

VERTEX PHARMACEUTICALS INC / MA
Form DEF 14A
April 08, 2008

[QuickLinks](#) -- Click here to rapidly navigate through this document

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

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §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)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

o Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

April 11, 2008

Dear Fellow Stockholder:

You are cordially invited to attend the 2008 annual meeting of stockholders of Vertex Pharmaceuticals Incorporated to be held on Thursday, May 15, 2008, at 9:30 a.m. at our headquarters at 130 Waverly Street, Cambridge, Massachusetts.

As described in the accompanying notice of annual meeting of stockholders and proxy statement, this year we will ask you and our other stockholders to:

elect three directors to the class of directors whose term will expire in 2011;

approve an amendment to our Articles of Organization to increase the number of authorized shares of common stock from 200,000,000 to 300,000,000;

approve an amendment to our 2006 Stock and Option Plan to increase the number of shares of common stock authorized for issuance under the plan by 6,600,000 shares from 7,302,380 shares to 13,902,380 shares;

approve an amendment to our Employee Stock Purchase Plan to increase the number of shares of common stock authorized for issuance under the plan by 2,000,000 shares; and

ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for the year ending December 31, 2008.

Regardless of the number of shares of common stock you may own, your vote is important. **YOU ARE URGED TO VOTE, SIGN, DATE AND MAIL THE ENCLOSED PROXY CARD PROMPTLY**, whether or not you plan to attend the annual meeting in person. This will ensure your proper representation at the annual meeting.

Thank you for giving these materials your careful consideration.

Sincerely,

JOSHUA BOGER
President and Chief Executive Officer

VERTEX PHARMACEUTICALS INCORPORATED

**130 Waverly Street
Cambridge, Massachusetts 02139-4242
Telephone: (617) 444-6100
www.vrtx.com**

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

May 15, 2008

Notice hereby is given that the 2008 annual meeting of stockholders of Vertex Pharmaceuticals Incorporated will be held on Thursday, May 15, 2008, at 9:30 a.m. at our headquarters, located at 130 Waverly Street, Cambridge, Massachusetts, to:

elect three directors to the class of directors whose term will expire in 2011;

approve an amendment to our Articles of Organization to increase the number of authorized shares of common stock from 200,000,000 to 300,000,000;

approve an amendment to our 2006 Stock and Option Plan to increase the number of shares of common stock authorized for issuance under the plan by 6,600,000 shares from 7,302,380 shares to 13,902,380 shares;

approve an amendment to our Employee Stock Purchase Plan to increase the number of shares of common stock authorized for issuance under the plan by 2,000,000 shares;

ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for the year ending December 31, 2008; and

consider and act upon such other business as may properly come before the annual meeting.

Please refer to the accompanying proxy statement for more complete information concerning the matters to be acted upon at the annual meeting.

Holders of record of our common stock at the close of business on March 17, 2008, the record date for the annual meeting, are entitled to vote at the annual meeting and at any postponements or adjournments of the annual meeting. All stockholders are invited to attend the annual meeting in person.

Your vote matters. Whether or not you plan to attend the annual meeting, please ensure 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. Holders of record of common stock as of the record date who attend the annual meeting and wish to vote in person may revoke their proxies.

BY ORDER OF THE BOARD OF DIRECTORS

KENNETH S. BOGER
Secretary
April 11, 2008

VERTEX PHARMACEUTICALS INCORPORATED

130 Waverly Street
Cambridge, Massachusetts 02139-4242
Telephone: (617) 444-6100
www.vrtx.com

PROXY STATEMENT

2008 ANNUAL MEETING OF STOCKHOLDERS

To Be Held on May 15, 2008

This proxy statement, with the enclosed proxy card, is being furnished to stockholders of Vertex Pharmaceuticals Incorporated in connection with the solicitation by our board of directors of proxies to be voted at our 2008 annual meeting of stockholders and at any postponements or adjournments thereof. The annual meeting will be held on Thursday, May 15, 2008, at 9:30 a.m. at our headquarters, located at 130 Waverly Street, Cambridge, Massachusetts.

This proxy statement and the enclosed proxy card are first being mailed or otherwise furnished to our stockholders on or about April 11, 2008. Our Annual Report on Form 10-K for the fiscal year ended December 31, 2007 and materials regarding our company are being mailed to the stockholders with this proxy statement, but do not constitute a part hereof.

VOTING PROCEDURES

Your Vote is Important. Whether or not you plan to attend the annual meeting, please take the time to vote by completing and mailing the enclosed proxy card as soon as possible. We have included a postage-prepaid envelope for your convenience.

Who Can Vote? In order to vote, you must have been a stockholder of record at the close of business on the record date, which is March 17, 2008. Stockholders whose shares are owned of record by brokers and other nominees should follow the voting instructions provided by the institution that holds their shares. As of the record date, there were 140,356,485 shares of common stock issued, outstanding and entitled to vote. Each share of common stock is entitled to one vote on each matter to be voted upon.

How Do I Vote? If your shares are held of record in your own name, you may vote by completing and returning the enclosed proxy card by mail or by voting in person at the annual meeting. If your shares are held in the name of a bank, broker or other holder of record, you will receive instructions from the institution that holds your shares that you must follow in order for your shares to be voted. If your shares are not registered in your own name and you plan to attend the annual meeting and vote your shares in person, you should contact the institution that holds your shares to obtain a broker's proxy card, and bring it to the annual meeting in order to vote.

Voting By Mail and Revocation of Your Proxy. You may vote by mail by completing and returning the enclosed proxy card. Your proxy will be voted in accordance with your instructions. If you do not specify a choice on a proposal described in this proxy statement, your proxy will be voted in favor of that proposal.

You may revoke your proxy at any time before it is voted by delivering a subsequently dated written revocation or proxy to our corporate secretary or by voting in person at the annual meeting.

Voting In Person At The Annual Meeting. If you attend the annual meeting, you may deliver your completed proxy card in person or you may vote by completing a ballot that will be available at the annual meeting.

What Constitutes a Quorum? In order for business to be conducted at the annual meeting, a quorum must be present. A quorum is present if the holders of a majority of the shares of common stock issued and outstanding as of the record date are present at the annual meeting in person or by proxy. Shares of common stock held by a person who is present at the annual meeting in person or by proxy but who abstains or does not vote with respect to one or more of the matters to be voted upon will nonetheless be counted for purposes of determining if a quorum exists. If a quorum is not present, it is expected that the annual meeting will be adjourned until a quorum is obtained.

What Vote Is Required to Approve Each Proposal and How are Votes Counted?

Proposal 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. Brokerage firms and other nominees have authority to vote shares of their customers that are held by the broker or their nominee in "street name" for the election of directors. If a broker or other nominee does not exercise this authority, their failure to vote, or a "broker non-vote," will have no effect on the results of the election of directors.
Proposal 2: Amendment to our Articles of Organization	The affirmative vote of a majority of our outstanding shares of common stock is required to approve the amendment to our Articles of Organization increasing our number of authorized shares. Abstentions will have the same effect on the results of this vote as votes against the proposal. Brokerage firms do not have authority to vote, with respect to this proposal, shares of their customers that are held by the firms in "street name." Therefore, any shares not voted by a customer will be treated as a broker non-vote, and broker non-votes will have the same effect on the result of this vote as votes against the amendment to our Articles of Organization.
Proposals 3: Amendment to our 2006 Stock and Option Plan	The affirmative vote of a majority of the shares of common stock cast by the stockholders present in person or represented by proxy at the annual meeting is required to approve the amendments to our 2006 Stock and Option Plan and Employee Stock Purchase Plan. Abstentions will have no effect on the results of these votes. Brokerage firms do not have authority to vote with respect to these proposals shares of their customers that are held in "street name." Therefore, any shares not voted by a customer will be treated as a broker non-vote, and broker non-votes will have no effect on the results of the vote on these proposals.
Proposal 4: Amendment to our Employee Stock Purchase Plan	
Proposal 5: Ratification of Independent Registered Public Accounting Firm	The affirmative vote of a majority of the shares of common stock cast by the stockholders present in person or represented by proxy at the annual meeting is required to approve the ratification of our independent registered public accounting firm. Abstentions will have no effect on the results of these votes. Brokerage firms have authority to vote with respect to this proposal shares of their customers that are held in "street name." If a broker does not exercise this authority, such broker non-votes will have no effect on the results of the vote.

IMPORTANT NOTICE REGARDING AVAILABILITY OF PROXY MATERIALS FOR THE STOCKHOLDER MEETING TO BE HELD ON MAY 15, 2008

This proxy statement and our Annual Report on Form 10-K for the year ended December 31, 2007 are available to holders of record at www.envisionreports.com/vrtx and to beneficial holders at www.edocumentview.com/vrtx.

