOSED TERMS TO EXPIRE IN 2016

Joshua Boger, Ph.D.

Age: 61

Chair – Science and Technology Committee

Director Since: 1989

Dr. Boger is the founder of Vertex. He was our Chief Executive Officer from 1992 through May 2009. He was Chairman of our Board from 1997 until May 2006 and our President from our inception until December 2000, and from 2005 through February 2009. He was our Chief Scientific Officer from 1989 until May 1992. Prior to founding Vertex in 1989, Dr. Boger held the position of Senior Director of Basic Chemistry at Merck Sharp & Dohme Research Laboratories in Rahway, New Jersey, where he headed both the Department of Medicinal Chemistry of Immunology & Inflammation and the Department of Biophysical Chemistry. Dr. Boger holds a B.A. in chemistry and philosophy from Wesleyan University and M.S. and Ph.D. degrees in chemistry from Harvard University.

Skills and Qualifications: Dr. Boger’s qualifications for our board include his extensive industry knowledge and leadership experience. Dr. Boger brings an in-depth knowledge of issues facing our company and our industry as a result of his experience founding and leading Vertex and his distinguished career as a scientist.

Terrence C. Kearney

Age: 58

Chair – Audit and Finance Committee

Member – Management Development and Compensation Committee

Director Since: 2011

Mr. Kearney served as the Chief Operating Officer of Hospira, Inc., a specialty pharmaceutical and medication delivery company, from April 2006 to January 2011. From April 2004 to April 2006, he served as Hospira’s Senior Vice President, Finance, and Chief Financial Officer, and he served as Acting Chief Financial Officer through August 2006. Mr. Kearney served as Vice President and Treasurer of Abbott Laboratories from 2001 to April 2004. From 1996 to 2001, Mr. Kearney was Divisional Vice President and Controller for Abbott’s International Division. He received his B.S. in biology from the University of Illinois and his M.B.A. from the University of Denver.

Skills and Qualifications: Our board believes that Mr. Kearney’s corporate leadership experience, industry knowledge and financial expertise make him a valuable contributor to our board. He has a practical perspective on the management of global pharmaceutical operations, including commercial, manufacturing and research and development activities, and financial management strategies. He is an “audit committee financial expert” as defined in SEC regulations, with particular experience in matters faced by the audit committee of a company with pharmaceutical product revenues and related expenses.

ITEM 1 - DIRECTOR NOMINEES (continued)

Yuchun Lee

Age: 47

Member – Audit and Finance Committee

Director Since: 2012

Member – Science and Technology Committee

Mr. Lee was the Vice President of IBM's Enterprise Marketing Management Group from November 2010 through January 2013. Mr. Lee co-founded Unica Corporation, a provider of software and services used to automate marketing processes, in 1992, and was Unica's President and/or Chief Executive Officer from 1992 through November 2010, when Unica was acquired by IBM. From 1989 to 1992, Mr. Lee was a senior consultant at Digital Equipment Corporation, a supplier of general computing technology and consulting services. Mr. Lee holds B.S. and M.S. degrees in electrical engineering and computer science from the Massachusetts Institute of Technology and an M.B.A. from Babson College.

Skills and Qualifications: Our board believes Mr. Lee's expertise in marketing processes, customer engagement and business and financial expertise make him a valuable contributor to our board. Mr. Lee is an innovator who founded and managed the growth of a successful technology company and gained further leadership experience while serving as an executive at IBM. Mr. Lee's experiences outside of the biopharmaceutical sector provide the board with a fresh perspective on the issues facing the company.

Elaine S. Ullian

Co-lead Independent Director

Age: 65

Chair – Corporate Governance and Nominating Committee

Director Since: 1997

Member – Audit and Finance Committee

From 1996 through January 2010, Ms. Ullian served as President and Chief Executive Officer of Boston Medical Center, a private, not-for-profit, 626-bed, academic medical center with a community-based focus. From 1994 to 1996, she served as President and Chief Executive Officer of Boston University Medical Center Hospital. From 1987 to 1994, Ms. Ullian served as President and Chief Executive Officer of Faulkner Hospital. She also serves as a director of Thermo Fisher Scientific Inc. and Hologic, Inc. Ms. Ullian holds a B.A. in political science from Tufts University and an M.P.H. from the University of Michigan.

Skills and Qualifications: Our board believes that Ms. Ullian brings significant leadership experience acquired as the CEO of large health care providers to our board. She also provides the board with the perspective of providers, payors and patients, for whom our products are intended.

ITEM 1 - CONTINUING DIRECTORS

CONTINUING DIRECTORS

CLASS I DIRECTORS—TERMS EXPIRING IN 2014

Matthew W. Emmens

Age: 61

Member – Science and Technology Committee

Director Since: 2004

Mr. Emmens was our Chief Executive Officer from May 2009 through January 2012, our President from February 2009 through January 2012 and our Executive Chairman from February 2012 through May 2012. He was the Chairman of our Board of Directors from May 2009 through May 2012. Mr. Emmens is the Chairman of the Board of Directors of Shire plc, and has been a member of Shire's board since March 2003. From March 2003 to June 2008, Mr. Emmens also was the Chief Executive Officer of Shire. Before joining Shire in 2003, Mr. Emmens served as President of Merck KGaA's global prescription pharmaceuticals business in Darmstadt, Germany. In 1999, he joined Merck KGaA and established EMD Pharmaceuticals, Inc., its United States prescription pharmaceutical business. Mr. Emmens held the position of President and Chief Executive Officer at EMD Pharmaceuticals from 1999 to 2001. Prior to this, Mr. Emmens held various positions, including Chief Executive Officer, at Astra Merck, Inc., as well as several positions at Merck & Co., Inc. Mr. Emmens was a member of the Board of Directors of Incyte Corporation, a drug development company, from 2006 through February 2009. Mr. Emmens received a B.S. in business management from Farleigh Dickinson University.

Skills and Qualifications: Our board believes Mr. Emmens is a valuable contributor to our board due to the in-depth knowledge of our company he acquired through his experiences as our President and CEO, and his extensive experience as both a CEO and board member at numerous pharmaceutical and biotechnology organizations. Mr. Emmens' strong leadership qualities, industry knowledge and financial expertise provide him with the background to counsel both management and his fellow board members about issues facing our company.

Margaret G. McGlynn

Age: 53

Member – Management Development and Compensation Committee

Director Since: 2011

Ms. McGlynn has served as the President and Chief Executive Officer of the International AIDS Vaccine Initiative, a global not-for-profit organization whose mission is to ensure the development of safe, effective and accessible HIV vaccines for use throughout the world, since July 2011. Ms. McGlynn served as President, Vaccines and Infectious Diseases of Merck & Co., Inc. from 2005 until 2009. Ms. McGlynn joined Merck in 1983 and served in a variety of marketing, sales and managed care roles. Currently, Ms. McGlynn serves as a member of the Board of Directors of Air Products and Chemicals, Inc., a company specializing in gases and chemicals for industrial uses, and Amicus Therapeutics, Inc., a biopharmaceutical company. She is a member of the National Industrial Advisory Committee at the University at Buffalo School of Pharmacy and Pharmaceutical Sciences. Ms. McGlynn holds a B.S. in pharmacy and an M.B.A. in marketing from the State University of New York at Buffalo.

Skills and Qualifications: Our board believes that Ms. McGlynn's corporate leadership experience and industry knowledge make her a valuable contributor to our board. Her service as an executive at Merck and her service on the board of Amicus Therapeutics and the board and audit committee of Air Products and Chemicals, Inc. give her a practical understanding of organizational practices valuable to a company at our stage of growth. Her experience in the development of treatments for infectious diseases provides her with a valuable understanding of the scientific issues we face in the drug development process.

ITEM 1 - CONTINUING DIRECTORS (continued)

Wayne J. Riley, M.D.

Age: 53

Member – Corporate Governance and Nominating Committee

Director Since: 2010

Member – Science and Technology Committee

Dr. Riley is President and Chief Executive Officer of Meharry Medical College, a position he has held since January 2007. In addition, he holds the academic rank of Professor of Internal Medicine at both Meharry and Vanderbilt University Schools of Medicine, and is also a Senior Health Policy Associate at the Robert Wood Johnson Center for Health Policy at Meharry. From May 2004 to December 2006, Dr. Riley served as a corporate officer and member of the executive management team as Vice President and Vice Dean for Health Affairs and Governmental Relations and Associate Professor of Medicine at Baylor College of Medicine, and Assistant Chief of Medicine at Ben Taub General Hospital, Baylor's primary adult public hospital teaching affiliate. He served as Assistant Dean for Education at Baylor College of Medicine from 2000 to 2004. Dr. Riley is a member of the Board of Directors of Pinnacle Financial Partners, Inc., a financial services holding firm, and HCA Holdings, Inc., a leading operator of hospitals and health facilities. Dr. Riley earned a B.A. from Yale University, an M.P.H. in health systems management from the Tulane University School of Public Health and Tropical Medicine, an M.D. from the Morehouse School of Medicine and an M.B.A. from the Jones Graduate School of Business, Rice University.

