VERTEX PHARMACEUTICALS INC / MA
Form S-3
June 10, 2004

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As filed with the Securities and Exchange Commission on June 10 , 2004

Registration Statement No. 333-

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM S-3

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

VERTEX PHARMACEUTICALS INCORPORATED

(Exact name of registrant as specified in its charter)

Massachusetts	**04-3039129**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

130 Waverly Street
Cambridge, Massachusetts 02139
617-444-6100
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Joshua S. Boger
Chief Executive Officer
Vertex Pharmaceuticals Incorporated
130 Waverly Street
Cambridge, Massachusetts 02139-4242
617-444-6100
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

Michael L. Fantozzi, Esq.	**Kenneth S. Boger, Esq.**
Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, PC	Senior Vice President and General Counsel
One Financial Center	Vertex Pharmaceuticals Incorporated
Boston, MA 02111	130 Waverly Street
617-542-6000	Cambridge, MA 02139
	617-444-6100

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO PUBLIC: As soon as practicable after this Registration Statement becomes effective.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. o

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. ý

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o _____

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o _____

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. o

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities To Be Registered	Amount To Be Registered	Proposed Maximum Offering Price Per Unit	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
5 3/4% Convertible Senior Subordinated Notes due February 15, 2011	$153,135,000 (1)	100%	$153,135,000	$19,403
Common Stock, par value $.01 per share	10,250,000(2)	(3)	(3)	(3)
Rights to purchase Series A Junior Participating Preferred Stock	(4)	(4)	(4)	(4)

(1) Equals the aggregate principal amount of the notes being registered.

(2) Represents the number of shares of common stock that are currently issuable upon conversion of the notes, based on the initial conversion price of $14.94 per share (equivalent to 66.9344 shares of common stock for each $1,000 principal amount of the notes). In addition, pursuant to Rule 416 under the Securities Act of 1933, the amount to be registered also includes an indeterminate number of shares of common stock that may be issued as a result of stock splits, stock dividends and antidilution provisions.

(3) No additional consideration will be received for the common stock, and, therefore, no registration fee is required pursuant to Rule 457(i).

(4) No separate consideration will be received for the rights.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, or until this Registration Statement shall become effective on such date as the SEC, acting pursuant to said Section 8(a), may determine.

THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. THE SELLING HOLDERS MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND IT IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

Subject to Completion, dated June 10, 2004

PROSPECTUS

VERTEX PHARMACEUTICALS INCORPORATED

$153,135,000 5¾% Convertible Senior Subordinated Notes Due 2011

10,250,000 Shares of Common Stock Issuable Upon Conversion of the Notes

Noteholders may offer for sale the notes and the shares of our common stock issuable upon conversion of the notes. See "Plan of Distribution." The notes have the following terms:

Holders may convert their notes at any time prior to maturity into shares of our common stock at a conversion price of $14.94 per share, which is subject to adjustment.

Holders may require us to repurchase all or a portion of their notes upon a change of control. We may, at our option, pay the change of control purchase price in cash, shares of our common stock (valued at 95% of the market price of our common stock), or a combination thereof.

We may redeem the notes for cash on or after February 15, 2007, in whole or in part, at a redemption price equal to 100% of the principal amount of the notes, plus accrued and unpaid interest, if any, up to, but excluding, the redemption date.

The notes are unsecured and subordinated to all of our existing and future senior indebtedness. The notes are senior to our 5% convertible subordinated notes due 2007.

Our common stock is quoted on the Nasdaq National Market under the symbol "VRTX." On June 7, 2004, the last sale price of our common stock was $9.19 per share. The notes are currently eligible for trading in the PORTAL market.

INVESTING IN THE NOTES OR OUR COMMON STOCK INVOLVES RISKS THAT ARE DESCRIBED IN THE "RISK FACTORS" SECTION BEGINNING ON PAGE 6 OF THIS PROSPECTUS.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY OTHER REGULATORY BODY HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this prospectus is , 2004

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Except as otherwise indicated, the "Company," "Vertex," "we" and "us," as used in this prospectus, refer to Vertex Pharmaceuticals Incorporated, a Massachusetts corporation, and its subsidiaries.

"Vertex" is a registered trademark of Vertex, and "E-VIPR" and "GenomeScreen," are trademarks of Vertex. "Agenerase" is a registered trademark, and "Lexiva" and "Telzir" are trademarks, of GlaxoSmithKline. "Prozei" is a trademark of Kissei Pharmaceutical Co., Ltd. Other brands, names and trademarks contained in this prospectus are the property of their respective owners.

SUMMARY

THIS SUMMARY MAY NOT CONTAIN ALL OF THE INFORMATION THAT YOU SHOULD CONSIDER BEFORE INVESTING IN THE NOTES OR THE SHARES OF COMMON STOCK ISSUABLE UPON THEIR CONVERSION. YOU SHOULD CAREFULLY READ THE ENTIRE PROSPECTUS AND THE DOCUMENTS WE HAVE INCORPORATED BY REFERENCE INTO THE PROSPECTUS.

We are a biotechnology company in the business of discovering, developing and commercializing small molecule drugs for serious diseases, including HIV infection, chronic hepatitis C virus infection, inflammatory and autoimmune disorders and cancer, independently and with collaborators. Our principal focus is on the development and commercialization of new treatments for viral and inflammatory diseases. There are two Vertex-discovered products on the market now for the treatment of HIV and AIDS. Our pipeline of potential products includes several drug candidates targeting chronic hepatitis C virus infection, drug candidates targeting inflammatory diseases such as rheumatoid arthritis, osteoarthritis, acute coronary syndromes and psoriasis, and compounds directed at cancer therapy.

Our goal is to mature into a profitable pharmaceutical company with industry-leading capabilities in research, development and commercialization of products. Our strategy is to continue building these capabilities as we advance our own product candidates to market. Our two marketed products to date were developed and commercialized in collaboration with GlaxoSmithKline, who provided us with development capacity, financial support, commercial capabilities, and other valuable resources. We plan to continue to collaborate with existing and new partners to develop and market other Vertex-discovered products for selected major therapeutic areas. We also have begun developing certain potential products independently, for markets in which we believe we can commercialize products effectively and reach large patient populations, but expend comparatively fewer resources by using a sales force focused on specialists. We believe this dual approach will help us diversify risk and create the greatest number of product development and commercialization opportunities for Vertex.

Partnerships are a key component of our corporate strategy. We have collaborations with Aventis, GlaxoSmithKline, Novartis, Serono, the Cystic Fibrosis Foundation, and other companies. These collaborations provide us with financial support and other valuable resources for our research programs, development resources for our clinical drug candidates, and marketing and sales support for our products. We have had a long and fruitful collaboration with GlaxoSmithKline, resulting in our two marketed drugs, Agenerase and Lexiva, and the advancement of a third HIV protease inhibitor, VX-385, into clinical development. We expect that GlaxoSmithKline will commence a Phase II trial of VX-385 in 2004. We currently are collaborating with Aventis in the development of pralnacasan, an ICE inhibitor for the treatment of rheumatoid arthritis, osteoarthritis and other inflammatory diseases. Our collaboration with Eli Lilly, now ended, produced one of our HCV drug candidates, VX-950.