**PROPOSAL 1:
ELECTION OF DIRECTORS**

Our board of directors is divided into three classes, the Class I Directors, Class II Directors and Class III Directors, with one class elected each year. Members of each class hold office for a three-year term. Our board currently consists of nine members and there is one vacant board seat. Our by-laws provide that our board shall consist of at least three and not more than eleven members, as may be fixed from time to time by our board. The terms of the three Class I Directors will expire at the 2008 annual meeting. Stuart J. M. Collinson, Eugene H. Cordes and Matthew W. Emmens are the current Class I Directors and the nominees for re-election at the 2008 annual meeting for a three-year term that will expire at the 2011 annual meeting. The terms of the Class II Directors and Class III Directors will expire at the 2009 and 2010 annual meetings, respectively.

Our board's policy with respect to the election of directors by stockholders is that any nominee for director who receives a greater number of votes "withheld" from the nominee's election than votes "for" the nominee's election in an uncontested election at a stockholders' meeting should promptly tender his or her resignation to the chair of our board following certification of the stockholder vote. Our corporate governance and nominating committee will promptly consider the tendered resignation and recommend to our board either that it accept or reject any such resignation or take some other action. In considering whether to recommend to our board acceptance or rejection of the tendered resignation, our corporate governance and nominating committee shall consider all factors it deems in its discretion to be relevant to its determination. Our board will act on the corporate governance and nominating committee's recommendation, which action shall include either acceptance or rejection of the tendered resignation and may include adoption of measures designed to address perceived issues underlying the election results. Following our board's decision 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.

If any of the nominees for election to our board should, for any reason, be unavailable to serve as such, proxies will be voted for such other candidate as may be designated by our board, unless our board reduces the number of directors. Our board has no reason to believe that Dr. Collinson, Dr. Cordes and Mr. Emmens will be unable to serve if elected.

Edgar Filing: VERTEX PHARMACEUTICALS INC / MA - Form DEF 14A

The table below sets forth certain information with respect to the nominees for election to our board and also for those directors whose terms of office are not expiring at the annual meeting.

Nominees

Class I Directors Present Terms Expiring In 2008 And Proposed Terms To Expire In 2011

Stuart J. M. Collinson, Ph.D.

Director since 2001

Age: 48

Committee Memberships:

*Commercial Strategy Committee
Science and Technology Committee*

Dr. Collinson serves as a Partner at Forward Ventures. Prior to our merger with Aurora Biosciences Corporation in 2001, Dr. Collinson served as the President, Chief Executive Officer and Chairman of the Board of Aurora. Dr. Collinson held senior management positions with Glaxo Wellcome from December 1994 to June 1998, most recently serving as Co-Chairman, Hospital and Critical Care Therapy Management Team and Director of Hospital and Critical Care. Dr. Collinson received his Ph.D. in physical chemistry from the University of Oxford, England and his M.B.A. from Harvard University.

Eugene H. Cordes, Ph.D.

Director since 2005

Age: 71

Committee Memberships:

*Science and Technology
Committee Chair
Corporate Governance and
Nominating Committee*

Dr. Cordes has been a scientific advisor to us since 1996. Dr. Cordes was the Chairman of Vitae Pharmaceuticals, Inc., a position he held from January 2002 to March 2006. Prior to joining Vitae Pharmaceuticals, Dr. Cordes was a professor of pharmacy at the University of Michigan. Dr. Cordes received a B.S. degree in chemistry from the California Institute of Technology and a Ph.D. in biochemistry from Brandeis University.

Matthew W. Emmens

Director since 2004

Age: 56

Committee Memberships:

*Commercial Strategy Committee
Chair
Corporate Governance and
Nominating Committee
Science and Technology Committee*

Mr. Emmens is the Chief Executive Officer, Chairman of the Executive Committee and a member of the board of directors of Shire Pharmaceuticals Group plc. 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, 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 also serves as a director of Incyte Corporation. Mr. Emmens received a B.S. degree in business management from Farleigh Dickinson University.

Continuing Members of Our Board of Directors

Class II Directors Terms Expiring In 2009

Eric K. Brandt
Director since 2003

Age: 45

Committee Memberships:

Audit and Finance Committee

Chair

Commercial Strategy Committee

Corporate Governance and

Nominating Committee

Mr. Brandt is Senior Vice President and Chief Financial Officer of Broadcom Corporation, which he joined in March 2007. From September 2005 through March 2007, he was the President, Chief Executive Officer and a member of the board of directors of Avanir Pharmaceuticals. Prior to joining Avanir, Mr. Brandt held various positions at Allergan Inc. from 1999 to 2005, including Executive Vice President, Finance and Technical Operations and Chief Financial Officer from February 2005 to September 2005, Executive Vice President, Finance, Strategy and Business Development, and Chief Financial Officer from 2003 until February 2005, and Corporate Vice President and Chief Financial Officer from May 1999 to 2003. From January 2001 to January 2002, he also assumed the duties of President, Global Consumer Eye Care Business, at Allergan. Prior to that, he held various positions with the Boston Consulting Group, most recently serving as Vice President and Partner, and a senior member of the BCG Health Care practice. Mr. Brandt also serves as a director of Dentsply International Inc. Mr. Brandt holds a B.S. in chemical engineering from the Massachusetts Institute of Technology and an M.B.A. from Harvard University.

Roger W. Brimblecombe, Ph.D., D.Sc.

Director since 1993

Age: 78

Committee Memberships:

Management Development and

Compensation Committee

Chair

Science and Technology Committee

Dr. Brimblecombe served as Chairman of Vanguard Medica plc from 1991 to 2000, of Core Group plc from 1997 to 1999, of Oxford Asymmetry International plc from 1997 to 2000 and pSivida Ltd. from 2002 to 2007. From 1979 to 1990, he held various Vice Presidential posts in SmithKline & French Laboratories' research and development organization, including Vice President R&D for Europe and Japan. He is currently a Partner in MVM Life Science Partners LLP and a director of Tissue Science Laboratories plc (listed on the AIM market in the United Kingdom). He has also been a member of the Board of Vertex Pharmaceuticals (Europe) Ltd. since 2005. He holds Ph.D. and D.Sc. degrees in pharmacology from the University of Bristol, England.

Continuing Members of Our Board of Directors

Bruce I. Sachs
Director since 1998

Age: 48

Committee Memberships:

*Audit and Finance Committee
Management Development and
Compensation Committee*

Mr. Sachs is a General Partner at Charles River Ventures. 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 CEO 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 also currently serves as a director of BigBand Networks, Inc. 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.

Class III Directors Terms Expiring In 2010

Joshua S. Boger, Ph.D.
Director since 1989

Age: 57

Dr. Joshua Boger is the founder of Vertex. He has been our Chief Executive Officer since 1992. He was our Chairman of the Board from 1997 until May 2006. He was our President from our inception in 1989 until December 2000, and was again appointed our President in 2005. 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 is Chairman of the Biotechnology Industry Organization (BIO) and the Massachusetts High Technology Council. 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.

Continuing Members of Our Board of Directors

Charles A. Sanders, M.D.

Director since 1996

Chairman since 2006

Age: 76

Committee Memberships:

Audit and Finance Committee

Corporate Governance and

Nominating Committee Chair

Dr. Sanders has served as our Chairman since May 2006 and has served as our lead outside director since 2003. He retired in 1994 as Chief Executive Officer and in 1995 as Chairman of Glaxo Inc. From 1990 to 1995, he served as a member of the board of Glaxo plc. From 1981 to 1989, Dr. Sanders held a number of positions at Squibb Corporation, including that of Vice Chairman. Dr. Sanders has served in the past on the boards of Merrill Lynch, Reynolds Metals Co., Morton International Inc., Fisher Scientific International and Biopure Corporation. He is currently a director of Biodel Inc., Cephalon Corporation, Genentech, Inc. and Icagen, Inc. Dr. Sanders had his undergraduate education at the University of Texas, and earned an M.D. from the University of Texas Southwestern Medical School.

Elaine S. Ullian

Director since 1997

Age: 60

Committee Memberships:

Commercial Strategy Committee

Management Development and

Compensation Committee

Since 1996, Ms. Ullian has served as President and Chief Executive Officer of Boston Medical Center. 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.

Information Regarding Our Board of Directors and its Committees

Corporate Governance Principles and Our Board of Directors

Our governance practices are documented in our Statement of Corporate Governance Principles, which addresses the role and composition of our board, executive management functioning and succession planning, committees of our board, education and compensation of members of our board and the evaluation of our board. You can learn more about our current corporate governance principles and review our Statement of Corporate Governance Principles, committee charters, and Code of Conduct and Ethics at www.vrtx.com under "Finances/Investor Info Governance Documents."

Our Board

Our board of directors met seven times during 2007. Each of our director nominees and continuing directors attended 75% or more of the board meetings during 2007. Each member of our board is encouraged to attend each annual meeting of our stockholders. All of our directors attended our annual meeting of stockholders held in 2007. Our board has determined that the following members of and nominees for the board qualify as "independent" under the definition adopted by The Nasdaq Stock Market, Inc.: Mr. Brandt, Dr. Brimblecombe, Dr. Collinson, Dr. Cordes, Mr. Emmens, Mr. Sachs, Dr. Sanders and Ms. Ullian.