Skills and Qualifications: Our board believes Dr. Riley is a valuable contributor to our board due to the corporate leadership skills he has acquired through his experience as the President and CEO of Meharry Medical College and through his prior executive positions at Baylor College of Medicine and Ben Taub General Hospital. As a physician, executive, clinician educator, and public health and health policy expert, he brings a unique perspective on the scientific and medical issues we face in pharmaceutical development and commercialization.

CLASS II DIRECTORS—TERMS EXPIRING IN 2015

David Altshuler, M.D., Ph.D.

Age: 48

Member – Corporate Governance and Nominating Committee

Director Since: 2012

Member – Science and Technology Committee

Dr. Altshuler is the Director of the Program in Medical and Population Genetics at the Broad Institute of Harvard University and the Massachusetts Institute of Technology, a position he has held since 2003. He has served as the Institute's Deputy Director and Chief Academic Officer since 2009. He is one of four founding members of the Broad Institute, a research collaboration of Harvard, MIT, The Whitehead Institute and the Harvard Hospitals. Dr. Altshuler joined the faculty at Harvard Medical School and the Massachusetts General Hospital in 2000 and has held the academic rank of Professor of Genetics and Medicine since 2008. He has served as Adjunct Professor of Biology at MIT since 2012. Dr. Altshuler earned a B.S. from MIT, a Ph.D. from Harvard University and an M.D. from Harvard Medical School. Dr. Altshuler completed his clinical training in Internal Medicine, and in Endocrinology, Diabetes and Metabolism, at the Massachusetts General Hospital.

Skills and Qualifications: Dr. Altshuler is a leading academic physician-scientist who brings an in-depth understanding of biology and human genetics and the use of advanced technologies in medical research to our board. In addition to his industry knowledge and scientific expertise, Dr. Altshuler's experience as a founding member of an innovative, collaborative research institute provides him with valuable leadership experience.

ITEM 1 - CONTINUING DIRECTORS (continued)

Jeffrey M. Leiden, M.D., Ph.D.

Chairman, Chief Executive Officer and President

Age: 57

Director Since: 2009

Dr. Leiden has held the positions of Chief Executive Officer and President since February 2012 after joining us as CEO Designee in December 2011. He has been the Chairman of our Board of Directors since May 2012, and served as our lead independent director from October 2010 through December 2011. Dr. Leiden was a Managing Director at Clarus Ventures, a life sciences venture capital firm, from 2006 through January 2012. Dr. Leiden was President and Chief Operating Officer of Abbott Laboratories, Pharmaceuticals Products Group, and a member of the Board of Directors of Abbott Laboratories from 2001 to 2006. From 1987 to 2000, Dr. Leiden held several academic appointments, including the Rawson Professor of Medicine and Pathology and Chief of Cardiology and Director of the Cardiovascular Research Institute at the University of Chicago, the Elkan R. Blout Professor of Biological Sciences at the Harvard School of Public Health, and Professor of Medicine at Harvard Medical School. He is an elected member of both the American Academy of Arts and Sciences, and the Institute of Medicine of the National Academy of Sciences. Dr. Leiden is a senior advisor to Clarus Ventures. Dr. Leiden was a director and the non-executive Vice Chairman of the Board of Directors of Shire plc, a specialty biopharmaceutical company, from 2006 to January 2012, and was also a member of the Board of Directors of Millennium Pharmaceuticals, Inc. from October 2007 until it was acquired in June 2008. Dr. Leiden received his M.D., Ph.D. and B.A. degrees from the University of Chicago.

Skills and Qualifications: Dr. Leiden possesses strong leadership qualities, demonstrated through his service as an executive in the pharmaceutical industry and as a life sciences venture capitalist, and has extensive knowledge of the science underlying drug discovery and development through his experiences as a distinguished physician, scientist and teacher. He also provides our board with in-depth knowledge of our company through the day-to-day leadership of our executives.

Bruce I. Sachs

Co-lead Independent Director

Age: 53

Chair – Management Development and Compensation Committee

Director Since: 1998

Member – Audit and Finance Committee

Mr. Sachs is a General Partner at Charles River Ventures, a venture capital firm he joined in 1999. From 1998 to 1999, he served as Executive Vice President and General Manager of Ascend Communications, Inc. From 1997 until 1998, Mr. Sachs served as President and Chief Executive Officer of Stratus Computer, Inc. From 1995 to 1997, he served as Executive Vice President and General Manager of the Internet Telecom Business Group at Bay Networks, Inc. From 1993 to 1995, he served as President and Chief Executive Officer at Xylogics, Inc. Mr. Sachs was a director of BigBand Networks, Inc., a network-based platform company, from 2005 through June 2009.

Mr. Sachs holds a B.S.E.E. in electrical engineering from Bucknell University, an M.E.E. in electrical engineering from Cornell University and an M.B.A. from Northeastern University.

Skills and Qualifications: Our board believes that Mr. Sachs should serve as a director because of his strong business judgment and financial analytical skills, honed through his experience developing business strategy at a senior management level and his success in building companies and in venture capital. In addition, Mr. Sachs has extensive business leadership experience, including service as a CEO at a technology company, as well as financial expertise.

CORPORATE GOVERNANCE AND RISK MANAGEMENT

We are committed to good corporate governance and integrity in our business dealings. Our governance practices are documented in our Statement of Corporate Governance Principles, which addresses the role and composition of our board and the functioning of the board and its committees. You can find our governance documents, including our Statement of Corporate Governance Principles, charters for each committee of the board and our Code of Conduct, on our website www.vrtx.com under “Investors—Corporate Governance—Governance Documents.”

INDEPENDENCE, CHAIR AND CO-LEAD INDEPENDENT DIRECTORS

Our board has determined that seven of our ten directors qualify as “independent” under the definition of that term adopted by The Nasdaq Stock Market LLC. These directors are Dr. Altshuler, Mr. Kearney, Mr. Lee, Ms. McGlynn, Dr. Riley, Mr. Sachs and Ms. Ullian. Our independent directors generally meet in executive session at each regularly scheduled board meeting.

Dr. Leiden, our president and chief executive officer, serves as the chairman of our board. Our employment agreement with Dr. Leiden provides that he will serve as the chairman of our board through January 31, 2016. In addition, we have two co-lead independent directors who are elected by the independent directors. Each of the board committees (other than the science and technology committee) is chaired by one of our independent directors.

Our board believes that strong, independent board leadership is a critical aspect of effective corporate governance, and our corporate governance principles require that if the chair is not an independent director, that the independent directors elect a lead independent director. Since December 2011, Mr. Sachs and Ms. Ullian have served as our co-lead independent directors. We believe this structure provides our board independent leadership, while providing the benefit of having our chief executive officer, the individual with primary responsibility for managing our day-to-day operations, chair regular board meetings as we discuss key business and strategic issues. Combined with the co-lead independent directors and experienced and independent committee chairs, this structure provides strong independent oversight of management.

Our co-lead independent directors’ responsibilities include:

- calling and leading regular and special meetings of the independent directors;
- serving as a liaison between our executive leaders and the independent directors;
- reviewing the planned dates for regularly scheduled board meetings and the primary agenda items for each meeting; and
- reviewing with the chair of each board committee agenda items that fall within the scope of the responsibilities of that committee.

BOARD COMMITTEES

Our board has established various committees to assist in discharging its duties: the audit and finance committee, the corporate governance and nominating committee, the management development and compensation committee, or MDCC, and the science and technology committee. Each member of the audit and finance committee, corporate governance and nominating committee and MDCC is an independent director as that term is defined by the SEC and The Nasdaq Stock Market LLC. The primary responsibilities of each of the committees are set forth below, and the committee memberships are provided in the table appearing on page 18.

Each of the committees has the authority, as its members deem appropriate, to engage legal counsel or other experts or consultants in order to assist the committee in carrying out its responsibilities.