We plan to continue adding promising potential products to our development pipeline through the conduct of our state-of-the-art research programs. Our drug design approach integrates biology, chemistry, biophysics, automation and information technologies to make the drug discovery process more efficient and productive. We believe that our drug discovery expertise is a distinguishing feature of the Company. We currently are conducting a productive research program in the area of ion channel modulation, and have been engaged in a broad-scale kinase inhibitor collaboration with Novartis since 2000. We expect that future development candidates from these programs will be focused on the treatment of wide variety of diseases and conditions, including cancer and neuropathic pain.

We also seek to opportunistically license and acquire technologies, resources and products that have the potential to strengthen our drug discovery platform, product pipeline and commercial capabilities.

In two independent transactions closed in March and December 2003, we sold the assets of our Discovery Tools and Services business for an aggregate of $101 million in cash and the assumption of certain liabilities. As a result of the disposition of these assets, we now operate in a single operating segment: Pharmaceuticals.

We were incorporated in Massachusetts in 1989, and our principal executive offices are located at 130 Waverly Street, Cambridge, Massachusetts, 02139.

Our Business Strategy

Our strategy is to:

- continue to advance our pipeline of potential products targeting the treatment of viral and inflammatory diseases;
- continue to collaborate with existing and new partners to develop and commercialize products for selected therapeutic areas;
- utilize our state-of-the-art research capability and drug design approach to create a strong flow of new products into clinical development; and
- license and acquire technologies and products that have the potential to strengthen our drug discovery platform and product pipeline.

Commercial Products and Clinical Development Programs

Our product pipeline is principally focused on viral diseases, inflammatory and autoimmune diseases, and cancer.

Therapeutic Area and Product Candidate	Clinical Indications	Development Phase	Company With Marketing Rights (Region)
Viral Diseases			
Agenerase (amprenavir)	HIV infection	Mktd	GlaxoSmithKline (Worldwide)*
Lexiva (fosamprenavir calcium)**	HIV infection	Mktd/MAA filed	GlaxoSmithKline (Worldwide)*
VX-385	HIV infection	Phase I	GlaxoSmithKline (Worldwide)*
Merimepodib (VX-497)	Chronic hepatitis C	Phase II	Vertex (Worldwide)
VX-950	Chronic hepatitis C	Phase I	Vertex (Worldwide)
Inflammation and Autoimmune Disease			
VX-765	Inflammatory/autoimmune diseases	Phase I	Vertex (Worldwide)
VX-702	Acute coronary syndromes; inflammatory diseases	Phase II	Kissei (Japan); Vertex (R.O.W.)
Pralnacasan (VX-740)	Rheumatoid arthritis (RA); osteoarthritis (OA); other inflammatory/autoimmune diseases	Phase II	Aventis (Worldwide)*
Cancer			
VX-680	Oncology	Preclin	Novartis (Worldwide)
VX-944	Oncology	Phase I	Vertex (Worldwide)

* Vertex has co-promotion rights in the U.S. and the E.U. Kissei has marketing rights to amprenavir (Prozei) in Japan.

** GlaxoSmithKline is seeking marketing approval in the E.U. under the name "Telzir ".

Vertex may elect by June 30, 2004 to continue the development of VX-680 under the original terms of the Novartis agreement, in which event Novartis will hold an option on worldwide commercial rights.

THE OFFERING

Securities offered	The resale by the selling holders of $153,135,000 principal amount of 5 3/4% Convertible Senior Subordinated Notes due February 15, 2011 and the 10,250,000 shares of common stock into which they are convertible.
Maturity of notes	February 15, 2011.
Interest	5 3/4% per annum on the principal amount, payable semiannually on February 15 and August 15, beginning on August 15, 2004. The interest rate may be re-set upon the occurrence of a Re-set Transaction described under "Description of the notes-Interest rate adjustments."
Conversion rights	The notes are convertible, at the option of the holder, at any time on or prior to maturity, into shares of our common stock at an initial conversion price of $14.94 per share, which is equal to an initial conversion rate of 66.9344 shares per $1,000 principal amount of notes. The initial conversion price is subject to adjustment.
Ranking	The notes will be unsecured obligations and will be (i) senior in right of payment to our 5% convertible subordinated notes due 2007 (the "5% notes") and any future obligations that are designated by us as subordinate to the notes; (ii) equal in right of payment with any existing or future obligations that are designated by us as, or otherwise determined to be, on a parity with the notes; and (iii) subordinated in right of payment to the prior payment in full of all our existing and future Senior Debt, as defined herein, each as described in the indenture for the notes. The notes will constitute "Designated Senior Debt" for purposes of the indenture for the 5% notes. At March 31, 2004, we had approximately $32.5 million of debt and capital lease obligations outstanding that would be senior to the notes. Because the notes are subordinated, in the event of bankruptcy, liquidation, dissolution or acceleration of payment on the senior debt, holders of the notes will not receive any payment until holders of the senior debt have been paid in full. The indenture under which the notes will be issued will not prevent us or our subsidiaries from incurring additional senior debt or other obligations.
Redemption of notes at our option	On or after February 15, 2007, we may, at our option, redeem the notes, in whole or in part, for cash, at a redemption price equal to 100% of the principal amount of notes to be redeemed, plus accrued and unpaid interest (including any liquidated damages), if any, up to, but excluding, the date of such redemption. See "Description of the notes-Redemption of notes at our option."

Change of control	Upon a change of control event, each holder of the notes may require us to repurchase some or all of its notes at a purchase price equal to 100% of the principal amount of the notes plus accrued and unpaid interest (including any liquidated damages), if any. We may, at our option, instead of paying the change of control purchase price in cash, pay it in shares of our common stock valued at 95% of the average of the closing sale prices of our common stock for the five trading days immediately preceding and including the third trading day prior to the date we are required to repurchase the notes. We cannot pay the change of control purchase price in common stock unless we satisfy the conditions described in the indenture for the notes.
Use of proceeds	We will not receive any of the proceeds from the sale of securities by the selling holders under this prospectus.
Risk factors	See "Risk Factors" and the other information in this prospectus for a discussion of the factors you should carefully consider before deciding to invest in the notes or our common stock.
Trading	The notes are eligible for trading in the PORTAL market; however, we can provide no assurance as to the liquidity of, or trading markets for, the notes. Our common stock is traded on the Nasdaq National Market under the symbol "VRTX."

RISK FACTORS

AN INVESTMENT IN THE SECURITIES OFFERED BY THIS PROSPECTUS INVOLVES A HIGH DEGREE OF RISK. YOU SHOULD CAREFULLY CONSIDER THE FOLLOWING FACTORS AND OTHER INFORMATION IN THIS PROSPECTUS BEFORE DECIDING TO PURCHASE THE NOTES OR OUR COMMON STOCK.