Board Committees

Our board of directors currently has five standing committees: the corporate governance and nominating committee, the audit and finance committee, the commercial strategy committee, the management development and compensation committee, which we refer to as the MDCC, and the science and technology committee. Each of the committees, other than the commercial strategy committee, has the authority to engage legal counsel or other experts or consultants as its members deem appropriate to carry out the committee's responsibilities. Pursuant to our Statement of Corporate Governance Principles, our board has determined that each of the corporate governance and nominating committee, the audit and finance committee and the MDCC must consist solely of "independent directors," as that term is defined by the Securities and Exchange Commission and The Nasdaq Stock Market, Inc. We select "independent directors" as members of these committees with the expectation that they will be free of relationships that might interfere with their exercise of independent judgment. Participation in the commercial strategy committee or science and technology committee is not limited to independent directors.

Corporate Governance and Nominating Committee

The corporate governance and nominating committee is comprised of Dr. Sanders (Chair), Mr. Brandt, Dr. Cordes and Mr. Emmens. Pursuant to its committee charter, the corporate governance and nominating committee:

assists our board of directors in developing and implementing our corporate governance principles;

determines the size and composition of our board and its committees;

monitors a process to assess the effectiveness of our board;

identifies qualified individuals to become members of our board; and

recommends nominations to the full board.

In addition, Dr. Sanders, in his role as chairman of our board and an independent director, serves as the presiding director of executive sessions of our outside directors, which generally are held following each of our board meetings.

In 2007, the corporate governance and nominating committee met three times, and all of its members attended at least 75% of its meetings.

When assessing potential nominees for election to our board, the corporate governance and nominating committee considers a variety of factors, such as the candidates' education, experience and knowledge of our industry and experience in other industries that are relevant to us, understanding of our technology and the science associated with drug discovery and development, prior service as a director of a public company and relevant commercial experience. The corporate governance and nominating committee may consider candidates recommended by stockholders, as well as recommendations from other sources, such as other directors or officers, third-party search firms or other appropriate sources. Generally, if a stockholder wishes to propose a candidate for consideration as a nominee by the corporate governance and nominating committee, the stockholder 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 stockholder wishes to nominate a candidate to be considered for election as a director at the 2009 annual meeting of stockholders using the procedures

set forth in our by-laws, the stockholder must follow the procedures described in "Stockholder Proposals for the 2009 Annual Meeting and Nominations for Director" on page 70 of this proxy statement. In general, persons recommended to the corporate governance and nominating committee by stockholders will be considered on the same basis as candidates from other sources.

Audit and Finance Committee

Our audit and finance committee is comprised of Mr. Brandt (Chair), Mr. Sachs and Dr. Sanders. Our board has determined that Mr. Brandt, an independent director who serves as the chair of our audit and finance committee, is an "audit committee financial expert," as that term is defined in applicable regulations of the Securities and Exchange Commission. The primary purposes of the audit and finance committee are to:

assist our board in fulfilling its responsibility for oversight of the quality and integrity of our accounting, auditing and reporting practices; and

review and make recommendations to our board concerning our financial structure and financing strategy.

In addition, our audit and finance committee focuses on the qualitative aspects of our financial reporting to stockholders, on our processes to manage business and financial risk and on compliance with significant applicable legal, ethical and regulatory requirements relating to our financial operations. Our independent registered public accounting firm reports directly to and is held accountable to the audit and finance committee in connection with the audit of our annual financial statements and related services. Our audit and finance committee has sole authority over the appointment, compensation and oversight of the work of the independent registered public accounting firm, and where appropriate, the replacement of the independent registered public accounting firm.

In 2007, the audit and finance committee met eleven times, and each member of the audit and finance committee attended at least 75% of its meetings. The report of the audit and finance committee appears at page 22 of this proxy statement.

Commercial Strategy Committee

The commercial strategy committee is comprised of Mr. Emmens (Chair), Mr. Brandt, Dr. Collinson and Ms. Ullian. Our commercial strategy committee will:

review our marketing strategy and our marketing plan for telaprevir and our commercial organization; and

provide our board with periodic assessments of the status of our commercialization efforts and the coordination of commercial and research and development activities.

In 2007, the commercial strategy committee met one time, and each member of the commercial strategy committee attended the meeting.

MDCC

The MDCC is comprised of Dr. Brimblecombe (Chair), Mr. Sachs and Ms. Ullian. Pursuant to its charter, our MDCC:

recommends to our full board the amount, character, and method of payment of compensation of all of our executive officers and certain other key employees;

plans for the succession of our executives; and

administers our stock and option plans and employee stock purchase plan.

In 2007, the MDCC met six times, and each member of the MDCC attended at least 75% of its meetings. The report of the MDCC appears at page 40 of this proxy statement.

Science and Technology Committee

The science and technology committee is comprised of Dr. Cordes (Chair), Dr. Brimblecombe, Dr. Collinson and Mr. Emmens. The 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.

In 2007, the science and technology committee met four times, and each member of the science and technology committee attended at least 75% of its meetings.

Board Recommendation

Our board of directors recommends that our stockholders vote FOR the election of each of the nominees to the board. A plurality of the votes cast in person or by proxy at the annual meeting is required to elect each nominee as director.

**PROPOSAL 2:
APPROVAL OF AN AMENDMENT TO OUR RESTATED ARTICLES OF ORGANIZATION
TO INCREASE THE NUMBER OF AUTHORIZED SHARES OF COMMON STOCK**

On March 28, 2008 our board of directors adopted, subject to stockholder approval, an amendment to our Restated Articles of Organization to increase the authorized number of shares of common stock from 200,000,000 to 300,000,000.

The additional common stock to be authorized by adoption of the amendment will have rights identical to our currently authorized common stock. Adoption of the proposed amendment and issuance of the common stock will not affect the rights of the holders of currently outstanding common stock, except for effects incidental to increasing the number of shares of common stock outstanding if and when the additional shares are issued. If the amendment is adopted, it will become effective upon the filing of Articles of Amendment of our Restated Articles of Organization with the Secretary of State of The Commonwealth of Massachusetts.

At March 17, 2008, there were 140.4 million shares of our common stock outstanding. In addition, as of the same date, 17.5 million shares of common stock were reserved for issuance under our stock and option plans, Employee Stock Purchase Plan and 401(k) plan, and we are seeking stockholder approval pursuant to this proxy statement for an increase in the number of shares authorized under our 2006 Stock and Option Plan of 6.6 million shares and an increase in the number of shares authorized under our Employee Stock Purchase Plan of 2.0 million shares. In addition, we have reserved 12.4 million shares for issuance upon conversion of our outstanding convertible notes and approximately 4.4 million shares for issuance in connection with the make-whole premium associated with our outstanding convertible notes. Accordingly, if we obtain approval for the increases to our 2006 Stock and Option Plan and Employee Stock Purchase Plan, we will have approximately 16.7 million shares of common stock available for future issuance, prior to the addition of the shares for which we are seeking approval pursuant to this Proposal 2.

Although at present the board of directors has no specific plans to issue shares of common stock in excess of the number previously authorized, the board believes it is desirable to have a significant number of available and authorized shares, to provide the board with flexibility to use capital stock for business and financial purposes in the future. The additional shares may be issued without further stockholder approval, except as may be required by law, regulatory authorities, or the rules of the Nasdaq Stock Market, Inc. or any other stock exchange on which our shares may be listed at the time of any proposed issue. The additional shares may be used for various purposes including, without limitation, raising capital, providing equity incentives to employees and directors, establishing strategic relationships with other companies, expanding our business or research and development programs through the acquisition of other businesses and products, and stock splits and dividends.

Board Recommendation

Our board of directors recommends a vote for the approval of the amendment to our restated Articles of Organization. The affirmative vote of a majority of the shares of common stock outstanding is required for such approval.

**PROPOSAL 3:
AMENDMENT TO 2006 STOCK AND OPTION PLAN**

In 2006, our board of directors adopted and our stockholders approved our 2006 Stock and Option Plan, or 2006 Plan. The number of shares of our common stock originally available for awards under the 2006 Plan was 7,302,380 shares. Our board has approved amendments to the 2006 Plan increasing the number of shares authorized for issuance under the 2006 Plan by 6,600,000 shares, subject to stockholder approval. Of that total, the board issued non-qualified options to purchase 536,625 shares to our executive officers, which represented all of the options issued by our board to members of our executive team for 2007 performance in February 2008. These stock options were issued contingent upon obtaining stockholder approval of an amendment to our 2006 Plan approving them. They may not be exercised before the related amendment to the 2006 Plan has been approved by our stockholders, and they will terminate if approval of an amendment to our 2006 Plan is not obtained at or before our 2009 annual meeting of stockholders.

The purpose of the 2006 Plan is to encourage ownership of shares of our common stock by our employees, directors, consultants and advisors in order to attract such persons, to induce them to work for our benefit and to provide additional incentive for them to promote our success. Our board of directors believes that our equity compensation program is an essential tool to attract, retain and motivate individuals with the requisite experience and ability necessary to facilitate our advancement.