CORPORATE GOVERNANCE AND RISK MANAGEMENT (continued)

RISK MANAGEMENT

Our board of directors discharges its overall responsibility to oversee risk management with a focus on our most significant risks. We face considerable risk related to the commercialization of our approved products, including regulatory risk with respect to our promotional activities and competition from approved drugs and investigational drug candidates that may have product profiles superior to our approved products. We continue to invest significant resources in research programs and clinical development programs as part of our strategy to develop transformative medicines for patients with serious diseases. With respect to each of our drug development and commercialization programs, we face considerable risk that the program will not ultimately result in a commercially successful pharmaceutical product. Our board and its committees monitor and manage the strategic, compliance and operational risks related to INCIVEK (telaprevir) and KALYDECO (ivacaftor) and our research and development programs through regular board and committee discussions that include presentations to the board and its committees by our executive officers as well as during in-depth short- and long-term strategic reviews held at least annually.

For certain specific risk types, our board of directors has delegated oversight responsibility to board committees as follows:

Our audit and finance committee oversees our risk management programs and policies related to our financial and accounting systems, accounting policies and investment strategies, information technology systems and steps our management has taken to monitor, mitigate and report on those exposures. The audit and finance committee also is responsible for addressing risks arising from related party transactions.

Our MDCC oversees risks associated with our compensation policies, management resources and structure, succession planning, and management development and selection processes.

Our corporate governance and nominating committee oversees risks related to the company's governance structure and litigation exposure and reviews our enterprise risk management programs.

Our science and technology committee oversees risks related to our research and development investments.

CODE OF CONDUCT

We have adopted a Code of Conduct that applies to all of our directors and employees, including our chief executive officer and chief financial and accounting officers. Our Code of Conduct is available on our website www.vrtx.com under "Investors—Corporate Governance—Governance Documents." Disclosure regarding any amendments to, or waivers from, provisions of the Code of Conduct that apply to our directors or principal executive, financial or accounting officers will be posted on our website or included in a Current Report on Form 8-K within four business days following the date of the amendment or waiver.

CORPORATE GOVERNANCE AND RISK MANAGEMENT (continued)

BOARD ATTENDANCE, COMMITTEE MEETINGS AND COMMITTEE MEMBERSHIP

Director (1)	Independence Board	Audit and Finance	Corporate Governance and Nominating	Management and Development Compensation	Science and Technology	2012 Attendance at Meetings (2)
David Altshuler	X					100%
Joshua Boger					Chair	100%
Matthew W. Emmens						86%
Terrence C. Kearney	X	Chair				100%
Yuchun Lee	X					100%
Jeffrey M. Leiden		Chair				100%
Margaret G. McGlynn	X					93%
Wayne J. Riley	X					100%
Bruce I. Sachs	X	Co-lead		Chair		100%
Elaine S. Ullian	X	Co-lead	Chair			100%
2012 Meetings	7	8	4	7	4	

(1) Each of our directors is encouraged to attend each meeting of shareholders. Each of our directors who were then members of our board attended our 2012 annual meeting of shareholders.

(2) Includes meetings of the board of directors and meetings of each committee of the board of directors while the director served on such committee.

Audit and Finance Committee

The primary purposes of the audit and finance committee are to (i) appoint, oversee and replace, if necessary, our independent registered public accounting firm, (ii) assist our board in fulfilling its responsibility for oversight of our accounting and financial reporting processes; and (iii) review and make recommendations to our board concerning our financial structure and financing strategy.

Our independent registered public accounting firm reports directly to, and is held accountable by, our audit and finance committee in connection with the audit of our annual financial statements and related services.

Mr. Kearney, the chair of our audit and finance committee, is an “audit committee financial expert” as that term is defined in applicable regulations of the SEC.

The report of the audit and finance committee appears on page 31 of this proxy statement.

Our audit and finance committee reviews and, if appropriate, recommends for approval or ratification by our board of directors, all transactions with related persons that are required to be disclosed by us pursuant to Item 404(a) of Regulation S-K, except for transactions, if any, related to the employment of executive officers, which would be recommended for approval by the MDCC. Our policies and procedures with respect to transactions with related persons are governed by our written Related Party Transaction Policy. Pursuant to this policy, related party transactions include transactions, arrangements or relationships in which our company is a

participant, the amount involved exceeds \$120,000, and one of our executive officers, directors, director nominees or 5% shareholders or their immediate family members, who we refer to as related persons, has a direct or indirect material interest, except where disclosure of such transaction would not be required pursuant to Item 404(a) of Regulation S-K. As appropriate for the circumstances, our audit and finance committee will review and consider the related person’s interest in the related party transaction and such other factors as it deems appropriate. Since January 1, 2012, we have not entered into any transactions disclosable pursuant to Item 404(a) of Regulation S-K.

Corporate Governance and Nominating Committee

The corporate governance and nominating committee:

- assists our board of directors in developing and implementing our corporate governance principles;
- recommends the size and composition of our board and its committees;

- develops and recommends to our board an annual self-evaluation process to assess the effectiveness of our board and oversees this process;
- reviews and recommends director compensation;
- identifies qualified individuals to become members of our board; and
- recommends director nominations to the full board.

CORPORATE GOVERNANCE AND RISK MANAGEMENT (continued)

Management Development and Compensation Committee

The primary purposes of the MDCC are to oversee the discharge of our board's responsibilities relating to (i) compensation of our executives; (ii) review and approval of our benefit and equity compensation plans; and (iii) planning for the succession of our executives, including our chief executive officer.

The MDCC has the authority to delegate any of its responsibilities to individual members of the MDCC to the extent deemed appropriate by the MDCC in its sole discretion, but subject always to the general oversight of the board of directors.

See Compensation Discussion and Analysis—Detailed Discussion below for a discussion of the MDCC's role in overseeing executive compensation.

The report of the MDCC appears at page 48 of this proxy statement.

Compensation Committee Interlocks and Insider Participation. Mr. Kearney, Dr. Riley and Mr. Sachs served on the MDCC during 2012. Each member of the MDCC was an independent director while serving on the MDCC. No member of our board of directors who was a member of our MDCC at any time during 2012 has ever been one of our employees or officers. No member of our board of directors who was a member of our MDCC at any time during 2012 has ever been a party to a transaction required to be disclosed pursuant to Item 404(a) of Regulation S-K prior to becoming a member of our MDCC. During 2012, none of our executive officers served as a member of the board of directors or compensation committee of the board of directors, or performed the equivalent functions, of any entity that has one or more executive officers serving as a member of our board or the MDCC.

Science and Technology Committee

Our science and technology committee discharges our board's responsibilities relating to the oversight of our investment in pharmaceutical research and development. In furtherance of that oversight function, the science and technology committee:

- reviews and assesses our current and planned research and development programs and technology initiatives from a scientific perspective;
- assesses the capabilities of our key scientific personnel and the depth and breadth of our scientific resources;
- provides strategic advice to our board regarding emerging science and technology issues and trends; and
- periodically reviews our patent portfolio and strategy.

DIRECTOR COMPENSATION

We have designed and implemented our compensation program for our non-employee directors to attract, motivate and retain individuals who are committed to our values and goals and who have the expertise and experience that we need to achieve those goals.

Compensation Program

Our compensation program for our non-employee directors is set forth in the following table:

Compensation Element

Cash

Annual Cash Retainer	\$50,000
Annual Committee Chair Retainer	
Audit and Finance Committee	\$25,000
Corporate Governance and Nominating Committee	\$20,000
Management Development and Compensation Committee	\$20,000
Science and Technology Committee	\$12,500
Annual Committee Retainer (non-Chair)	\$5,000
Annual Lead Independent Director Retainer (for each Co-lead)	\$25,000

Equity

Initial Equity Grant	Option to purchase 30,000 shares of common stock. These options vests quarterly over a four-year period from the date of grant.
Annual Equity Retainer	Option to purchase 20,000 shares of common stock granted on June 1 of each year. These options are fully-vested upon the date of grant.
Co-lead Independent Director Annual Grant	Option to purchase 2,500 shares of common stock granted on June 1 of each year. These options are fully-vested upon the date of grant.

We periodically review and may adjust our non-employee director compensation program in the future.

Non-Employee Director Compensation and Equity Information

The following tables provide summary information regarding our non-employee directors. Additional information regarding Mr. Emmens, who was an employee until May 22, 2012 and is a named executive officer, is provided in the Compensation and Equity Tables beginning on page 49.