WE EXPECT TO INCUR FUTURE LOSSES AND WE MAY NEVER BECOME PROFITABLE.

We have incurred significant operating losses each year since our inception and expect to incur a significant operating loss in 2004. We believe that operating losses will continue beyond 2004, even if we receive significant future payments under our existing and future collaborative agreements, because we are planning to make significant investments in research and development, and will incur significant selling, general, and administrative expenses for our potential products. We expect that losses will fluctuate from quarter to quarter and year to year, and that such fluctuations may be substantial. We cannot predict when we will become profitable, if at all.

WE DO NOT KNOW WHETHER AGENERASE SALES WILL CONTINUE AT CURRENT LEVELS OR IF LEXIVA SALES WILL BE AT A LEVEL AT OR ABOVE SALES LEVELS FOR AGENERASE.

Agenerase's share of the worldwide protease inhibitor market may decrease due to competitive forces and market dynamics, including the launch of Lexiva, which took place in the fourth quarter of 2003. Similarly, Lexiva may face similar competitive pressures. Other HIV protease inhibitors and a number of other products, including Gilead's Viread, DuPont's Sustiva and GlaxoSmithKline's Ziagen, are on the market for the treatment of HIV infection and AIDS. Other drugs are still in development by our competitors, including Bristol Myers Squibb and Boehringer Ingelheim, which may have better efficacy, fewer side effects, easier administration and/or lower costs than Agenerase or Lexiva. Moreover, the growth in the worldwide market for HIV protease inhibitors has, to a certain extent, occurred as a result of early and aggressive treatment of HIV infection with a protease inhibitor-based regimen. Changes in treatment strategy, in which treatment is initiated later in the course of infection, or in which treatment is more often initiated with a regimen that does not include a protease inhibitor, may result in less use of HIV protease inhibitors. In addition, the clinical benefit of strategies used by clinicians to boost drug levels of Agenerase (and possibly Lexiva) by co-administering other antiretroviral agents may not prove to be effective, or may not result in increased revenues. As a result, the total market for protease inhibitors, in the U.S. and Europe, may decline, decreasing the sales potential of Agenerase and Lexiva. Further, although we co-promote Agenerase and Lexiva in the U.S. and key markets in Europe (if Lexiva is approved in Europe), GlaxoSmithKline directs the majority of the marketing and sales efforts and we will have little control over the success of those efforts. GlaxoSmithKline has the right to terminate its agreement with us without cause upon 12 months' notice.

WE MAY NOT SUCCESSFULLY DEVELOP OUR DRUG PIPELINE.

All of the products that we are pursuing independently and with partners will require extensive additional development, testing and investment, as well as regulatory approvals, prior to commercialization. Our product research and development efforts may not be successful. Our drug candidates may not enter preclinical, nonclinical or clinical studies as or when anticipated or receive the required regulatory approvals. Moreover, our products, if introduced, may not be commercially successful. The results of preclinical and initial clinical trials of products under development by us are not necessarily predictive of results that will be obtained from large-scale clinical testing. Clinical trials of products under development may not demonstrate the safety and efficacy of such products or result in a marketable product. Findings in nonclinical studies conducted concurrently with clinical studies could adversely impact the development of our products. In addition, the administration, alone or in

combination with other drugs, of any product developed by us may produce undesirable side effects in humans.

The failure to demonstrate adequately the safety and efficacy of a therapeutic drug under development could delay or prevent regulatory approval of the product and could have a material adverse effect on us. In addition, the FDA or regulatory authorities in other jurisdictions may require additional clinical or nonclinical studies, which could result in increased costs and significant development delays. While all or a portion of these additional costs may be covered by payments under our collaborative agreements, we bear all of the costs for our development candidates that are not partnered.

IF DELAYS IN PATIENT ENROLLMENT SLOW OUR DEVELOPMENT PROGRESS, WE MAY LOSE OUR COMPETITIVE ADVANTAGE OR BE UNABLE TO BRING OUR DRUGS TO MARKET.

The rate of completion of clinical trials of our products is dependent upon, among other factors, the rate of patient accrual. Patient accrual is a function of many factors, including the size of the patient population, the proximity of patients to clinical sites, the eligibility criteria for the trial, the level of compliance by the clinical sites to clinical trial protocols, and the availability of clinical trial material. Delays in patient enrollment in clinical trials may result in increased costs, program delays or both, which could have a material adverse effect on us. While all or a portion of these additional costs may be covered by payments under our collaborative agreements, we bear all of the costs for our development candidates that are not partnered. If our clinical trials are not completed, we may not be able to submit a new drug application. If we are able to file a new drug application, such application may not be reviewed and approved in a timely manner, if at all.

IF WE DO NOT OBTAIN REGULATORY APPROVAL FOR OUR PRODUCTS ON A TIMELY BASIS, OR AT ALL, OUR REVENUES WILL BE NEGATIVELY IMPACTED.

The FDA and comparable agencies in foreign countries impose substantial requirements on the introduction of therapeutic pharmaceutical products through lengthy and detailed laboratory and clinical testing procedures, sampling activities and other costly and time-consuming procedures. Satisfaction of these requirements typically can take many years and may vary substantially based upon the type, complexity and novelty of the pharmaceutical product. Data obtained from preclinical, nonclinical and clinical activities are susceptible to varying interpretations, which could delay, limit or prevent regulatory approval. In addition, delays or rejections may be encountered based on changes in, or additions to, regulatory policies for drug approval during the period of product development and regulatory review. The effect of government regulation may be to delay or prevent the commencement of planned clinical trials for our drug candidates in clinical development, including merimepodib, VX-385, VX-950, VX-765 and VX-702. It may also delay or prevent the commercialization of our products, including Lexiva (which is not yet approved in the European Union), which are developed and submitted for approval, for a considerable period of time, impose costly procedures upon our activities and provide competitive advantages to companies more experienced in regulatory affairs that compete with us. Moreover, even if approval is granted, such approval may entail limitations on the indicated uses for which a product may be marketed.

IF WE ARE UNABLE TO ATTRACT AND RETAIN COLLABORATIVE PARTNERS FOR RESEARCH SUPPORT AND THE DEVELOPMENT AND COMMERCIALIZATION OF OUR PRODUCTS, WE MAY NOT BE ABLE TO FUND OUR RESEARCH AND DEVELOPMENT ACTIVITIES.