Approval of the amendment to the 2006 Plan is required by the rules of the Nasdaq Stock Market, Inc. In addition, the amendment to the 2006 Plan is being submitted to our stockholders to ensure (i) favorable federal income tax treatment for any grants of incentive stock options under Section 422 of the Internal Revenue Code of 1986, or the Code, and (ii) continued eligibility to receive a federal income tax deduction with respect to compensation earned upon exercise of options under our 2006 Plan by complying with Rule 162(m) of the Code.

If our stockholders approve the amendment to increase the number of shares authorized under the 2006 Plan, the Plan will also be amended to provide (i) that no options to purchase our common stock can be issued under our 2006 Plan with an exercise price less than the fair market value on the date of grant, with fair market value determined as provided in the 2006 Plan and (ii) that on or after May 15, 2008 only 20% of shares available including shares that become available through the cancellation of outstanding options or through the repurchase of restricted stock at cost may be granted as any type of award other than a stock option award.

Our stock and option plans consist of our 1991 Stock Option Plan, 1994 Stock and Option Plan, 1996 Stock and Option Plan, the 2006 Plan and the 2007 New Hire Stock and Option Plan. As of March 17, 2008, there were 246,512 shares remaining available for award under our 2006 Plan and 750,000 shares remaining available for award under our 2007 New Hire Stock and Option Plan. No additional awards may be granted under the 1991 Stock and Option Plan, the 1994 Stock and Option Plan or the 1996 Stock and Option Plan. Our 2007 New Hire Stock and Option Plan is scheduled to expire on June 1, 2008, but will be earlier terminated on May 15, 2008 if we receive stockholder approval of the amendment to our 2006 Plan. If we issue any awards under the 2007 New Hire Stock and Option Plan on or prior to May 15, 2008, the number of shares available for grant pursuant to the proposed amendment to our 2006 Plan will be decreased by the number of shares issued under the 2007 New Hire Stock and Option Plan, subject to adjustment in the case of a stock split, stock dividend, combination, recapitalization or similar transaction.

Edgar Filing: VERTEX PHARMACEUTICALS INC / MA - Form DEF 14A

As of March 17, 2008, options to purchase an aggregate of 5,723,938 shares having a weighted-average exercise price of \$29.99 and a weighted-average term before expiration of 9.04 years were outstanding under our 2006 Plan and options to purchase an aggregate of 10,564,689 shares having a weighted-average exercise price of \$26.90 and a weighted-average term before expiration of 4.66 years were outstanding under our other stock and option plans. In addition, if the amendment is approved, the options to purchase 536,625 shares of common stock at an exercise price of \$18.93 per share that were issued to our executive officers as contingent stock options on February 7, 2008 will be ratified. Also on March 17, 2008, there were outstanding 1,206,693 unvested shares of restricted stock granted under our 2006 Stock Plan and an additional 723,755 unvested shares of restricted stock granted under our other stock and option plans.

On April 7, 2008, the last sales price for our common stock on the Nasdaq Global Select Market was \$25.90 per share.

The principal features of the 2006 Plan, which assume that stockholder approval of this proposal is obtained, are set forth below. A copy of the Amended and Restated 2006 Plan, which would become effective upon stockholder approval of this proposal, is attached to this proxy statement as Appendix A.

Summary Description of the 2006 Plan

Administration by the MDCC and Eligibility for Participation

The 2006 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 2006 Plan. Our board of directors has delegated the administration of the 2006 Plan to the MDCC. Subject to the provisions of the 2006 Plan, the MDCC has the authority to determine the persons to whom awards under the 2006 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 2006 Plan. Awards may be granted under the 2006 Plan to our employees, including officers and directors who are employees, and to our consultants, advisors and non-employee directors. As of March 17, 2008, we and our subsidiaries had 1,182 employees eligible to participate in the 2006 Plan.

Description of Awards

The 2006 Plan provides for the award of stock options, stock grants, and other stock-based awards.

Stock Options

Stock options granted under the 2006 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. 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 option 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 2006 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. 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 2006 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

Edgar Filing: VERTEX PHARMACEUTICALS INC / MA - Form DEF 14A

ISOs granted to an employee or officer holding 10% or more of our voting stock. No participant may be granted options and stock-based awards in any calendar year for more than 600,000 shares, subject to adjustment for stock splits and similar recapitalizations.

Options granted under the 2006 Plan are exercisable during the optionholder's lifetime only 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.

The 2006 Plan provides specifically for option grants to non-employee directors under our director compensation program. On the date of initial election to our board of directors, each newly elected non-employee director will automatically be granted a non-qualified stock option to purchase a specified number of shares of common stock determined from time to time by our board of directors at a purchase price equal to 100% of the fair market value per share of our common stock on the date of grant, vesting in equal quarterly installments over a period of four years from the date of grant. Currently, a newly elected non-employee director receives an option to purchase 30,000 shares of our common stock. In addition, each non-employee director serving in office on June 1 of any year is granted a non-qualified stock option to purchase a specified number of shares determined from time to time by our board of directors and the chairman of our board receives an additional grant on the date of the annual meeting of stockholders, at an exercise price equal to 100% of the fair market value per share of our common stock on the date of grant. Currently, each annual grant is for 20,000 shares of common stock and the additional grant to the chairman of our board is for 20,000 shares of common stock. These options are fully exercisable immediately and have a term of ten years.

The 2006 Plan permits the MDCC to determine the manner of payment of the exercise price of options. Such methods include payment by cash, by check, by means of a broker-assisted "cashless exercise," by surrender to us of shares of our common stock, by any combination of such methods, or by any other lawful means, excluding delivery of a promissory note, approved by the MDCC.

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 the shares of common stock issued under a stock grant as are possessed by our other stockholders, including all voting and dividend rights, during any such restriction period.

Stock-Based Awards

The 2006 Plan provides that 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.

Adjustments Upon Stock Dividends, Stock Splits, Recapitalizations or Reorganizations

The number of shares subject to stock rights and other terms applicable to such rights shall be adjusted equitably in the case of the issuance by us of a stock dividend or 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 2006 Plan shall make appropriate provision for the continuation of all outstanding stock rights under the 2006 Plan or grant of replacement stock rights on an equitable basis as determined by the MDCC, or (ii) the vesting of all outstanding and unvested stock rights under the 2006 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 2006 Plan was originally adopted by our board of directors on March 29, 2006 and will terminate on March 28, 2016. Our board of directors may terminate or amend the 2006 Plan at any time, subject to stockholder approval under certain circumstances provided in the 2006 Plan. No amendment or termination of the 2006 Plan will adversely affect the rights provided in any award made under the 2006 Plan prior to the plan amendment or termination. No award may be made under the 2006 Plan after the plan expiration date. Awards made prior to the plan expiration may extend beyond such date.

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.

Non-Qualified Stock 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 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 at the time of grant. The optionee will recognize compensation income at the time of exercise of such non-qualified option in an amount equal to the excess of the fair market value at the time of exercise of the shares over the option exercise price. Such 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 deduction for us at the time it is granted or exercised, provided that no disposition is made by the optionee of the shares acquired pursuant to the option within two years after the date of grant of the option nor within one year after the date of issuance of shares to the optionee, 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 price will be an item of tax preference includible in alternative minimum taxable income. Upon disposition of the shares after the expiration of the ISO holding period, the optionee will generally recognize long-term capital gain or loss based on the

difference between the disposition proceeds and the option 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 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 first 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 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.

Board Recommendation

Our board of directors recommends a vote FOR the approval of the amendment to our 2006 Stock and Option Plan to increase the number of shares of common stock available for issuance by 6,600,000. The affirmative vote of a majority of the votes cast in person or by proxy on this matter is required for the approval of this proposal.

**PROPOSAL 4:
AMENDMENT TO OUR EMPLOYEE STOCK PURCHASE PLAN**

The Vertex Pharmaceuticals Incorporated Employee Stock Purchase Plan, or ESPP, was adopted by our board of directors in 1992, and has been approved by the stockholders. Under the ESPP, eligible employees have the right to purchase our common stock through payroll deductions. The ESPP provides an important employee benefit that we believe helps us attract and retain employees and encourage their participation in and commitment to our business and financial success. As of March 17, 2008, approximately 1,096 persons were eligible to participate in the ESPP. As of March 17, 2008, there were approximately 207,000 shares available for future issuances under the ESPP.

On March 28, 2008, our board of directors approved an amendment to the ESPP to increase the number of shares of our common stock available for issuance under the ESPP by 2,000,000.

Summary of ESPP

The ESPP is administered by the MDCC, which has the power to construe and interpret the ESPP and to determine all questions that arise under the ESPP. A copy of the ESPP, as proposed to be amended, is attached as Appendix B. Because participation in the ESPP is voluntary and employees may withdraw from the ESPP at any time during a purchase period without penalty, the benefits to be received by any particular person or group are not determinable by us at this time.