Summary 2012 Compensation

Director	Fees Earned or Paid in Cash	Option Awards (1)	Total
David Altshuler (initially elected May 24, 2012)	\$29,167	\$1,398,874	\$1,428,041
Joshua Boger	\$62,500	\$540,016	\$602,516
Terrence C. Kearney	\$71,667	\$540,016	\$611,683
Yuchun Lee (initially elected September 14, 2012)	\$16,667	\$763,629	\$780,296
Margaret G. McGlynn	\$60,000	\$540,016	\$600,016
Wayne J. Riley	\$65,000	\$540,016	\$605,016
Bruce I. Sachs	\$100,000	\$607,518	\$707,518
Elaine S. Ullian	\$100,000	\$607,518	\$707,518
Dennis Winger (retired May 16, 2012)	\$31,250	\$—	\$31,250

(1) The amounts set forth under the caption "Option Awards" in the table above represent the grant-date fair value for financial statement reporting purposes of the equity awards granted during 2012. Our methodology, including underlying estimates and assumptions, for calculating these values is set forth in Note M to our consolidated financial statements included in our 2012 Annual Report on Form 10-K, filed with the SEC on March 1, 2013.

DIRECTOR COMPENSATION (continued)

2012 Equity Grants

Option Grant	Date	Shares	Exercise Price	Grant-Date Fair Value
Annual Non-employee Director Grant	June 1, 2012	20,000	\$59.55	\$540,016
Annual Grant to Co-lead Independent Director	June 1, 2012	2,500	\$59.55	\$67,502
Initial Grant – David Altshuler	May 24, 2012	30,000	\$63.14	\$858,858
Initial Grant – Yuchun Lee	September 14, 2012	30,000	\$57.27	\$763,629

Outstanding Equity

As of December 31, 2012, our non-employee directors had outstanding stock options to purchase our common stock as follows:

Director	Exercisable Options	Total Outstanding Options
David Altshuler	23,750	50,000
Joshua Boger	1,787,139	1,787,139
Matthew W. Emmens	1,118,812	1,721,000
Terrence C. Kearney	51,250	70,000
Yuchun Lee	1,875	30,000
Margaret G. McGlynn	51,250	70,000
Wayne J. Riley	56,875	70,000
Bruce I. Sachs	142,500	142,500
Elaine S. Ullian	122,500	122,500

As of December 31, 2012, Mr. Emmens held 47,201 shares of unvested restricted stock.

ITEM 2 - APPROVAL OF 2013 STOCK AND OPTION PLAN

Our board of directors believes that our broad-based equity compensation program is essential to attract, retain and motivate people with the necessary talent and experience and to provide additional incentive to achieve our short- and long-term business objectives. We are requesting that our shareholders approve our 2013 Stock and Option Plan. In March 2013, our board approved our new 2013 Stock and Option Plan, or 2013 Plan, subject to shareholder approval. The 2013 Plan authorizes the issuance of up to 3,300,000 “fungible” shares of our common stock, with grants of full value awards, such as restricted stock or other stock grants, counting as 1.66 shares against the total authorized shares. We are adopting this fungible share plan to provide greater flexibility in the types of awards we grant under our equity compensation program, in connection with planned changes to the mix of award types. The planned changes are designed to reduce dilution from our employee equity awards while maintaining a broad-based equity program (as discussed below). We believe that our equity compensation program has been fundamental to our success over the last several years and that the adoption of the 2013 Plan, including the authorization of the shares subject to the 2013 Plan, is necessary in order to support our equity compensation program going forward.

Key Provisions of our 2013 Plan

The 2013 Plan includes a number of provisions designed to serve shareholders' interests and facilitate effective corporate governance, including the following:

Fungible Shares: Options and other awards granted at a purchase price of 100% of the fair market value of a share of our common stock on the date of grant will count against the number of shares authorized under our 2013 Plan at a rate of one share for each share granted. Any restricted stock, restricted stock units or other awards granted under the 2013 Plan at a purchase price less than 100% of the fair market value of a share of our common stock on the date of grant will count against the number of shares authorized for issuance under our 2013 Plan at a rate of 1.66 shares for each share granted.

No Stock Option Re-pricing/Exchange: Except in connection with specific corporate transactions (including stock dividends, stock splits, consolidations, mergers, recapitalizations and reorganizations), the 2013 Plan does not permit (1) the amendment of stock options or stock appreciation rights granted under the 2013 Plan to provide an exercise price that is lower than the then-current price per share of such outstanding option or stock appreciation right, (2) the cancellation of any outstanding option or stock appreciation right (whether or not granted under the 2013 Plan) and the grant in substitution therefor of any award under the 2013 Plan covering the same or a different number of shares of common stock and having an exercise price per share lower than the then-current exercise price per share of the cancelled option or stock appreciation right or (3) the cancellation in exchange for a cash payment of any outstanding option or stock appreciation right with an exercise price per share above the then-current fair market value of our common stock without shareholder approval.

No Discounted Stock Options: Stock options will not be granted with an exercise price less than the fair market value on the date of grant.

No “Evergreen” Provision: The 2013 Plan does not contain an “evergreen” or similar provision. The 2013 Plan fixes the number of shares available for future grants and does not provide for any increase based on increases in the number of outstanding shares of common stock.

No Reload Rights: Stock options granted under the 2013 Plan do not contain provisions entitling participants to automatic grants of additional stock options in connection with the exercise of the original option.

Limitation on Re-use of Shares: Shares that are delivered to, or withheld by, the company under an award may not be reissued under the 2013 Plan. Shares may be delivered or withheld in connection with the exercise of stock options or the payment of required withholding taxes.

Independent Committee: As it relates to our employees, the 2013 Plan is governed by the MDCC, which consists of “outside directors” within the meaning of Section 162(m) of the Code, “non-employee directors” within the meaning of Rule 16b-3 of the Exchange Act and “independent directors” as defined by The Nasdaq Stock Market LLC.

ITEM 2 - APPROVAL OF 2013 STOCK AND OPTION PLAN (continued)

Broad-Based Equity Compensation Program

Since our inception, we have compensated all eligible employees using a mix of cash and equity. Our broad-based equity program has allowed us to conserve our cash resources while motivating our employees to act in the company's and our shareholders' interests. The broad-based nature of our equity compensation program is an important element of our overall employee compensation program and reflects our philosophy that it is important for all of our employees to approach their jobs with a long-term perspective. Our 2013 Plan, if approved, will provide opportunities for ownership of shares of our common stock through stock option grants, restricted stock grants and other stock-based awards to employees that in each case vest over time or on the basis of the achievement of performance objectives. Our equity compensation program rewards both past and future performance. The number of shares each employee is awarded on an annual basis is based on the employee's performance rating for the prior year, with higher performance levels rewarded with more shares. The future value of stock options is performance-based because it is tied directly to stock price increases over time, such that stock options have value only if the stock price increases. Similarly, the value of restricted stock is tied directly to the price of our stock over time.

Historically, we have provided incentive compensation to our executives weighted more heavily toward equity than cash relative to our peers, with the equity component weighted more heavily toward options than restricted shares. For example, generally our named executive officers receive more than 75% of their incentive compensation in the form of equity compensation and less than 25% of their incentive compensation in the form of annual cash bonus and, for 2012 performance, each of our executive vice presidents received options to purchase 90,625 shares and 12,084 shares of restricted stock. In recent years, as we have become a commercial company with two approved pharmaceutical products, we have seen both a significant increase in the number of employees eligible to participate in our equity compensation program and an increase in our cash resources as we have generated product revenues for the first time. In consideration of our increased ability to fund cash compensation, together with our goal of reducing dilution, and guided by market-data regarding compensation programs of similar companies in our industry, our board of directors has modified the 2013 target compensation to re-balance the mix of cash and equity and to weight the equity component more toward restricted stock awards, which provide higher value for a lower number of shares. For example, for a senior vice president who is an executive officer the target cash bonus has been increased from 35% of base salary for 2012 to 45% of base salary for 2013, and the equity compensation targets for a "strong" rating have been changed from a grant of options to purchase 61,000 shares and a grant of 8,133 shares of restricted stock for 2012 to a grant of options to purchase 55,000 shares and a grant of 9,500 shares of restricted stock for 2013, a net decrease of 4,633 total shares.