Our collaborative partners have agreed to fund portions of our research and development programs and/or to conduct certain research and development relating to specified products. In exchange, we have given them technology, product and marketing rights relating to those products. Some of our corporate partners, including Novartis, GlaxoSmithKline and Aventis, have rights to

control the planning and execution of product development and clinical programs. Our collaborative partners may exercise their control rights in ways that may negatively affect the timing and success of those programs. Our collaborations are subject to termination rights by the collaborators. If any of Aventis, Novartis, GlaxoSmithKline or Serono were to terminate its relationship with us, or fail to meet its contractual obligations, it could have a material adverse effect on our ability to undertake research, to fund related and other programs and to develop, manufacture and market any products that may have resulted from the collaboration. We expect to seek additional collaborative arrangements to provide research support and to develop and commercialize our products in the future. For example, a significant portion of our overall research effort is conducted under our collaboration with Novartis in the kinase field. That collaboration will end by its terms in April 2006. If we are unable to enter into collaborative arrangements that would extend or replace the Novartis collaboration, or to find other means of financing the effort currently devoted to the Novartis collaboration, our ability to conduct our research, development and commercial activities could be adversely affected to a material degree. Even if we are able to establish acceptable collaborative arrangements in the future, they may not be successful. Under certain of our collaborative agreements, our collaborators have agreed to provide funding for only a portion of our research and development activities, and we are committed to investing our own capital to fund the remainder of the agreed-upon programs. However, we may not have adequate financial resources to satisfy those requirements.

IF WE LOSE OUR TECHNOLOGICAL ADVANTAGES, WE MAY NOT BE ABLE TO COMPETE IN THE MARKETPLACE.

We believe that our integrated drug discovery capability gives us a technological advantage over our competitors. However, the pharmaceutical research field is characterized by rapid technological progress and intense competition. As a result, we may not realize the expected benefits from these technologies. For example, a large pharmaceutical company, with significantly more resources than we have, could pursue a novel, systematic approach to discover drugs based on gene families using proprietary drug targets, compound libraries, compound approaches, structural protein analysis and information technologies. Such a company might identify broadly applicable compound classes faster and more effectively than we do, impeding our ability to develop and market drugs based on our approach. Further, we believe that interest in the application of structure-based drug design, parallel drug design and related approaches has accelerated as the strategies have become more widely understood. Businesses, academic institutions, governmental agencies and other public and private research organizations are conducting research to develop technologies that may compete with those we use. It is possible that our competitors could acquire or develop technologies that would render our technology obsolete or noncompetitive. For example, a competitor could develop information technologies that accelerate the atomic-level analysis of potential compounds that bind to the active site of a drug target, and predict the absorption, toxicity, and relative ease-of-synthesis of candidate compounds. If we were unable to access the same technologies at an acceptable price, our business could be adversely affected.

IF OUR COMPETITORS BRING SUPERIOR PRODUCTS TO MARKET OR BRING THEIR PRODUCTS TO MARKET BEFORE WE DO, WE MAY BE UNABLE TO FIND A MARKET FOR OUR PRODUCTS.

Our products in development may not be able to compete effectively with products that are currently on the market or new products that may be developed by others. There are many other companies developing products for the same indications that we are pursuing in development. In order to compete successfully in these areas, we must demonstrate improved safety, efficacy and ease of manufacturing and gain market acceptance over competing products that have received regulatory approval and are currently marketed. Many of our competitors, including major pharmaceutical companies such as GlaxoSmithKline, Novartis, Abbott and Merck, have substantially greater financial,

technical and human resources than we do. In addition, many of our competitors have significantly greater experience than we do in conducting preclinical testing and human clinical trials of new pharmaceutical products, and in obtaining FDA and other regulatory approvals of products. Accordingly, our competitors may succeed in obtaining regulatory approval for products more rapidly than we do. If we obtain regulatory approval and launch commercial sales of our products, we will also compete with respect to manufacturing efficiency and sales and marketing capabilities, areas in which we currently have limited experience.

THE LOSS OF THE SERVICES OF KEY EMPLOYEES OR THE FAILURE TO HIRE QUALIFIED EMPLOYEES WOULD NEGATIVELY IMPACT OUR BUSINESS AND FUTURE GROWTH.

Because our products are highly technical in nature, we require the services of highly qualified and trained scientists who have the necessary skills to develop our products. Our future success will depend in large part on the continued services of our key scientific and management personnel, including Dr. Joshua Boger, our Chief Executive Officer, and Dr. Vicki L. Sato, our President. While we have entered into employment agreements with Dr. Boger and Dr. Sato, they provide for termination by the employee upon six months' notice.

We face intense competition for our scientific personnel from our competitors, our collaborative partners and other companies throughout our industry. Moreover, the growth of local biotechnology companies and the expansion of major pharmaceutical companies into the Cambridge, Massachusetts area has increased competition for the available pool of skilled employees, especially in technical fields, and the high cost of living in the Boston and San Diego areas makes it difficult to attract employees from other parts of the country. A failure to retain, as well as hire, train and effectively integrate into our organization a sufficient number of qualified scientists and professionals would negatively impact our business and our ability to grow our business. In addition, the level of funding under certain of our collaborative agreements, in particular the Novartis collaboration, depends on the number of our scientists performing research under those agreements. If we cannot hire and retain the required personnel, funding received under the agreements may be reduced.

IF WE FAIL TO MANAGE OUR GROWTH EFFECTIVELY, OUR BUSINESS MAY SUFFER.

We expect that if our clinical candidates continue to progress in development, we continue to build our commercial organization and our drug discovery efforts continue to generate drug candidates, we will require significant additional investment in personnel, management systems and resources. Our ability to commercialize our products, achieve our research and development objectives, and satisfy our commitments under our collaboration agreements depends on our ability to respond effectively to these demands and expand our internal organization to accommodate additional anticipated growth. If we are unable to manage our growth effectively, there could be a material adverse effect on our business.

WE DEPEND ON THIRD PARTY MANUFACTURERS, AND IF WE ARE UNABLE TO OBTAIN CONTRACT MANUFACTURING ON REASONABLE TERMS, WE MAY NOT BE ABLE TO DEVELOP OR COMMERCIALIZE OUR PRODUCTS.

Our ability to conduct clinical trials and our ability to commercialize our potential products will depend, in part, on our ability to manufacture our products on a large scale, either directly or through third parties, at a competitive cost and in accordance with FDA and other regulatory requirements. We have no experience in manufacturing pharmaceuticals or other products, and we may not be able to develop such capabilities in the foreseeable future. In addition, some of our current corporate partners have manufacturing rights with respect to our products under development. We are, therefore, dependent on third party manufacturers and our collaborative partners for the production of our drug candidates for preclinical research, clinical trial purposes and commercial production. Accordingly, if we are not able to obtain contract manufacturing from these third parties on commercially reasonable

terms, we may not be able to conduct or complete clinical trials or commercialize our products as planned. Further, commercial formulation and manufacturing processes have yet to be developed for our drug candidates other than Agenerase and Lexiva. As a result, our collaborators or we may encounter difficulties developing commercial formulations and manufacturing processes for our drug candidates that could result in delays in clinical trials, regulatory submissions, regulatory approvals and commercialization of our products.