Individuals are eligible to participate in the ESPP if they are employed on an offering date, they are regularly employed by us for more than 20 hours a week and for more than five months in a calendar year and they do not own five percent or more of our outstanding common stock. If we receive requests from employees to purchase more than the number of shares available during any offering, the available shares will be allocated on a pro rata basis to subscribing employees.

We make two offerings to purchase common stock under the ESPP each year, one on May 15 and one on November 15. The ESPP provides that each offering period extends either for twelve months, or, if an employee so elects within the 30 day period prior to the six month anniversary of the offering date, for six months. Each twelve-month offering period consists of two six-month purchase periods.

The price at which an employee may purchase common stock under the ESPP is 85% of the lower of (i) the mean of the highest and lowest quoted selling prices of the common stock on the day an offering period commences, and (ii) the mean of the highest and lowest quoted selling prices on the day the purchase period ends.

Our board of directors may at any time terminate or amend the ESPP. However, our board may not amend the ESPP if any such amendment would increase the number of shares of common stock reserved under the ESPP without approval of our stockholders.

Summary of U.S. Federal Tax Consequences

The following is a summary of the United States federal income tax consequences that generally will arise with respect to purchases made under the ESPP and with respect to the sale of common stock acquired under the ESPP. A copy of the ESPP is attached to this proxy statement as Appendix B.

Tax Consequences to Participants

The ESPP is intended to qualify as an "employee stock purchase plan" under Section 423 of the Code. In general, an employee will not recognize U.S. taxable income upon enrolling in the ESPP or upon purchasing shares of common stock. Instead, if an employee sells common stock acquired under the ESPP for an amount that exceeds the purchase price, then the employee will recognize taxable income in an amount equal to the excess of the sale price of the common stock over the purchase price, partially as ordinary income and partially as capital gain, depending upon the date of the sale. If the employee sells the common stock more than one year after acquiring it and more than two years after the applicable offering date, and the sale price of the common stock is higher than the purchase price, then the employee will recognize ordinary income in an amount equal to the lesser of (i) 85% of the fair market value of the common stock on the offering date; and (ii) the excess of the sale price of the common stock over the purchase price. The balance of the income will be treated as long-term capital gain. If the sale price of the common stock is less than the price at which the employee purchased the common stock, then the employee will recognize long-term capital loss in an amount equal to the excess of the purchase price over the sale price of the common stock.

If the employee sells the common stock within one year after acquiring it or within two years after the offering date, which is referred to as a Disqualifying Disposition, then the employee will recognize as ordinary compensation income an amount equal to the excess of the fair market value of the common stock on the date that it was purchased over the purchase price plus either (i) capital gain in an amount equal to the excess of the sale price of the common stock over the fair market value of the common stock on the date that it was purchased, or (ii) capital loss in an amount equal to the excess of the fair market value of the common stock on the date that it was purchased over the sale price of the common stock. This capital gain or loss will be a long-term capital gain or loss if the employee held the common stock for more than one year prior to the date of the sale and will be a short-term capital gain or loss if the employee held the common stock for a shorter period.

Tax Consequences to Vertex

The offerings of common stock under the ESPP will have no tax consequences to us. Moreover, in general, neither the purchase nor the sale of common stock acquired under the ESPP will have any federal income tax consequences to us except that we will be entitled to a compensation deduction with respect to any ordinary compensation income recognized by an employee upon making a Disqualifying Disposition. Any such deduction will be subject to the limitations on deductions for certain employee remuneration contained in Section 162(m) of the Code.

Board Recommendation

Our board of directors recommends a vote for the approval of the amendment to our ESPP to increase the number of shares of our common stock available for issuance by 2,000,000 shares. The affirmative vote of a majority of the votes cast in person or by proxy on this matter is required for the approval of this proposal.

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, 2007.

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 Stockholders (1)	12,522,936	\$ 31.15	2,083,728
Equity Compensation Plans not Approved by Stockholders (2)	2,408,446	\$ 11.93	750,000
Total (3)	14,931,382	\$ 28.05	2,833,728

- (1) These plans consist of our 1991 Stock Option Plan, 1994 Stock and Option Plan and the ESPP, awards granted and available for grant under our 2006 Stock and Option Plan for which we obtained stockholder approval, and awards granted under our 1996 Stock Option Plan for which we obtained stockholder approval.
- (2) This category consists of certain options issued under our 1996 Stock and Option Plan for which we were not required and did not obtain stockholder approval, certain options issued subject to stockholder approval under our 2006 Stock and Option Plan and awards that are available for grant under our 2007 New Hire Stock and Option Plan.
- (3) This table does not include options outstanding on December 31, 2007 to purchase an aggregate of 426,209 shares of our common stock at a weighted-average exercise price of \$51.42 that were assumed by us in connection with our acquisition of Aurora Biosciences Corporation on July 18, 2001.

Please refer to Note C, "Common and Preferred Stock," to the consolidated financial statements included in our Annual Report on Form 10-K, filed with the Securities and Exchange Commission on February 11, 2008, for a description of the material features of the 1996 Stock and Option Plan and 2007 New Hire Stock and Option Plan.

**PROPOSAL 5:
RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED
PUBLIC ACCOUNTING FIRM**

Our audit and finance committee is responsible for the appointment, compensation, retention and oversight of the work of our independent registered public accounting firm. Our audit and finance committee appointed Ernst & Young LLP to perform the independent audit, review and attestation services with respect to our financial statements for the fiscal year ended December 31, 2007 and has appointed Ernst & Young LLP to perform these services for the fiscal year ending December 31, 2008. Although stockholder approval of the appointment of Ernst & Young LLP is not required, we are providing stockholders an opportunity to ratify this appointment.

If this proposal is not approved at the annual meeting, 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 stockholders' 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 stockholders' best interests.

We expect representatives of Ernst & Young LLP to be present at the annual meeting. They will have the opportunity to make a statement if they desire to do so and will also be available to respond to appropriate questions from stockholders.

Board Recommendation

Our board of directors recommends a vote for the ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for the year ending December 31, 2008.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Policy on Audit Committee Pre-approval of Audit and Permissible Non-audit Services of Independent Registered Public Accounting Firm

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 independent registered public accounting 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 the financial statements, and includes fees in the areas of tax compliance, tax planning and tax advice.

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

Prior to engagement, 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 specific pre-approval before engaging our independent registered public accounting firm.

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, for informational purposes only, any pre-approval decisions to our audit and finance committee at its next scheduled meeting.

Independent Registered Public Accounting Firm Fees

Aggregate fees billed to us for the fiscal years ended December 31, 2007 and 2006 by our independent registered public accounting firm Ernst & Young LLP were as follows:

	2007	2006
Audit fees:	\$ 778,095	\$ 687,000
Audit-related fees:	98,500	91,400
Tax fees:	111,310	88,900
All other fees:	1,500	
Total	\$ 989,405	\$ 867,300

"Audit fees" represented the aggregate fees billed to us 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, consents, preparation of comfort letters and providing consents with respect to registration statements.

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

"Tax fees" consisted principally of fees related to tax compliance and reporting.

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

The percentage of services set forth above in the categories "audit-related fees" and "tax fees" that 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, was 0%.

AUDIT 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, 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 and the quality of internal and external audit processes. The committee's roles and responsibilities are set forth in a written charter, which is available on the Company's website *www.vrtx.com* under "Finances/Investor Info 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 2007, those matters that Ernst & Young is required to communicate to and discuss with the Audit Committee under Statement on Auditing Standards No. 61 (Communication with Audit Committees), 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 Independent Standards Board No. 1 (Independence Discussions with Audit Committees). 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 the Company's management and with Ernst & Young, the Company's audited consolidated balance sheets at December 31, 2007, and the Company's consolidated statements of operations, comprehensive loss, stockholders' equity and cash flows for the year ended December 31, 2007, 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 2007, 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 and the Audit Committee reviewed a report on the effectiveness of the Company's internal control over financial reporting. 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, 2007 filed with the Securities and Exchange Commission, as well as Ernst & Young's Report of Independent

Registered Public Accounting Firm included in the Company's Annual Report on Form 10-K. The latter report relates to Ernst & Young's audit of (i) the consolidated financial statements and financial statement schedules, and (ii) the effectiveness of internal control over financial reporting.

Based on the discussions with Ernst & Young concerning the audit, the independence discussions, and the discussions with the Company's management and Ernst & Young concerning the financial statement review and discussions, and 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 2007 Annual Report on Form 10-K. This report is provided by the following independent directors, who comprise the Audit Committee:

Eric K. Brandt (Chair)

Bruce I. Sachs

Charles A. Sanders

EXECUTIVE COMPENSATION

COMPENSATION DISCUSSION AND ANALYSIS

Overview

We are in the business of discovering, developing and commercializing small molecule drugs for the treatment of serious diseases. Our core purpose is to innovate to transform lives with new medicines, which we believe will create long-term value for our stockholders. We are in a period of rapid expansion because we are preparing for the possible launch and commercialization of telaprevir, our lead drug candidate for the treatment of hepatitis C viral infection. In order to be prepared for the launch of telaprevir, if it is approved, we are building a commercial manufacturing and marketing and sales capability for the first time. Our strategy is to take the opportunity presented by telaprevir to build Vertex into a pharmaceutical company with capabilities in all areas necessary for drug discovery, development and commercialization.