The following table sets forth the actual options to purchase common stock and shares of restricted stock and restricted stock units that we issued pursuant to our annual equity compensation program for the 2012 performance period, and the estimated number of options to purchase common stock and shares of restricted stock and restricted stock units that we would have issued if the 2013 equity compensation amounts had been awarded for the 2012 performance period:

	Actual Equity Awards Pursuant to 2012 Annual Equity Compensation Program	Pro Forma Assuming Modified Compensation Program had been Implemented for 2012 Performance Period	% Change
Stock Options	5,160,464	3,000,000	(42)%
Restricted Stock and Restricted Stock Units	1,025,411	1,400,000	37%
Total Shares Subject to Equity Awards	6,185,875	4,400,000	(29)%

Existing Plans

As of March 11, 2013, options to purchase an aggregate of 20,784,302 shares having a weighted-average exercise price of \$39.94 and a weighted-average term before expiration of 7.73 years were outstanding under our Amended and Restated 2006 Stock and Option Plan, or 2006 Plan, and options to purchase an aggregate of 1,442,403 shares having a weighted-average exercise price of \$27.52 and a weighted-average term before expiration of 2.46 years were outstanding under our 1996 Stock and Option Plan. Also on March 11, 2013, there were outstanding an aggregate of

2,704,277 unvested shares of restricted stock and restricted stock units granted under our 2006 Plan. We may issue additional awards under our 2006 Plan. As of March 11, 2013, there were 2,209,232 shares remaining available for award under our 2006 Plan, of which 1,500,713 shares were available for issuance as restricted stock and/or restricted stock units and 708,519 shares were only

ITEM 2 - APPROVAL OF 2013 STOCK AND OPTION PLAN (continued)

available for issuance as stock options with an exercise price greater than or equal to the fair market value of our common stock on the date of grant. No additional awards may be granted under our 1996 Stock and Option Plan.

Submission of 2013 Plan

We are submitting the 2013 Plan to our shareholders as required under applicable rules of The Nasdaq Stock Market LLC and to ensure (i) favorable federal income tax treatment under Section 422 of the Internal Revenue Code of 1986, as amended, or the Code, for any grants of incentive stock options that we may make under our 2013 Plan and (ii) continued eligibility under Rule 162(m) of the Code to receive a federal income tax deduction with respect to compensation earned upon exercise of options under our 2013 Plan.

SUMMARY OF 2013 STOCK AND OPTION PLAN

A summary of the principal features of our 2013 Plan is set forth below. A copy of our 2013 Plan, which would become effective upon shareholder approval of this proposal, is attached to this proxy statement as Appendix A.

Administration by the MDCC and Eligibility for Participation

The 2013 Plan is administered by our board of directors or any committee to which it delegates all or a part of its administrative responsibilities under the 2013 Plan. Our board of directors has delegated the administration of the 2013 Plan to the MDCC. Subject to the provisions of the 2013 Plan, the MDCC has the authority to determine the persons to whom awards under the 2013 Plan will be granted, the number of shares to be covered by each award, the exercise price per share and the manner of exercise, and the terms and conditions upon which awards are granted, to accelerate the vesting or extend the date of exercise of any installment of any award, and to interpret the provisions of the 2013 Plan. Awards may be granted under the 2013 Plan to our employees, including officers and directors who are employees, and to our consultants, advisors and non-employee directors. As of March 11, 2013, we and our subsidiaries had approximately 2,200 employees and nine non-employee directors eligible to participate in the 2013 Plan. The number of consultants and advisors eligible for awards under our 2013 Plan varies from time to time. No participant may be granted awards in any calendar year for more than 1,000,000 shares, subject to adjustment for stock splits and similar recapitalizations.

Description of Awards

The 2013 Plan provides for the award of stock options, stock grants, and other stock-based awards. Any restricted stock grants, restricted stock units or other awards granted under the 2013 Plan at a purchase price less than 100% of the fair market value of a share of our common stock on the date of grant will count against the number of shares authorized for issuance under the 2013 Plan at a rate of 1.66 shares for each share granted. Shares of common stock reserved for awards granted under the 2013 Plan that lapse or are canceled or forfeited are added back to the share reserve available for future award with restricted stock grants, restricted stock units or other awards granted under the 2013 Plan at a purchase price less than 100% of the fair market value of a share of our common stock on the date of grant added back to the share reserve at a rate of 1.66 shares for each share that lapses or is canceled or forfeited. If we were to permit shares of common stock to be delivered to us to pay the exercise price of a stock option or withheld to fund the payment of taxes, those shares would not be added back to the share reserve available for future awards.

Stock Options

Stock options granted under the 2013 Plan may be awarded as either incentive stock options within the meaning of Section 422 of the Code, referred to as ISOs, or as non-qualified options. In 2012, all of the options we granted were non-qualified options. Stock options provide award recipients with the right, subject to the terms and conditions that are specified in connection with the option grant, to purchase a specified number of shares of our common stock at a specified exercise price. Only our employees are eligible to receive ISOs. The maximum value of shares of common stock—determined at the time of grant—that may be subject to ISOs that become exercisable by an employee in any one year is limited to \$100,000.

Stock options granted under the 2013 Plan may not be granted with an exercise price that is less than the fair market value of our common stock on the date of grant, which is defined under the 2013 Plan as the average of the highest and lowest quoted selling prices on such date. ISOs may not be granted with an exercise price that is less than 110% of fair market value in the case of employees or officers holding 10% or more of our voting stock. ISOs granted under the 2013 Plan must expire not more than ten years from the date of grant, and not more than five years from the date of grant in the case of ISOs granted to an employee or officer holding 10% or more of our voting stock.

ITEM 2 - APPROVAL OF 2013 STOCK AND OPTION PLAN (continued)

Stock options granted under the 2013 Plan can only be exercised by the optionholder and are not transferable except by the laws of descent and distribution or pursuant to qualified domestic relations orders or Title I of the Employee Retirement Income Security Act or as otherwise determined by the MDCC provided such transfer is not for value. The 2013 Plan provides specifically for stock option grants to non-employee directors under our director compensation program. Each non-employee director serving in office on June 1 of any year is granted a fully vested non-qualified option to purchase a specified number of shares determined from time to time by our board of directors. Currently, each non-employee director receives an option to purchase 20,000 shares of our common stock on June 1. The chair of our board, if the chair is an independent director, or the lead independent director(s), if the chair is not an independent director, receive(s) an additional option grant on June 1 of each year, in each case at an exercise price equal to 100% of the fair market value per share of our common stock on the date of grant. Currently, the additional option grant to each co-lead independent director is for 2,500 shares of our common stock. The option grants to our non-employee directors, including the grants to the co-lead independent directors, are fully vested non-qualified options and have a term of ten years.

The 2013 Plan permits the MDCC to determine the manner of payment of the exercise price of options. Such methods include payment by cash or check, or, at the discretion of the MDCC, by means of a broker assisted "cashless exercise," delivery to us of shares of our common stock, any combination of such methods or any other lawful means approved by the MDCC, other than delivery of a promissory note.

Stock Grants

A stock grant is an award of shares of common stock. Stock grants may be issued subject to restrictions on transfer and vesting requirements, as determined by the MDCC. Vesting requirements may take the form of our lapsing right to repurchase the stock from the award recipient, based on either continued employment for specified time periods or on the attainment of specified business performance goals set by our board of directors or the MDCC. Subject to the transfer restrictions and our repurchase rights, if any, the grantee will have all rights with respect to unvested shares of common stock issued under a stock grant as are possessed by our other shareholders, including all voting and dividend rights, provided that dividends, if any, with respect to unvested shares shall accrue and be payable only upon the vesting of such shares.

Stock-Based Awards

The 2013 Plan provides that the MDCC may grant other stock-based awards, including share grants based upon specified conditions, the grant of securities convertible into shares, or the grant of stock appreciation rights, phantom stock awards or stock units, in each case upon terms and conditions established by the MDCC.

Performance Awards

Under the 2013 Plan, we will have the discretionary authority to structure one or more awards so that the shares of common stock subject to those particular awards will not vest unless certain pre-established objective performance goals are achieved, in order to qualify such awards as performance-based compensation that will not be subject to the \$1,000,000 limitation imposed by Section 162(m) of the Code on the income tax deductibility of the compensation paid to specified executive officers. Such objective goals may be based on one or more of the following criteria: (i) revenue targets or revenue growth; (ii) achievement of specified milestones in the discovery, development or regulatory approval of one or more of our drug candidates; (iii) achievement of specified milestones in the commercialization of one or more of our products; (iv) achievement of specified milestones in the manufacturing of one or more of our products; (v) cost reduction or other expense control targets; (vi) personal management objectives; (vii) stock price (including, but not limited to, growth measures); (viii) total shareholder return; (ix) income per share; (x) operating efficiency measures; (xi) operating margin; (xii) gross margin; (xiii) return measures (including, but not limited to, return on assets, capital, equity or sales); (xiv) net or total revenue levels; (xv) productivity ratios; (xvi) operating income; (xvii) net operating profit; (xviii) net earnings or net income (before or after taxes); (xix) cash flow (including, but not limited to, operating cash flow, free cash flow and cash flow return on capital); (xx) earnings or operating income before interest, taxes, depreciation, amortization and/or stock-based compensation expense; (xxi) mergers, acquisitions or divestitures objectives (xxii) market share; (xxiii) customer satisfaction; (xxiv) working capital targets; (xxv) budget objectives and (xxvi) achievement of other balance sheet or statements of operations objectives.