IF OUR PATENTS DO NOT PROTECT OUR PRODUCTS, OR OUR PRODUCTS INFRINGE THIRD-PARTY PATENTS, WE COULD BE SUBJECT TO LITIGATION AND SUBSTANTIAL LIABILITIES.

We have numerous patent applications pending in the United States, as well as foreign counterparts in other countries. Our success will depend, in significant part, on our ability to obtain and maintain United States and foreign patent protection for our products, their uses and our processes to preserve our trade secrets and to operate without infringing the proprietary rights of third parties. We do not know whether any patents will issue from any of our patent applications or, even if patents issue or have issued, that the issued claims will provide us with any significant protection against competitive products or otherwise be valuable commercially. Legal standards relating to the validity of patents and the proper scope of their claims in the biopharmaceutical field are still evolving, and there is no consistent law or policy regarding the valid breadth of claims in biopharmaceutical patents or the effect of prior art on them. If we are not able to obtain adequate patent protection, our ability to prevent competitors from making, using and selling competing products will be limited. Furthermore, our activities may infringe the claims of patents held by third parties. Defense and prosecution of infringement or other intellectual property claims, as well as participation in other inter-party proceedings, can be expensive and time-consuming, even in those instances in which the outcome is favorable to us. If the outcome of any such litigation or proceeding were adverse, we could be subject to significant liabilities to third parties, could be required to obtain licenses from third parties or could be required to cease sales of affected products, any of which outcomes could have a material adverse effect on our consolidated financial position.

WE MAY NEED TO RAISE ADDITIONAL CAPITAL THAT MAY NOT BE AVAILABLE.

We expect to incur substantial research and development and related supporting expenses as we design and develop existing and future compounds and undertake clinical trials of potential drugs resulting from such compounds. We also expect to incur substantial administrative and commercialization expenditures in the future and substantial expenses related to the filing, prosecution, defense and enforcement of patent and other intellectual property claims. We anticipate that we will finance these substantial cash needs with:

- cash received from our existing collaborative agreements;
- cash received from new collaborative agreements;
- Agenerase and Lexiva royalty revenue;
- existing cash reserves, together with interest earned on those reserves; and
- future product sales to the extent that we market products directly.

We expect that funds from these sources will be sufficient to fund our planned activities for at least the next 18 months. If not, it will be necessary to raise additional funds through public offerings or private placements of equity or debt securities or other methods of financing. Any equity financings could result in dilution to our then-existing securityholders. Any debt financing, if available at all, may be on terms that, among other things, restrict our ability to pay dividends and interest (although we do not intend to pay dividends for the foreseeable future). The required interest payments associated with

any significant additional debt financing could materially adversely impact our ability to service our convertible subordinated notes and convertible senior subordinated notes. The terms of any additional debt financing may also, under certain circumstances, restrict or prohibit us from making interest payments on our convertible subordinated notes and convertible senior subordinated notes. If adequate funds are not available, we may be required to curtail significantly or discontinue one or more of our research, drug discovery or development programs (including clinical trials), or attempt to obtain funds through arrangements with collaborative partners or others that may require us to relinquish rights to certain of our technologies or products in research or development. Additional financing may not be available on acceptable terms, if at all.

OUR SALES AND MARKETING EXPERIENCE IS LIMITED.

We have little experience in marketing and selling pharmaceutical products. We must either develop a marketing and sales force or enter into arrangements with third parties to market and sell any of our product candidates that are approved by the FDA. We do not know whether we will be able to enter into marketing and sales agreements with others on acceptable terms, if at all. We may not be able to successfully develop our own sales and marketing force for drug candidates for which we have retained marketing or co-promotion rights. If we develop our own marketing and sales capability, we may be competing with other companies that currently have experienced and well-funded marketing and sales operations. We have granted exclusive marketing rights for Agenerase and Lexiva to GlaxoSmithKline worldwide (except for amprenavir in Japan), and for pralnacasan to Aventis worldwide. Kissei has exclusive marketing rights to Prozei (amprenavir) and VX-702 in Japan. Even though we retain some co-promotion rights, to the extent that our collaborative partners have commercial rights to our products, any revenues we receive from those products will depend primarily on the sales and marketing efforts of others.

IF WE INCUR PRODUCT LIABILITY EXPENSES, OUR EARNINGS COULD BE NEGATIVELY IMPACTED.

Our business will expose us to potential product liability risks that arise from the testing, manufacturing and sales of our products. In addition to direct expenditures for damages, settlement and defense costs, there is the possibility of adverse publicity as a result of product liability claims. These risks will increase as our products receive regulatory approval and are commercialized. We currently carry $15 million of product liability insurance. This level of insurance may not be sufficient. Moreover, we may not be able to maintain our existing levels of insurance or be able to obtain or maintain additional insurance that we may need in the future on acceptable terms.

In addition, our research and development activities may from time to time involve the controlled use of hazardous materials, including hazardous chemicals and radioactive materials. Accordingly, we are subject to federal, state and local laws governing the use, handling and disposal of these materials. Although we believe that our safety procedures for handling and disposing of hazardous materials comply with regulatory requirements, we cannot completely eliminate the risk that accidental contamination or injury from these materials could expose us to significant liability.

WE HAVE ADOPTED ANTI-TAKEOVER PROVISIONS THAT MAY FRUSTRATE ANY ATTEMPT TO REMOVE OR REPLACE OUR CURRENT MANAGEMENT.

Our corporate charter and by-law provisions and stockholder rights plan may discourage certain types of transactions involving an actual or potential change of control of Vertex which might be beneficial to the company or its securityholders. Our charter provides for staggered terms for the members of the Board of Directors. Our by-laws grant the directors a right to adjourn annual meetings of stockholders, and certain provisions of the by-laws may be amended only with an 80% stockholder vote. Pursuant to our stockholder rights plan, each share of common stock has an associated preferred share purchase right. The rights will not trade separately from the common stock until, and are exercisable only upon, the acquisition or the potential acquisition through tender offer by a person or group of 15% or more of the outstanding common stock. We may issue shares of any class or series of preferred stock in the future without stockholder approval and upon such terms as our Board of Directors may determine. The rights of the holders of common stock will be subject to, and may be adversely affected by, the rights of the holders of any class or series of preferred stock that may be issued in the future. As a result, shareholders or other parties may find it more difficult to remove or replace our current management.

OUR STOCK PRICE MAY FLUCTUATE BASED ON FACTORS BEYOND OUR CONTROL.

Market prices for securities of companies such as Vertex are highly volatile. Within the 12 months ended March 31, 2004, our common stock traded between $7.83 and $18.75. The market for our stock, like that of other companies in the biotechnology field, has from time to time experienced significant price and volume fluctuations that are unrelated to our operating performance. The future market price of our securities could be significantly and adversely affected by factors such as:

announcements of results of clinical or nonclinical trials;

announcements of financial results and other operating performance measures, or capital structuring activities;

technological innovations or the introduction of new products by our competitors;

government regulatory action;

public concern as to the safety of products developed by others;

developments in patent or other intellectual property rights or announcements relating to these matters;

developments in domestic and international governmental policy or regulation, for example relating to intellectual property rights; and

developments and market conditions for pharmaceutical and biotechnology stocks, in general.