We have built, and expect to continue to build, an executive leadership team with the expertise and experience that we need as we expand our capabilities in late-stage drug development, drug supply, registration and commercialization of pharmaceuticals. The market for these individuals is very competitive. In order to attract and retain talented executives, we aim to provide shorter-term compensation elements that rival our competitors', such as base salary, a performance-based annual cash bonus opportunity, and a generous benefits program. However, we also try to conserve our cash resources, because we require significant amounts of capital to fund our operations and are not yet profitable. We do not fund retirement programs, company cars, or other expensive perquisites for our executives. Our compensation program provides for a significant portion of each executive's annual compensation in the form of stock option grants and restricted stock grants that vest over time, or upon achievement of pre-determined goals. We expect the value of these grants to reflect our performance over the longer term. We believe that the inclusion of equity-based awards in our compensation program will attract and motivate executives to set and achieve goals that drive us to long-term success.

Executive Summary

Compensation Objectives and Philosophy: The objective of our executive compensation program is to attract, retain and motivate talented, experienced leaders responsible for executing our business plan. We regularly review our compensation philosophy, elements and amounts, and make adjustments as changing circumstances require. Our philosophy is that the compensation paid to executives should:

reward desired performance and behaviors;

be awarded in amounts that are competitive relative to compensation paid by the companies that compete with us for executive talent; and

reflect a balance of elements so that a significant portion is bonus or equity-based and therefore "at-risk," to better align the executives' financial interests with the interests of our stockholders.

Compensation Elements: The elements of our annual executive compensation program are:

base salary;

annual cash bonus;

stock option grants;

restricted stock grants; and

health and other benefits available to all our employees, including matching payments under our 401(k) plan and payment of life insurance premiums.

We set target levels for cash bonuses and equity awards at amounts designed to make us competitive for talent. Each executive's annual cash bonus and equity awards are adjusted from target levels on the basis of company and individual performance for the prior year. The application of these "performance-multipliers" can result in compensation that is significantly lower or higher than target levels, which we believe provides a significant performance incentive.

We also occasionally make supplemental grants of restricted stock or stock options to our current executive officers, as business needs dictate. When we hire new executives, we typically pay sign-on bonuses, award new hire grants of restricted stock and stock options and reimburse moving expenses. We also have entered into employment contracts with severance and change of control payments with each of the eight members of our executive team, including all of the named executive officers, because we believe that they are a fair and effective way to maintain focus on our business in the face of market and other volatility in our industry.

Compensation Decision Making Process: The MDCC oversees the design, development and implementation of the compensation program for all of our executive officers. Compensation decisions generally are made on an annual basis. The board of directors sets performance goals and salaries for each year at its first meeting in the year, and assigns performance ratings and awards bonuses and equity grants shortly after completion of the year, in each case at a regularly-scheduled meeting. The MDCC consults with members of our human resources department, particularly our director of compensation, and engages independent consultants to advise it on specific matters when it deems it appropriate. The MDCC reviews and may adjust compensation elements or amounts throughout the year. In 2007, the MDCC engaged Hewitt Associates to conduct a review of available compensation data from comparator group companies to consider whether or not adjustments to the salaries, target levels of cash and equity compensation, or performance-based adjustment factors of our compensation program was warranted. The materials that management provides to the MDCC often include recommendations with respect to compensation levels and performance ratings, which the MDCC considers but does not give undue weight. Final compensation decisions are approved by our full board of directors, after discussion of the MDCC's recommendations. Dr. Boger, our president and chief executive officer, discusses his compensation with the MDCC, but does not participate in board decisions regarding his own compensation.

2007 Compensation of Named Executive Officers Compared to 2006: We did not make any significant changes to the elements of our compensation program during 2007. Our company performance rating for 2007 was "Strong," and the executive bonus pool factor was 86% of target levels, compared to a company performance rating for 2006 of "Leading," with an executive bonus pool factor of 140%, resulting in significantly lower annual bonus awards to the named executive officers for 2007 performance as compared to 2006 performance. In general, 2007 individual ratings for our named executive officers were lower than for 2006, which resulted in lower average equity grant amounts for 2007 performance than 2006 performance. The salaries of our executive officers, which are adjusted only for market-based factors, were increased by 3% in both the first quarter of 2007 and the first quarter of 2008. Compensation paid to the named executive officers for 2006 and 2007 and information regarding cash bonuses and equity awards based on our performance in 2006 and 2007 are detailed below under the heading *Compensation and Equity Tables Summary Compensation Table*.

Detailed Analysis and Discussion

Elements of Compensation

The elements of our annual executive compensation program are base salary, annual cash bonus, stock option grants, restricted stock grants, and health and other benefits available to all our employees, including matching payments under our 401(k) plan and payment of life insurance premiums. Each year we review the balance of the elements of our executive compensation program to ensure that we have appropriately designed each element in light of our goals of aligning the program with our stockholders' interests, the competitive environment and our business strategy. We expect that we may adjust our approach to some or all of these elements over time as our company and our business evolve.

Base Salary

The MDCC adjusts the executive officers' base salary levels at the beginning of each calendar year in conjunction with our annual performance review process, which is described more fully below under the heading *Performance-Based Elements of Compensation Annual Cash Bonus and Equity Awards*.

The MDCC currently sets base salaries for each of our executive officers on the basis of a market analysis, on a position-by-position basis. At the beginning of the year we prepare tables for the MDCC's review, showing a comparison of each executive's prior year base salary and bonus opportunity, at the target level, to salaries and bonuses reported for executives with similar responsibilities at specified comparator companies. For a discussion of our practices in selecting comparator companies, the identity of our comparator companies, and our use of comparative compensation data, see the discussion below at *Compensation Decision Making Process Analysis of Compensation Practices of Comparator Companies*. We do not benchmark to a particular level of compensation relative to compensation levels at the comparator companies, but rather, make a subjective judgment about where each executive should fall in comparison with executives with similar responsibilities at the comparator companies, taking into account the executive's general level of experience and mastery, significance of job responsibilities to achievement of our business strategy and company goals, and general performance over time, including demonstration of the values and desirable behaviors under our core values program. On the basis of that information, and taking into consideration the executive's base salary for the previous year, the MDCC independently determines an appropriate salary for each named executive officer.

In January 2007 and February 2008, the MDCC analyzed each named executive's base salary and concluded that there was no need to make adjustments other than an across-the-board 3% increase. In making these determinations, the MDCC was provided and considered comparator group proxy data, industry survey data, the levels of named executives' salaries relative to one another, and our recommendation, as prepared by our director of compensation. The 2006, 2007 and 2008 salary levels for the named executive officers are set forth in a table under the heading *Compensation and Equity Tables Summary Compensation Table Base Salary*.

Performance-Based Elements of Compensation Annual Cash Bonus and Equity Awards

Two of the principal elements of our executive compensation program annual cash bonus and annual equity awards are awarded in amounts determined on the basis of performance, which is evaluated on an annual basis. The annual cash bonus is determined based on a formula that incorporates the executive's base salary, target bonus and both company-wide and individual performance ratings for the completed

year. Annual equity award amounts are adjusted to reflect the executive's individual performance rating for the preceding year.

At the beginning of each calendar year, our board of directors, in consultation with our chief executive officer, establishes company-wide goals for that year. Actual company performance against these goals is the most important factor considered by the board in accessing our performance, but our board also considers all other factors it deems relevant in its evaluation. The performance ratings are intended to reflect performance at one of the following levels:

Company Rating	Level of Company Performance
Leading	Exceptional performance across our business, including successful execution of our business plan, achievement of a very high proportion of our original goals, significant additional accomplishments exceeding our original goals, and the absence of significant business setbacks.
Strong	A high level of performance, in which a substantial majority of performance goals were met, and accomplishment of our business plan for the year.
Building	Failure to successfully implement the approved goals or to meet a substantial portion of the annual performance goals for any reason, including a failure of management to execute our business plan, or due to events outside our control that nonetheless had a meaningful negative impact on our performance.
Not Building	Unacceptable and disappointing performance. Significant improvement required and expected.

The MDCC evaluates executives' individual performances on a "results-based, values-tempered" basis, which takes into account not only "what" was accomplished, but "how" it was accomplished. The results-based component evaluates the executive officer's performance in his individual role and as a leader of our company in achieving our objectives. The possible individual results-based performance ratings are "leading," "strong," "building" or "not building," with standards comparable to the company ratings set forth in the above table. The values-tempered component of the individual evaluations builds upon our three company core values: "innovation is our lifeblood;" "fearless pursuit of excellence;" and "we wins." Under our Values into Practice program, we expect all employees to demonstrate our company core values in all aspects of job performance. We further expect that our executives will be stewards of our core values, and the performance ratings assigned to them incorporate our board's assessment of the strength of their leadership with respect to, and demonstration of, values-based behavior. This evaluation results in ratings of "not demonstrating," "living the values" or "exemplary demonstration." The "results" and "values" components of the individual rating combine for an overall individual rating of "leading-exemplary," "leading," "strong," "building" or "not building" as set forth in the following table.