Each financial measure may be determined pursuant to generally accepted accounting principles (GAAP) or on a non-GAAP basis. Such goals may reflect absolute entity or business unit performance or a relative comparison to the performance of a

ITEM 2 - APPROVAL OF 2013 STOCK AND OPTION PLAN (continued)

peer group of entities, or other external measure of the selected performance criteria, and may be absolute in their terms or measured against or in relationship to other companies comparably, similarly or otherwise situated. Such performance measures: (1) may vary by participant and may be different for different awards; (2) may be particular to a participant or the department, branch, line of business, subsidiary or other unit in which the participant works and may cover such period as may be specified by us; and (3) shall be set within the time period prescribed by, and shall otherwise comply with the requirements of, Section 162(m) of the Code.

We may specify that such performance measures shall be adjusted to exclude or provide for appropriate adjustment for one or more of the following items: (A) asset impairments or write-downs; (B) litigation and governmental investigation expenses and judgments, verdicts or claim settlements; (C) the effect of changes in tax law, accounting principles or other laws, regulations or provisions affecting reported results; (D) the effect of exchange rates for non-US dollar denominated net sales or goals based on operating profit, earnings or income; (E) accruals for reorganization and restructuring programs; (F) any non-GAAP adjustments as described in our earnings releases or in the management's discussion and analysis of financial condition and results of operations appearing in our periodic reports; (G) items of income, gain, loss or expense attributable to the operations of any business acquired by us, any parent or subsidiary or of any joint venture established by us or any parent or subsidiary; (H) costs and expenses incurred in connection with mergers and acquisitions; (I) items of income, gain, loss or expense attributable to one or more business operations divested by us, or any parent or subsidiary or the gain or loss realized upon the sale of any such divested business or the assets thereof; or (J) the effect of any change in the outstanding shares of common stock effected by reason of a stock split, stock dividend, stock repurchase, reorganization, recapitalization, merger, consolidation, spin-off, combination or exchange of shares or other similar corporate change or any distributions to our shareholders other than regular cash dividends.

Notwithstanding any provision of the 2013 Plan, with respect to any award that is intended to qualify as performance-based compensation, we may adjust downwards, but not upwards, the number of shares payable pursuant to such award, and we may not waive the achievement of the applicable performance measures except in the case of the death or disability of the participant or a change in control of our company.

We shall have the power to impose such other restrictions on performance awards as we may deem necessary or appropriate to ensure that such awards satisfy all requirements for performance-based compensation.

Adjustments in the Event of Stock Dividends, Stock Splits, Recapitalizations or Reorganizations

The number of shares subject to stock rights and other terms applicable to such rights will be equitably adjusted if we issue a stock dividend, or in the event of a stock split, recapitalization or reorganization. In addition, in the event of certain consolidations or acquisitions or a sale of substantially all of our assets, either (i) the MDCC or the entity assuming our obligations under the 2013 Plan shall make appropriate provision for the continuation of all outstanding stock rights under the 2013 Plan or grant replacement stock rights on an equitable basis as determined by the MDCC or the relevant entity, or (ii) the vesting of all outstanding and unvested stock rights under the 2013 Plan will be accelerated and such stock rights will become fully exercisable immediately prior to such consolidation, acquisition or sale.

Effective Date, Amendment and Expiration

The 2013 Plan will be effective, subject to shareholder approval, on May 8, 2013 and will terminate on May 7, 2023. Our board of directors may terminate or amend the 2013 Plan at any time, subject to shareholder approval under certain circumstances as provided in the 2013 Plan. No amendment or termination of the 2013 Plan will adversely affect the rights provided in any award made under the 2013 Plan prior to the plan amendment or termination. Neither our board of directors nor the MDCC has the authority to reduce the exercise price of any stock option after the date of grant, except in the case of an equitable adjustment required under the 2013 Plan. No award may be made under the 2013 Plan after the plan expiration date. Awards made prior to expiration of the 2013 Plan may extend beyond the plan expiration date.

U.S. Federal Income Tax Consequences

The discussion of federal income tax consequences that follows is based on an analysis of the Code as currently in effect, existing law, judicial decisions and administrative regulations and rulings, all of which are subject to change, and is applicable to optionees who are U.S. taxpayers.

Non-Qualified Options. Options that are designated as non-qualified options are not intended to qualify for treatment under Section 422 of the Code. Options otherwise qualifying as ISOs, to the extent the aggregate fair market value of shares with

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ITEM 2 - APPROVAL OF 2013 STOCK AND OPTION PLAN (continued)

respect to which such options are first exercisable by an individual in any calendar year exceeds \$100,000, also will be treated as options that are not ISOs.

A non-qualified option ordinarily will not result in income to the optionee or a deduction for us for tax purposes at the time of grant. Instead, the optionee will recognize compensation income at the time of exercise of a non-qualified option in an amount equal to the excess of the fair market value of the shares at the time of exercise over the option exercise price. Any compensation income may be subject to withholding taxes, and a deduction may then be allowable to us in an amount equal to the optionee's compensation income.

An optionee's initial basis in shares so acquired will be the amount paid on exercise of the non-qualified option plus the amount of any corresponding compensation income. Any gain or loss as a result of a subsequent disposition of the shares so acquired will be capital gain or loss.

Incentive Stock Options. ISOs are intended to qualify for treatment under Section 422 of the Code. An ISO does not result in taxable income to the optionee or a deduction for us at the time it is granted or exercised, provided that the optionee does not dispose of the shares acquired pursuant to the option either within two years after the date of grant of the option or within one year after the shares are issued, referred to as the ISO holding period. However, the difference between the fair market value of the shares on the date of exercise and the option exercise price will be an item of tax preference that is included in alternative minimum taxable income. Upon disposition of the shares after the expiration of the ISO holding period, the optionee generally will recognize long-term capital gain or loss based on the difference between the disposition proceeds and the option exercise price paid for the shares. If the shares are disposed of prior to the expiration of the ISO holding period, the optionee generally will recognize taxable compensation, and we will have a corresponding deduction, in the year of the disposition, equal to the excess of the fair market value of the shares on the date of exercise of the option over the option exercise price. Any additional gain realized on the disposition normally will constitute capital gain. If the amount realized upon such a disqualifying disposition is less than fair market value of the shares on the date of exercise, the amount of compensation income will be limited to the excess of the amount realized over the optionee's adjusted basis in the shares.

Stock Grants. With respect to stock grants that result in the issuance of shares that are either not restricted as to transferability or not subject to a substantial risk of forfeiture, the grantee must generally recognize ordinary income equal to the fair market value of shares received. Thus, deferral of the time of issuance generally will result in the deferral of the time the grantee will be liable for income taxes with respect to such issuance. We generally will be entitled to a deduction in an amount equal to the ordinary income recognized by the grantee.

With respect to stock grants involving the issuance of shares that are restricted as to transferability and subject to a substantial risk of forfeiture, the grantee generally must recognize ordinary income equal to the fair market value of the shares received at the time the shares become transferable or are not subject to a substantial risk of forfeiture, whichever occurs earlier. A grantee may elect to be taxed at the time of receipt of shares rather than upon lapse of restrictions on transferability or substantial risk of forfeiture, but if the grantee subsequently forfeits such shares, the grantee would not be entitled to any tax deduction, including as a capital loss, for the value of the shares on which the grantee previously paid tax. The grantee must file any such election with the Internal Revenue Service within 30 days of the receipt of the shares. We generally will be entitled to a deduction in an amount equal to the ordinary income recognized by the grantee.

New Plan Benefits

Amounts of future grants under the 2013 Plan are not currently determinable because awards under the 2013 Plan will be granted at the sole discretion of the MDCC, or other delegated persons, and we cannot determine at this time either the persons who will receive future awards under the 2013 Plan or the amount or types of any such awards.

OUR BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE APPROVAL OF OUR 2013 STOCK AND OPTION PLAN, WHICH AUTHORIZES THE ISSUANCE OF 3,300,000 SHARES OF COMMON STOCK. THE AFFIRMATIVE VOTE BY THE HOLDERS OF A MAJORITY OF THE VOTES CAST IN PERSON OR BY PROXY ON THIS MATTER IS REQUIRED FOR THE APPROVAL OF THIS PROPOSAL.