OUR OUTSTANDING INDEBTEDNESS MAY MAKE IT MORE DIFFICULT TO OBTAIN ADDITIONAL FINANCING OR REDUCE OUR FLEXIBILITY TO ACT IN OUR BEST INTERESTS.

As of March 31, 2004, we had approximately $333.5 million in long-term debt, including $161.9 million of our 5% notes. The notes offered hereby were issued in a transaction completed on February 13, 2004, in which we exchanged $153.1 million of our 5% notes for $153.1 million of our 5 3/4% Convertible Senior Subordinated Notes due September 2011. The high level of our indebtedness will impact us by:

exposing us to fixed rates of interest which may be in excess of prevailing market rates;

making it more difficult to obtain additional financing for working capital, capital expenditures, debt service requirements or other purposes;

constraining our ability to react quickly in an unfavorable economic climate or to changes in our business, or the pharmaceutical industry; and

requiring the dedication of a substantial portion of our expected cash flow to service of our indebtedness, thereby reducing the amount of expected cash flow available for other purposes.

IF WE ARE NOT ABLE TO RESTRUCTURE OUR KENDALL SQUARE LEASE ON ACCEPTABLE TERMS, OR AT ALL, WE COULD BE OBLIGATED TO PAY AS MUCH AS THE FULL AMOUNT DUE UNDER THE LEASE, AS AND WHEN DUE UNDER THE LEASE AGREEMENT.

We have decided not to occupy a facility located in Kendall Square, Cambridge, Massachusetts that we lease under a 15-year agreement expiring in 2018. We have estimated our liability to restructure the lease, using assumptions and estimates we consider appropriate, to be $59.9 million as of March 31, 2004. If we are unable to find a tenant or tenants willing to sublease the facility on the terms we have incorporated into our estimate, including the rental rate, timing and term of any such sublease(s), or if the market for specialized laboratory space in Cambridge, Massachusetts or other real estate fundamentals should change before we are able to secure a sublease of the space, or if any of our other assumptions and estimates are inaccurate or circumstances bearing upon the potential restructuring should change before we are able to restructure the lease, or if we are unable to reach agreement with the landlord on the terms of any such restructuring, our estimated liability could increase to as much as the full amount due under the lease. Our future obligations under the lease could be as much as $312,500,000, as set forth in "Off-Balance Sheet Commitments and Obligations at December 31, 2003" on page 40 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2003.

OUR REVENUE DEPENDS AND WILL LIKELY CONTINUE TO DEPEND ON A LIMITED NUMBER OF PRODUCTS.

We derive a portion of our revenue from royalties earned from the sale of our two marketed products. We believe that royalties from the sales of a limited number of products will continue to constitute a portion of our revenue for the foreseeable future. Accordingly, any factor adversely affecting sales of any of these products could also have a material adverse effect on our business, financial condition and results of operations.

MARKET ACCEPTANCE OF OUR PRODUCTS WILL BE LIMITED IF USERS OF OUR PRODUCTS ARE UNABLE TO OBTAIN ADEQUATE REIMBURSEMENT FROM THIRD-PARTY PAYORS.

The commercial success of Agenerase and Lexiva, the two marketed products on which we receive royalties, will depend in part on the availability of reimbursement from third-party payors, including government health administrators, managed care providers and private health insurers. Third-party payors are increasingly challenging the pricing of pharmaceutical products. Additionally, third-party payors may conclude that Agenerase or Lexiva are less safe, less effective or less cost-effective than existing products. We cannot assure you that third-party payors will provide reimbursement for Agenerase or Lexiva, in whole or in part. If third-party payors do not provide adequate reimbursement for Agenerase or Lexiva, the sale of these products may not be profitable to our partners and they may stop selling Agenerase or Lexiva, thus terminating the royalties we receive on sales of these products.

THE RECENT MEDICARE PRESCRIPTION DRUG COVERAGE LEGISLATION AND FUTURE LEGISLATIVE OR REGULATORY REFORM OF THE HEALTHCARE SYSTEM MAY AFFECT OUR PARTNERS' ABILITY TO SELL AGENERASE OR LEXIVA PROFITABLY.

In the United States, there have been a number of legislative and regulatory proposals to change the healthcare system in ways that could affect our partners' ability to market and sell Agenerase or Lexiva profitably. In particular, in December 2003, President Bush signed into law new Medicare prescription drug coverage legislation. Under this legislation, the Centers for Medicare and Medicaid Services, or CMS, the agency within the Department of Health and Human Services that administers Medicare and will be responsible for reimbursement of the cost of drugs, has asserted the authority of Medicare to elect not to cover particular drugs if CMS determines that the drugs are not "reasonable and necessary" for Medicare beneficiaries or to elect to cover a drug at a lower rate similar to that of drugs that CMS considers to be "therapeutically comparable". Further federal and state proposals and healthcare reforms are likely and legislation and regulations affecting the pricing of pharmaceuticals may change in ways adverse to us. For example, the potential for importation of lower-priced drugs from foreign sources may limit or erode sales of Agenerase or Lexiva, negatively impacting the amount of royalties we receive.

GOVERNMENT INVESTIGATIONS OR LITIGATION AGAINST OUR PARTNERS COULD IMPACT OUR BUSINESS.

The federal government, certain state governments and private payors are investigating and have begun to file actions against numerous pharmaceutical and biotechnology companies alleging that the reporting of prices for pharmaceutical products has resulted in a false and overstated Average Wholesale Price, or AWP, which in turn is alleged to have improperly inflated the reimbursement paid by Medicare beneficiaries, insurers, state Medicaid programs, medical plans and others to health care providers who prescribed and administered those products. Some payors are also alleging that pharmaceutical and biotechnology companies are not reporting their "best price" to the states under the Medicaid program. In any AWP cases where our partners are named as defendants, the outcome of the case could have an adverse effect on our financial results.

SALES OF ADDITIONAL SHARES OF OUR COMMON STOCK COULD CAUSE THE PRICE OF OUR COMMON STOCK TO DECLINE.

Sales of substantial amounts of our common stock in the open market, or the availability of such shares for sale, could adversely affect the price of our common stock. As of June 7, 2004, we had 79,909,030 shares of common stock outstanding, excluding shares reserved for issuance upon the exercise of outstanding stock options, employee stock purchase and 401(k) plans. As of June 7, 2004, we had granted stock options to purchase 16,438,616 shares of our common stock at a weighted average exercise price of $23.03 per share, subject to adjustment in certain circumstances. Of this total, 10,602,835 currently exercisable at an average exercise price of approximately $23.66 per share. The shares of our common stock that may be issued under the options will be freely tradable or transferable pursuant to an effective registration statement.