Values Evaluation	Results Evaluation			
	Not Building	Building	Strong	Leading
Exemplary Demonstration	Not Possible	Strong	Leading	Leading/Exemplary
Living the Values	Not Building	Building	Strong	Leading
Not Demonstrating	Not Building	Not Building	Building	Not Possible

Edgar Filing: VERTEX PHARMACEUTICALS INC / MA - Form DEF 14A

The company-wide and individual performance ratings, along with other factors as described below, are applied to determine the size of awards made to the executives under our annual cash bonus program and stock and option plans.

Annual Cash Bonus

Our annual cash bonus program is designed to reward our employees, including the named executive officers, in the near term, for accomplishment of the previous year's annual performance objectives. The amount to be paid to each of the named executive officers under the annual cash bonus program is determined on the basis of the following formula:

Target Bonus		Performance Factors						
Base Salary	×	Individual Incentive Target (expressed as a percentage of base salary)	×	Company Performance Factor (expressed as a percentage of the target bonus)	×	Individual Performance Factor (expressed as a percentage of the target bonus)	=	Annual Cash Bonus Award

Target Bonus: The amount calculated by multiplying an employee's base salary by his or her individual incentive target is referred to as the target bonus. Individual incentive targets are established solely on the basis of responsibility level, and are higher for positions of greater responsibility. Thus, a greater portion of annual cash compensation salary plus bonus is "at risk" for our executives than for our non-executive employees, which is consistent with our policy that a significant portion of executive compensation should be performance-based and "at-risk."

The individual incentive targets assigned to each level were determined in 2005 using available information about comparator group companies at that time. In 2007, the MDCC engaged Hewitt Associates to conduct a review of available data about comparator company compensation. As a result of its analysis of these data, the MDCC concluded that the aggregate cash compensation base salary plus target bonus using the current incentive targets was in the appropriate range. Accordingly, the MDCC made no change to the executive bonus targets for 2007 from those in effect for 2006. The 2007 target bonus percentages were:

Position	Individual Incentive Target (expressed as a percentage of base salary)
Chief Executive Officer	60%
Executive Vice President	40%
Senior Vice President and Member of Executive Team	35%

Performance Factors: The target bonus is subject to adjustment on the basis of performance factors for the applicable year, based on both the individual and company performance ratings. These adjustments allow for payouts significantly above the target bonus in a year where both the individual executive and Vertex significantly exceed performance expectations. It also provides for awards significantly below the target bonus in years in which Vertex and/or the executive falls short of performance expectations.

Company Performance Factors. When our board of directors assigns a performance rating for the completed year, it also assigns two company performance factors one for our executives and one for all

other employees. The possible company ratings and corresponding company performance factor ranges for our executive officers are set forth in the table below.

Company Rating	Company Performance Factor
Not Building	0%-25%
Building	0%-80%
Strong	80%-120%
Leading	120%-150%

Individual Performance Factors. The possible individual ratings and corresponding individual performance factor ranges for our executive officers are set forth in the table below:

Individual Rating	Individual Performance Factor
Not Building	0%
Building	50%-80%
Strong	80%-120%
Leading	120%-150%

Annual Equity Awards

Stock awards made under our stock and option plans are granted to all eligible employees, including the named executive officers, for the purpose of creating a link between compensation and stockholder return, and to enable the named executive officers and employees to develop and maintain a significant stock ownership position in our company that will vest over time and act as an incentive for the employee to remain employed by us. The number of shares awarded increases with increased responsibility and with higher year-end individual performance ratings.

Under our current annual equity compensation program, each of the named executive officers is eligible for a combined grant of stock options and restricted stock, in amounts finally determined by the board of directors during the annual performance review process. Grants to employees typically are made under a stockholder-approved stock and option plan and are subject to vesting. All stock option awards are granted with an exercise price determined by averaging the high and low price of our common stock on the date of grant and vest quarterly over four years. Accordingly, the intrinsic value of any stock option grant is proportional to both the increase in fair market value of the stock between grant and exercise, and to the increasing number of vested shares over time. Accordingly, we grant stock options as a retention tool, progressively rewarding an executive for time-in-service. Stock options also serve to motivate executives to achieve company financial success, as stock options have realizable value only if the value of our common stock increases after the grant date.

All restricted stock awards made under our annual program to our named executive officers are issued at par value, or \$0.01, and vest on the fourth anniversary of the grant date, subject to accelerated vesting for certain performance-based factors. Shares that are vested may be sold by the holder without transfer restrictions. For all outstanding annual restricted stock grants made to executive officers, 50% of the shares vest if the market price of our stock achieves and maintains a pre-determined level, and 50% of the shares vest if our common stock price outperforms the Amex Biotechnology Index, or BTK Index, for two

consecutive years. We consider the price target to be confidential information, and choose it with the objective of triggering accelerated vesting only upon significant above-market performance of our stock. For all of these outstanding performance accelerating restricted stock awards, the pre-determined price was at least 50% greater than the fair market value of our common stock on the date of grant. For example, on March 17, 2004, when our stock price was \$9.69, the stock price target was set at \$20.00 per share and on February 3, 2005, when our stock price was \$10.41, the stock price target was set at \$20.00 per share. 50% of each of these grants vested on November 9, 2005, because the market price of our common stock achieved and maintained this stock price target. Restricted stock grants serve principally as a retention tool, because their value on the vesting date corresponds directly to the prevailing stock price at any point in time rather than to any increase over the prevailing stock price on the date of grant. Accordingly, restricted shares have value to the named executive officer even if we have suffered a setback and the price of our common stock has declined, assuming that the shares vest. They also are linked to performance, however, in the sense that they are more valuable if the stock price increases, and because they vest sooner if the performance-based accelerators are achieved. Additional information regarding our equity grant practices is set forth under the heading *Compensation Decision Making Process Equity Grant Practices*.

Beginning in 2005, including for 2007 performance, the named executive officers were eligible for equity grants in the amounts set forth in the following table:

	Rating							
	Building		Strong		Leading		Leading and Exemplary	
	Restricted Stock	Stock Options	Restricted Stock	Stock Options	Restricted Stock	Stock Options	Restricted Stock	Stock Options
Chief Executive Officer	22,027	165,200	31,467	236,000	39,334	295,000	47,201	354,000
Executive Vice President	6,767	50,750	9,667	72,500	12,084	90,625	14,501	108,750
Senior Vice President and Member of Executive Team	5,693	42,700	8,133	61,000	10,166	76,250	12,200	91,500

In each year beginning in 2003, our board of directors has, at its regularly scheduled summer meeting, awarded a mid-year stock option grant. Ordinarily, our board grants stock options to all eligible employees, including the named executive officers, in an amount that is 50% of the number of shares for a "strong" performance. This grant is considered part of the annual equity award related to performance in that year. Upon completion of the individual's annual performance evaluation early in the following year employees typically receive a second option award. At that time, we determine the aggregate number of shares to be awarded for the entire year on the basis of table above, and award the balance after subtracting the amount granted in the mid-summer award. The restricted stock award portion of annual equity compensation, as adjusted on the basis of the executive officer's individual performance rating, is made to each executive officer in a single grant in conjunction with the annual year-end review process.

Edgar Filing: VERTEX PHARMACEUTICALS INC / MA - Form DEF 14A

In February 2008, the board of directors issued equity awards to all employees on account of 2007 performance. As a result of our rapid growth, there were insufficient shares available for issuance under our 2006 Stock and Option Plan for all grants to be made under our annual performance-based program. Accordingly, our board of directors amended the 2006 Stock and Option Plan to add 536,625 shares, which corresponds to the number of shares subject to awards to our executive officers. This amendment is subject to stockholder approval. As a result, all grants to our executive officers, including the named executive officers, awarded in February 2008 on account of 2007 performance, are contingent upon obtaining stockholder approval of the February 2008 amendment to the 2006 Stock and Option Plan. These grants will terminate if approval of the amendment to our 2006 Plan is not obtained at or before our 2009 annual meeting of stockholders. See Proposal 3 on page 12.

2007 Compensation Decisions for Performance-Based Elements.

Company Rating For 2007, our board of directors evaluated overall 2007 performance against four high-level goals summarized below:

meet or exceed timelines in clinical, regulatory, quality, manufacturing, and commercial toward a successful launch of telaprevir;

continue to build portfolio in addition to telaprevir toward enablement of future new product launches;

maintain financial strength by balancing our net investment (loss) with balance sheet strength, enabling future investment and outperforming a specified index of biotechnology companies; and

enable long-term growth by prioritizing talent management, implementing mission-critical business processes, and maximizing external relationships.