ITEM 2 - APPROVAL OF 2013 STOCK AND OPTION PLAN (continued)

EQUITY COMPENSATION PLAN INFORMATION

The following table provides aggregate information with respect to all of our equity compensation plans in effect as of December 31, 2012. We are required under applicable SEC rules to disclose in this table the number of shares remaining available for issuance under our 2006 Plan as of December 31, 2012. Accordingly, the figures in the table below do not reflect the equity grants made to our employees under the 2006 Plan since December 31, 2012. As of March 11, 2013, there were 2,209,232 shares remaining available for award under our 2006 Plan.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options	Weighted-Average Exercise Price of Outstanding Options	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding securities reflected in first column)
Equity Compensation Plans Approved by Shareholders (1)	19,357,066	\$38.62	8,032,168
Equity Compensation Plans Not Approved by Shareholders (2)	368,788	\$10.75	0
Total	19,725,854	\$38.09	8,032,168

(1) These plans consist of our 2006 Plan and our Employee Stock Purchase Plan, and awards granted under our 1996 Stock and Option Plan for which we obtained shareholder approval.

(2) This category consists of certain options issued under our 1996 Stock and Option Plan for which we were not required to and did not obtain shareholder approval.

Please refer to Note L, "Common Stock, Preferred Stock and Equity Plans," to the consolidated financial statements included in our 2012 Annual Report on Form 10-K, filed with the SEC on March 1, 2013, for a description of the material features of the 1996 Stock and Option Plan.

ITEM 3 - RATIFICATION OF THE APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

ENGAGEMENT OF ERNST & YOUNG LLP

Ernst & Young LLP has been our independent registered public accounting firm since 2005. A new lead audit partner is designated at least every five years to provide a fresh perspective and a new lead audit partner was designated for the 2010 audit.

In determining whether to reappoint our independent registered public accounting firm, our audit and finance committee considers the quality of its discussions with and the performance of the lead audit partner, the audit team assigned to our account and the overall strength and reputation of the firm.

Representatives of Ernst & Young LLP are expected to attend the annual meeting, will have the opportunity to make a statement if they desire to do so and will be available to respond to appropriate questions from shareholders.

EFFECT OF VOTE

We are not required to have shareholders ratify the selection of Ernst & Young LLP. If our shareholders do not ratify the selection, our audit and finance committee will reconsider the selection of Ernst & Young LLP for the ensuing fiscal year, but may determine that continued retention of Ernst & Young LLP is in our company's and our shareholders' best interests. Even if the appointment is ratified, the audit and finance committee, in its discretion, may direct the appointment of a different independent registered public accounting firm at any time during the year if it determines that such a change would be in our company's and our shareholders' best interests.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FEES

The following is a summary and description of fees for services provided by Ernst & Young LLP in 2012 and 2011.

Service	2012	2011
Audit fees	\$1,360,000	\$1,512,927
Audit-related fees	241,565	632,354
Tax fees	1,251,564	966,903
All other fees	1,995	1,995
Total	\$2,855,124	\$3,114,179

"Audit fees" represented the aggregate fees for professional services rendered for the audit of our annual consolidated financial statements, and our internal controls over financial reporting, for the reviews of the consolidated financial statements included in our Form 10-Q filings for each fiscal quarter, for statutory audits of our international operations and providing consents with respect to registration statements.

"Audit-related fees" consisted principally of fees for accounting consultations.

"Tax fees" consisted of fees related to tax compliance, worldwide tax planning and tax advice.

"All other fees" consisted of licensing fees paid to Ernst & Young LLP for access to its proprietary accounting research database.

OUR BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR RATIFICATION OF THE APPOINTMENT OF ERNST & YOUNG LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE YEAR ENDING DECEMBER 31, 2013. THE AFFIRMATIVE VOTE BY THE HOLDERS OF A MAJORITY OF THE VOTES CAST IN PERSON OR BY PROXY ON THIS MATTER IS REQUIRED FOR THE APPROVAL OF THIS PROPOSAL.

ITEM 3 - RATIFICATION OF THE APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM (continued)

AUDIT AND FINANCE COMMITTEE PRE-APPROVAL POLICIES AND PROCEDURES

Our audit and finance committee has established a policy to pre-approve all audit and permissible non-audit services provided by our independent registered public accounting firm. Prior to the engagement of the firm for each year's audit, management submits to our audit and finance committee for approval a description of services expected to be rendered during that year for each of the following four categories of services and a budget for those services in the aggregate.

Audit services include audit work performed in the preparation of financial statements, as well as work that generally only our independent registered public accounting firm can reasonably be expected to provide, including comfort letters, statutory audits, consents and attestation services.

Audit-related services are for assurance and related services that traditionally are performed by the independent registered public accounting firm, including due diligence related to mergers and acquisitions, employee benefit plan audits, special procedures required to meet certain regulatory requirements and consultation regarding financial accounting and/or reporting standards.

Tax services include all services performed by the independent registered public accounting firm's tax personnel except those services specifically related to the audit of our financial statements, and include fees in

the areas of tax compliance, tax planning and tax advice.

All other fees are those associated with services not captured in the three preceding categories.

Prior to the engagement of our independent registered public accounting firm, our audit and finance committee pre-approves these services by category of service. The fees are budgeted and our audit and finance committee requires the independent registered public accounting firm and management to report actual fees versus the budget periodically throughout the year by category of service. During the year, circumstances may arise when it may become necessary to engage the independent registered public accounting firm for additional services not contemplated in the original pre-approval. In those instances, our audit and finance committee requires that we obtain its specific pre-approval for these services.

The audit and finance committee may delegate pre-approval authority to one or more of its members. The member to whom such authority is delegated must report any pre-approval decisions to our audit and finance committee at its next scheduled meeting.

All of the services set forth above in the categories "audit-related fees," "tax fees" and "all other fees" were pre-approved and none were approved by our audit and finance committee pursuant to Rule 2-01(c)(7)(i)(C), which relates to the approval of a de minimis amount of non-audit services after the fact but before completion of the audit.

AUDIT AND FINANCE COMMITTEE REPORT

The Audit and Finance Committee of the Board of Directors (the “Audit Committee”) of Vertex Pharmaceuticals Incorporated (the “Company”), which consists entirely of directors who meet the independence and experience requirements of the Securities and Exchange Commission and The Nasdaq Stock Market LLC, has furnished the following report:

The Audit Committee assists the Company’s Board of Directors in overseeing and monitoring the integrity of the Company’s financial reporting process, compliance with legal and regulatory requirements related to financial reporting and the quality of internal controls and external audit processes. The Audit Committee’s roles and responsibilities are set forth in a written charter, which is available on the Company’s website www.vrtx.com under “Investors—Corporate Governance—Governance Documents.” Among its duties, the Audit Committee is responsible for recommending to the Company’s Board of Directors that the Company’s financial statements be included in the Company’s Annual Report on Form 10-K. As a basis for that recommendation, the Audit Committee engaged in the following activities. First, the Audit Committee discussed with Ernst & Young LLP (“Ernst & Young”), the Company’s independent registered public accounting firm for 2012, those matters that Ernst & Young is required to communicate to and discuss with the Audit Committee by the Public Company Accounting Oversight Board (United States) Auditing Standard AU Section 380 (The Auditor’s Communication With Those Charged With Governance), which included information regarding the scope and results of the audit. These communications and discussions are intended to assist the Audit Committee in overseeing the financial reporting and disclosure process. Second, the Audit Committee discussed with Ernst & Young the firm’s independence, and received from Ernst & Young the written disclosures and the letter concerning independence as required by Public Company Accounting Oversight Board Ethics and Independence Rule 3526 (Communication with Audit Committees Concerning Independence). This discussion and disclosure informed the Audit Committee of Ernst & Young’s relationships with the Company and was designed to assist the Audit Committee in considering Ernst & Young’s independence. Finally, the Audit Committee reviewed and discussed, with Ernst & Young and with the Company’s management, the Company’s audited consolidated balance sheet at December 31, 2012, and the Company’s consolidated statements of operations, comprehensive income (loss), shareholders’ equity and noncontrolling interest, and cash flows for the year ended December 31, 2012, including the notes thereto.

Management of the Company is responsible for the consolidated financial statements and reporting process, including establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)); establishing and maintaining internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)); evaluating the effectiveness of disclosure controls and procedures; evaluating the effectiveness of internal control over financial reporting; and evaluating any change in internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, internal control over financial reporting. The independent registered public accounting firm is responsible for expressing an opinion on the conformity of these consolidated financial statements with accounting principles generally accepted in the United States, as well as expressing an opinion on the effectiveness of internal control over financial reporting.