THE NOTES ARE SUBORDINATED TO ANY EXISTING AND FUTURE SENIOR DEBT.

The notes are unsecured and contractually subordinated in right of payment to our existing and future senior debt. As of March 31, 2004, we had approximately $32.5 million of debt and capital lease obligations outstanding that would be senior to the notes. The indenture under which the notes were issued does not limit the creation of additional senior debt or any other indebtedness. Any significant additional senior debt incurred may materially adversely impact our ability to service our debt, including the notes. Due to subordination provisions contained in the indenture under which the notes were issued and other agreements relating to our senior debt, in the event of our bankruptcy,

liquidation, dissolution or acceleration of payment on senior debt, funds which we would otherwise use to pay the holders of the notes will be used to pay the holders of senior debt to the extent necessary to pay the senior debt in full. As a result of these payments, our general creditors may recover less, ratably, than the holders of our senior debt and such general creditors may recover more, ratably, than the holders of our notes or our other subordinated indebtedness. In addition, the holders of senior debt may, under certain circumstances, restrict or prohibit us from making payments on the notes.

OUR ABILITY TO REPURCHASE NOTES, IF REQUIRED, MAY BE LIMITED.

In certain circumstances involving a change of control, each holder of the notes may require us to repurchase some or all of the holder's notes. If certain conditions described in the indenture are met, we may, at our option, pay the change of control purchase price in shares of our common stock instead of cash. Purchasing the notes with a payment of stock may not be possible, and if the change in control purchase price is to be made in cash, we may not have sufficient financial resources at such time and we may not be able to arrange financing to pay the repurchase price of the notes. Our ability to repurchase the notes in such event may be limited by law, the indenture, by the terms of other agreements relating to our senior debt and as such indebtedness and agreements may be entered into, replaced, supplemented or amended from time to time. We may be required to refinance our senior debt in order to make such payments.

IF AN ACTIVE TRADING MARKET FOR THE NOTES IS NOT SUSTAINED THE VALUE OF THE NOTES MAY DECREASE.

Although the notes are eligible for trading in the PORTAL market, an active trading market for the notes may not be sustained. If an active market for the notes fails to be sustained, the trading price of the notes could fall. Whether or not the notes will trade at lower prices depends on many factors, including:

prevailing interest rates and the markets for similar securities;

general economic conditions; and

our financial condition, historic financial performance and future prospects.

ANY RATING OF THE NOTES MAY CAUSE THEIR TRADING PRICE TO FALL.

If the rating agencies rate the notes, they may assign a lower rating than expected by investors. Rating agencies may also lower ratings on the notes in the future. If the rating agencies assign a lower than expected rating or reduce their ratings in the future, the trading price of the notes could decline.

FORWARD-LOOKING STATEMENTS

This prospectus contains some forward-looking statements. Forward-looking statements give our current expectations or forecasts of future events. You can identify these statements by the fact that they do not relate strictly to historical or current facts. Such statements may include words such as "anticipate," "estimate," "expect," "project," "intend," "plan," "believe" and other words and terms of similar meaning in connection with any discussion of future operating or financial performance. In particular, these statements include, among other things, statements relating to:

- our business strategy;
- our predicted development and commercial timelines;
- the selection, development and approval of our products;
- the establishment, development and maintenance of collaborative partnerships;
- our ability to identify and develop new potential products;
- our ability to achieve commercial acceptance of our products;
- our ability to scale up our manufacturing capabilities and facilities;
- our estimates regarding liabilities associated with our Kendall Square lease;
- the potential for the acquisition of new and complementary technologies, resources and products;
- our projected capital expenditures; and
- our liquidity.

Any or all of our forward-looking statements in this prospectus may turn out to be wrong. They can be affected by inaccurate assumptions we might make or by known or unknown risks and uncertainties. Many factors mentioned in our discussion in this prospectus will be important in determining future results. Consequently, no forward-looking statement can be guaranteed. Actual future results may vary materially.

We note that we provide a cautionary discussion of risks and uncertainties under "Risk Factors" beginning on page 6 of this prospectus. These are factors that we think could cause our actual results to differ materially from expected results. Other factors besides those listed there could also adversely affect us.

RATIO OF EARNINGS TO FIXED CHARGES

We present below the ratio of our earnings to our fixed charges. Earnings consist of loss from continuing operations before cumulative effects of changes in accounting principles and loss of equity investee plus fixed charges. Fixed charges consist of interest expense and amortization of deferred issuance costs and that portion of rental obligations we believe to be representative of interest.

	Year ended December 31,					
Ratio of earnings to fixed charges	1999	2000	2001	2002	2003	Three months ended March 31, 2004
	(1)	(1)	(1)	(1)	(1)	(1)

(1) Due to our loss from continuing operations for the years ended December 31, 1999, 2000, 2001, 2002, 2003, and for the three months ended March 31, 2004 earnings were insufficient to cover fixed charges by $47.6 million, $41.4 million, $79.6 million, $137.0 million, $266.4 million, and $40.4 million, respectively. For this reason, no ratios are provided.

USE OF PROCEEDS

We will not receive any of the proceeds from the sale by the selling holders of the notes or of our common stock under this prospectus.

DESCRIPTION OF THE NOTES

The notes were issued under an indenture between us and US Bank National Association, as trustee, dated February 13, 2004. We will make copies of the indenture, notes and registration rights agreement available to prospective investors in the notes upon request to us. A copy of the indenture is filed with the Securities and Exchange Commission as an exhibit to the registration statement of which this prospectus forms a part. We have summarized portions of the indenture below. This summary is not complete. We urge you to read the indenture because it defines your rights as a holder of the notes. Terms not defined in this description have the meanings given them in the indenture. In this section, "Vertex", "we", "our" and "us" each refers only to Vertex Pharmaceuticals Incorporated and not to any existing or future subsidiary.

General

The notes are unsecured, senior subordinated obligations of Vertex and will be convertible into our common stock as described under " Conversion rights" below. The notes are limited to an aggregate principal amount of $153,135,000 and will mature on February 15, 2011. There is no sinking fund for the notes.

The notes bear interest at the rate of 5¾% per year from the date of issuance of the notes, or from the most recent date to which interest had been paid or provided for, subject to adjustment upon the occurrence of a Re-set Transaction. See " Interest rate adjustments" below. Interest is payable semi-annually on February 15 and August 15 of each year, commencing August 15, 2004, to holders of record at the close of business on the preceding February 1 and August 1, respectively. Interest is computed on the basis of a 360-day year comprised of twelve 30-day months. In the event of the maturity, conversion, purchase by us at the option of the holder, or redemption of a note, interest will cease to accrue on the note under the terms of and subject to the conditions of the indenture.

Principal will be payable, and notes may be presented for conversion, registration of transfer and exchange, without service charge, at our office or agency in New York City, which shall initially be the office or agency of the trustee in New York, New York.