Our board determined that our company performance rating was "Strong," and set the company performance factor for the executive bonus pool at 86%, which was at the low end of the possible range of performance factors (80% - 120%) based on a "Strong" rating. This rating was based on balancing positive accomplishments in advancing the telaprevir clinical development program and our portfolio of other drug candidates, and expanding our drug development, supply chain management and commercialization organizations, tempered by some delays in our telaprevir clinical development program and a decline in our stock price at the end of fiscal 2007 that could have affected our access to capital. In reaching this determination, the board considered the following:

Telaprevir We advanced the development of telaprevir by: analyzing and submitting to the United States Food and Drug Administration, or FDA, data from our PROVE 1 and PROVE 2 clinical trials to support the commencement of our Phase 3 clinical trials; completing enrollment of our PROVE 3 clinical trial; advancing our quality control capabilities; executing commercial supply agreements necessary to begin production of our commercial inventory; completing manufacture of registration batches and active pharmaceutical ingredient validation; obtaining formal scientific advice from regulatory authorities in Europe to support our global registration plan; and continuing to prepare our organization for eventual commercial operations. However, our agreement with the FDA on the design of a Phase 3 clinical trial was delayed until early 2008. As a result, we were not able to commence the ADVANCE Phase 3 clinical trial until the first quarter of 2008. Overall, our board wished to recognize our significant accomplishments with advancing telaprevir and

positioning us to capitalize on the development of telaprevir in 2008 and future years, but recognized that we had experienced delays during 2007.

Portfolio We met our goals with respect to advancement of the other drug candidates in our portfolio. We initiated Phase 2a and Phase 1 clinical trials of VX-770 and VX-809, our cystic fibrosis drug candidates, and a Phase 1 clinical trial of VX-500, a second generation HCV protease inhibitor. We also appropriately advanced VX-813, another second generation HCV drug candidate, and VX-509, our janus kinase 3 inhibitor, which were positioned to enter clinical trials in 2008.

Financial In 2007, we did not meet our financial objectives, which would have required us to achieve a net loss on the low end of the range for which we provided guidance, complete an equity or debt financing to maintain an appropriate balance between investment in our business and balance sheet strength and maintain or improve our stock price. Our 2007 actual net loss was on the high end of our guidance range and our stock price declined from the mid-\$30s in January 2007 to the mid-\$20s in December 2007. In addition, primarily as a result of the delays in reaching agreement with the FDA on the design of our ADVANCE clinical trial of telaprevir, we were not able to complete our equity and debt financing until February 2008.

Infrastructure In 2007, we met our infrastructure goals by expanding our capabilities in clinical development, regulatory affairs, quality control and commercial operations and by making significant progress in preparing for the commercial supply and marketing of telaprevir.

Although the directors discuss and analyze our performance as a group, each director makes his or her own judgment about which factors are important, and how to weight those factors in reaching a conclusion. We consider our annual corporate goals to be confidential information and closely guard this information, because we believe that our competitors could use it to modify their strategies to compete more effectively with us. As a result, the preceding discussion provides a more specific discussion of our goals relating to drug candidates in clinical trials, including telaprevir, and our financial goals, than our goals relating to pre-clinical drug candidates and business development activities.

Our corporate goals for every year are intended to be ambitious. Due to the high risks associated with developing and commercializing pharmaceutical products, we elect to diversify our research and development activities across a relatively broad array of disease indications and drug targets. While we expect that not all of our programs will be successful, we establish our annual goals as if they will be. Accordingly, our company performance ratings have varied widely in the last several years, reflecting successes and setbacks in our business. For example, during the period between 2003 and 2006, our company performance ratings were:

A "Leading" company rating, with a 140% company performance factor for our executive officers, for 2006 because our board believed that we achieved a very high proportion of our annual goals for 2006 across all significant aspects of our business. In 2006, we advanced our telaprevir clinical development program and secured a key collaborative relationship with Janssen Pharmaceutica for development and potential commercialization of telaprevir. We also achieved key development milestones for earlier stage compounds, and accomplished certain financial objectives, including the completion of a \$330 million common stock offering and reduction of our outstanding convertible indebtedness to approximately \$100 million.

A rating of "Distinguished" for 2005, which was the highest possible rating under a previous rating system that included seven possible company ratings. According to our board's assessment, we made progress in every significant aspect of our business in 2005. We advanced our development stage products, including telaprevir and VX-702 and supported our key collaborative relationships, including our relationships with GlaxoSmithKline, Merck, Mitsubishi Pharma, Kissei Pharmaceuticals and Novartis Pharma. We also entered into key new collaborative relationships including a worldwide collaboration with GlaxoSmithKline for development of VX-409 for the treatment of pain, and advanced a number of compounds, including a cystic fibrosis potentiator compound, from the discovery phase to pre-clinical development.

A rating of "Superior" for 2004, which was the second highest possible rating under our previous rating system. In 2004, our board believed that we made notable progress in every significant aspect of our business. We advanced our development-stage products, supported our key collaborative relationships, improved our financial performance, and advanced a number of compounds from the discovery phase to pre-clinical development.

A rating of "Needs Improvement" for 2003, which was the second lowest possible rating under the previous rating system. We suffered a number of setbacks in 2003, including the suspension of a clinical trial related to our leading drug candidate at that time and we did not substantially strengthen our financial position.

Individual Ratings for Named Executive Officers The MDCC individual rating recommendations for all of the named executives except for Mr. Kenneth Boger were based principally upon factors known to MDCC members from their interactions with the named executive officers during the year, including each officer's role in accomplishment of corporate goals, and the recommendation of our chief executive officer, Dr. Joshua Boger, made on the basis of Dr. Boger's independent assessment of the named executive's performance in 2007.

Dr. Boger discussed his own performance in 2007 with the MDCC. Dr. Boger noted that the company's performance rating was on the low end of the "strong" range. Dr. Boger suggested that his own results-based rating for 2007 performance should be "building," because he bore ultimate responsibility for the company's 2007 performance. The MDCC and board of directors agreed. As for values-based behavior, the MDCC believes that Dr. Boger is an exceptional leader who exhibits exemplary values-based behavior, and accordingly, assigned Dr. Boger a values-based rating of "exemplary demonstration."

Dr. Boger advised the MDCC about both results-based and values-based ratings for each of Mr. Smith, Dr. Mueller and Dr. Alam. With respect to results, Dr. Boger related each executive's performance to overall company results. For example, Dr. Boger recommended that Dr. Mueller receive a rating of "leading," because in addition to consistent and excellent research productivity, Dr. Mueller oversaw a year of extraordinary success for the pharmaceutical operations and chemistry, manufacturing and controls programs, particularly for the telaprevir Phase 3 clinical trial and launch preparation. Dr. Alam's clinical development organization successfully advanced a number of our later stage compounds, including telaprevir and VX-770, and completed the groundwork for obtaining FDA agreement in January 2008 to go forward with Phase 3 clinical trials of telaprevir, earning Dr. Alam a results-based rating of "strong." Mr. Smith's organization, which includes finance and accounting, properties, operations, information systems and strategic communications, also performed at a high level in supporting achievement of the corporate objectives detailed above, earning Mr. Smith a results-based rating of "strong." With respect to values-based evaluation, Dr. Boger recommended that each of

Mr. Smith and Dr. Alam be rated "living the values" because they demonstrated strong values-based behavior. Dr. Boger's assessment was that Dr. Mueller is an exemplar for the organization in terms of his commitment to innovation, excellence and synergy, and he recommended an "exemplary demonstration" rating for Dr. Mueller. The MDCC's ultimate assignment of results-based ratings to Mr. Smith, Dr. Mueller and Dr. Alam relied in part on Dr. Boger's recommendations, but diverged in some instances from his conclusion. The MDCC did place a heavy weight on Dr. Boger's recommendations with respect to values-based ratings, which the committee members believe to be more subjective and intangible, and difficult for board members to assess on the basis of limited contact with the executives.

Dr. Boger plays no role in the performance evaluation of his brother Kenneth S. Boger, who is our senior vice president and general counsel, and who reports directly to the Corporate Governance and Nominating Committee. Mr. Boger's performance rating is established by the board of directors upon the recommendation of the Corporate Governance and Nominating Committee. The Corporate Governance and Nominating Committee assigned Mr. Boger a results-based rating of "strong" as a result of his demonstrated excellence in advising both our board and executive management about a wide variety of business and legal matters, as well as his stewardship of the legal department. Mr. Boger received a values-based rating of "living the values" because he demonstrated strong values-based behavior.

Based on the foregoing, the MDCC recommended and the board of directors assigned the following performance ratings on account of 2007 performance to the named executive officers.

	Results Based		2007 Overall	Individual
	Evaluation	Values Based Evaluation	Performance Rating	Performance Factor
Joshua S. Boger	Building	Exemplary Demonstration	Strong	100%
Ian F. Smith	Strong	Living the Values	Strong	100%
John J. Alam	Strong	Living the Values	Strong	100%
Peter Mueller	Leading	Exemplary Demonstration	Leading/Exemplary	150%
Kenneth S. Boger	Strong	Living the Values		