During 2012, management tested and evaluated the Company’s system of internal control over financial reporting in response to the requirements set forth in Section 404 of the Sarbanes-Oxley Act of 2002 and related regulations. At the conclusion of the process, management provided the Audit Committee with a report on the effectiveness of the Company’s internal control over financial reporting, which the Audit Committee reviewed. The Audit Committee also reviewed the report of management contained in the Company’s Annual Report on Form 10-K for the year ended December 31, 2012 filed with the Securities and Exchange Commission, as well as Ernst & Young’s Reports of Independent Registered Public Accounting Firm included in the Company’s Annual Report on Form 10-K. The latter reports relate to Ernst & Young’s audit of (i) the consolidated financial statements and (ii) the effectiveness of internal control over financial reporting.

Based on (i) discussions with Ernst & Young concerning the audit and the consolidated financial statements, (ii) the independence discussions, (iii) discussions with the Company’s management concerning the consolidated financial statements, and (iv) such other matters deemed relevant and appropriate by the Audit Committee, the Audit Committee recommended to the Company’s Board of Directors that the consolidated financial statements be included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2012. This report is provided by the

following independent directors, who comprise the Audit Committee:

Terrence C. Kearney (Chair)

Yuchun Lee

Bruce I. Sachs

Elaine S. Ullian

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ITEM 4 - ADVISORY VOTE TO APPROVE NAMED EXECUTIVE OFFICER COMPENSATION

Our compensation program is intended to attract, retain and motivate talented, experienced leaders and reward our executive officers for the achievement of short- and long-term strategic and operational goals, while at the same time we seek to avoid encouraging inappropriate or excessive risk-taking. Our board and the MDCC believe that our executive compensation program is effective in closely aligning the interests of our executive officers with the interests of our shareholders and paying for performance.

As described in the Business Highlights and Compensation Highlights on pages 3 and 4 of this proxy statement, we believe that our compensation program has been and will continue to be successful in attracting and motivating the right executive team to lead our company as we seek to create value through the discovery, development and commercialization of transformative medicines.

Our compensation for our named executive officers has been supported by a majority of the "Say-on-Pay" advisory votes cast by our shareholders since proxy voting on named executive officer compensation began in 2011. The support of our shareholders for our compensation program declined from 97% of the "Say-on-Pay" advisory votes cast by shareholders at our 2011 annual meeting to 51% at our 2012 annual meeting. In 2012, we had discussions with approximately 25 of our largest shareholders regarding, among other matters, our executive compensation program and dilution caused by our broad-based equity compensation program. During these discussions we listened to their perspectives and gained insight into how we could further align the interests of the company with the interests of our shareholders.

Our board of directors and MDCC reviewed our compensation programs and governance practices in light of our evolving business and made a number of changes for 2013, including:

- Modifying the mix of cash and equity compensation for all employees to increase cash incentive bonuses and reduce the target number of shares at each performance level;

- Adopting a compensation recoupment ("claw-back") policy for our executive officers;

- Implementing stock ownership guidelines for our chief executive officer; and

- Adopting a policy prohibiting all employees from hedging or pledging company securities.

Our executive compensation program, including our performance and the compensation earned by our named executive officers, is discussed in greater detail in the Compensation Discussion and Analysis section beginning on page 33 of this proxy statement. In that section, we discuss our executive compensation program and policies and explain the compensation decisions relating to our named executive officers for 2012. In addition, the compensation tables and related narratives, which begin on page 49 of this proxy statement, provide additional information regarding the compensation received by our named executive officers in 2012.

We are presenting the following proposal, which gives you as a shareholder the opportunity to endorse or not endorse our 2012 executive compensation program by voting for or against the following resolution:

RESOLVED, that the shareholders approve, on an advisory basis, the compensation of our named executive officers, as disclosed in the Compensation Discussion and Analysis section, the Compensation and Equity Tables and the related narrative executive compensation disclosures contained in this proxy statement.

While the vote on this resolution is advisory in nature, and therefore will not bind us to take any particular action, our MDCC and board intend to consider carefully the shareholder vote resulting from the proposal in making future decisions regarding our executive compensation program.

OUR BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR THE APPROVAL OF THE RESOLUTION SET FORTH ABOVE. THE AFFIRMATIVE VOTE BY THE HOLDERS OF A MAJORITY OF THE VOTES CAST IN PERSON OR BY PROXY ON THIS MATTER IS REQUIRED FOR THE APPROVAL OF THIS PROPOSAL.

COMPENSATION DISCUSSION AND ANALYSIS - EXECUTIVE SUMMARY

Our compensation program is designed to attract and motivate talented and experienced individuals across all areas of our business and align the interests of our executive officers with the interests of our shareholders as we seek to create value through the discovery, development and commercialization of transformative medicines. Our named executive officers for 2012 were:

Dr. Jeffrey M. Leiden, our Chairman, Chief Executive Officer and President

Ian F. Smith, our Executive Vice President and Chief Financial Officer

Stuart A. Arbuckle, our Executive Vice President and Chief Commercial Officer, who joined us in September 2012

Kenneth L. Horton, our Executive Vice President and Chief Legal Officer, who joined us in June 2012

Dr. Peter Mueller, our Executive Vice President, Global Research and Development, and Chief Scientific Officer

Matthew W. Emmens, who retired as our Chief Executive Officer and President in February 2012 and Executive Chairman in May 2012

David T. Howton, Jr., who served as our Senior Vice President and Chief Legal Officer until June 2012 and as a senior vice president until November 2012

Compensation Philosophy. We believe that our compensation program has been and will continue to be successful in attracting, retaining and motivating the right executive team during this critical phase of our company's evolution.

Our philosophy is that the compensation paid to executives should closely align the interests of our executive officers with the interests of our shareholders. Our compensation programs are intended to attract, retain and motivate talented, experienced leaders and reward our executive officers for the achievement of short- and long-term strategic and operational goals, while at the same time seeking to avoid encouraging inappropriate or excessive risk taking. We link pay to performance by rewarding achievement of pre-determined goals through an annual cash bonus program and by awarding significant time-based vesting grants under our equity compensation plans.

Our executive officers' total compensation is comprised of a mix of base salary, annual cash incentives and long-term equity incentive awards that include both time-based stock options and performance-based restricted stock awards, and reflects a balance of elements so that a significant portion is performance-contingent, to better align our executives' financial interests with the interests of our shareholders. As illustrated by the chart to the right, 82% of the total compensation in 2012 for Dr. Leiden was incentive-based in the form of annual cash bonus and equity compensation.

2012 Performance. Our company's performance rating for 2012 was "leading," with a score of 90% against our 2012 goals. In 2012, we:

- Obtained accelerated approval for KALYDECO (ivacaftor) in the United States and multiple international markets;
- Achieved rapid market acceptance for KALYDECO in the United States and are positioned to expand KALYDECO revenues from international markets in 2013;
- Recorded lower-than-forecasted INCIVEK net product revenues principally as the result of declining sales of HCV protease inhibitors generally;
- Maintained INCIVEK's leading market share in direct competition with Merck & Co., Inc.'s VICTRELIS;
- Received Breakthrough Therapy designations from the FDA for both ivacaftor monotherapy and the combination regimen of our investigational CFTR corrector VX-809 (lumacaftor) with ivacaftor;
- Advanced the development of ivacaftor monotherapy and the combination of VX-809 with ivacaftor, both of which will be evaluated in multiple Phase 3 clinical trials in 2013;
- Advanced the development of our HCV nucleotide analogue VX-135;

COMPENSATION DISCUSSION AND ANALYSIS - EXECUTIVE SUMMARY (continued)

Continued to build our organizational capabilities; and

Ended 2012 with \$1.3 billion in cash, cash equivalents and marketable securities, which was below planned levels due to the lower-than-forecasted INCIVEK net product revenues.

Our named executive officers' total compensation for 2012 as determined under the rules of the SEC is set forth in the following table under the caption "Total Compensation." To supplement this information, we have included a column entitled "Total Realized Compensation," which subtracts the grant-date fair value of equity awards granted in 2012 and substitutes the actual value realized on the exercise of stock options and the vesting of restricted stock awards during 2012.

Named Executive Officer	Individual Rating	Salary	Annual Cash Bonus	Grant-Date Fair Value of 2012 Equity Awards	Total Compensation	Total Realized Compensation
Jeffrey M. Leiden	Leading	\$1,000,000	\$2,088,000	\$2,556,234	\$5,656,684	