The indenture does not contain any financial covenants or any restrictions on the payment of dividends, the incurrence of senior debt or other indebtedness, or the issuance or repurchase of securities by us. The indenture contains no covenants or other provisions to protect holders of the notes in the event of a highly leveraged transaction or a change in control, except to the extent described under " Interest rate adjustments" and under " Change of control requires purchase of notes at the option of the holder" below.

The notes and the common stock issuable upon conversion of the notes may not be sold or otherwise transferred except in compliance with the provisions set forth under "Restrictions on transfer of the notes."

Interest rate adjustment

If a Re-set Transaction occurs, the interest rate will be adjusted to the Adjusted Interest Rate from the effective date of the Re-set Transaction up to, but not including, the effective date of any succeeding Re-set Transaction.

A "Re-set Transaction" means:

- a merger, consolidation or share exchange to which the entity that is the issuer of the common stock into which the notes are convertible into is a party;
- a sale of all or substantially all of the assets of that entity;
- a recapitalization of that common stock; or
- certain dividends or other distributions to all holders of our common stock of shares of our capital stock or evidences of our indebtedness or certain securities;

after the effective date of which transaction or distribution, the new notes would be convertible into (i) shares of an entity, the common stock of which had a dividend yield for the four fiscal quarters of such entity immediately preceding the public announcement of the transaction or distribution that was more than 2.5% higher than the dividend yield on our common stock (or other common stock then issuable upon conversion of the notes) for the four fiscal quarters preceding the public announcement of the transaction or distribution; or (ii) shares of an entity that announces a dividend policy prior to the effective date of the transaction or distribution, which policy, if implemented, would result in a dividend yield on that entity's common stock for the next four fiscal quarters that would result in such a 2.5% increase.

The "Adjusted Interest Rate" with respect to any Re-set Transaction will be the rate per year that is the arithmetic average of the rates quoted by two dealers engaged in the trading of convertible securities selected by us or our successor as the rate at which interest should accrue so that the fair market value, expressed in dollars, of a new note immediately after the later of the public announcement of the Re- set Transaction; or the public announcement of a change in dividend policy in connection with the Re-set Transaction, will equal the average Trading Price of a new note for the 20 trading days preceding the date of public announcement of the Re-set Transaction.

However, the Adjusted Interest Rate will not be less than $5^{3}/_{4}$% per year.

For purposes of the definition of Re-set Transaction, the "dividend yield" on any security for any period means the dividends paid or proposed to be paid pursuant to an announced dividend policy on the security for that period divided by, if with respect to dividends paid on that security, the average Closing Price (as defined in the indenture) of the security during that period and, if with respect to dividends proposed to be paid on the security, the Closing Price of such security on the effective date of the related Re-set Transaction.

The "Trading Price" of a security on any date of determination means:

- the closing sale price (or, if no closing sale price is reported, the last reported sale price) of a security (regular way) on the New York Stock Exchange ("NYSE") on that date;

- if that security is not listed on the NYSE on that date, the closing sale price as reported in the composite transactions for the principal U.S. securities exchange on which that security is listed;

- if that security is not so listed on a U.S. national or regional securities exchange, the closing sale price as reported by the Nasdaq National Market;

- if that security is not so reported, the last price quoted by Interactive Data Corporation for that security or, if Interactive Data Corporation is not quoting such price, a similar quotation service selected by us, if that security is not so quoted, the average of the mid-point of the last bid and ask prices for that security from at least two dealers recognized as market-makers for that security; or

- if that security is not so quoted, the average of the last bid and ask prices for that security from a dealer engaged in the trading of convertible securities.

Subordination

The notes will be unsecured obligations and will be (i) senior in right of payment to the 5% notes and any future obligations that are designated by us as subordinate to the notes; (ii) equal in right of payment with any existing or future obligations that are designated by us as, or otherwise determined to be, on a parity with the notes; and (iii) subordinated in right of payment to the prior payment in full of all our existing and future Senior Debt, each as described in the indenture for the notes. The notes will constitute "Designated Senior Debt" for purposes of the indenture for the 5% notes.

At March 31, 2004, we had approximately $32.5 million of debt and capital lease obligations outstanding that would be senior to the notes. The indenture does not restrict the incurrence by us or our subsidiaries of indebtedness or other obligations.

The term "Senior Debt" is defined in the indenture to mean the principal of, premium, if any, interest (including all interest accruing subsequent to the commencement of any bankruptcy or similar proceeding, whether or not a claim for post-petition interest is allowable as a claim in any such proceeding) and rent payable on or termination payment with respect to or in connection with, and all fees, costs, expenses and other amounts accrued or due on or in connection with, our Indebtedness, whether outstanding on the date of the indenture or subsequently created, incurred, assumed, guaranteed or in effect guaranteed by us (including all deferrals, renewals, extensions or refundings of, or amendments, modifications or supplements to, the foregoing), except for:

- any Indebtedness that by its terms expressly provides that such Indebtedness shall not be senior in right of payment to the notes or expressly provides that such Indebtedness is equal with or junior to the notes;

- any Indebtedness represented by the 5% notes; and

- any Indebtedness between or among us and/or any of our subsidiaries, a majority of the voting stock of which we directly or indirectly own, or any of our affiliates.

The term "Indebtedness" is defined in the indenture to mean, with respect to any person: (1) all indebtedness, obligations and other liabilities (contingent or otherwise) of that person for borrowed money (including obligations in respect of overdrafts, foreign exchange contracts, currency exchange agreements, interest rate protection agreements, and any loans or advances from banks, whether or not evidenced by notes or similar instruments) or evidenced by bonds, debentures, notes or other instruments for the payment of money, or incurred in connection with the acquisition of any property,

services or assets (whether or not the recourse of the lender is to the whole of the assets of such person or to only a portion thereof), other than any account payable or other accrued current liability or obligation to trade creditors incurred in the ordinary course of business in connection with the obtaining of materials or services; (2) all reimbursement obligations and other liabilities (contingent or otherwise) of that person with respect to letters of credit, bank guarantees, bankers' acceptances, surety bonds, performance bonds or other guaranty of contractual performance; (3) all obligations and liabilities (contingent or otherwise) in respect of (A) leases of such person required, in conformity with generally accepted accounting principles, to be accounted for as capitalized lease obligations on the balance sheet of such person, and (B) any lease or related documents (including a purchase agreement) in connection with the lease of real property which provides that such person is contractually obligated to purchase or cause a third party to purchase the leased property and thereby guarantee a minimum residual value of the leased property to the landlord and the obligations of such person under such lease or related document to purchase or to cause a third party to purchase the leased property; (4) all obligations of such person (contingent or otherwise) with respect to an interest rate or other swap, cap or collar agreement or other similar instrument or agreement or foreign currency hedge, exchange, purchase or similar instrument or agreement; (5) all direct or indirect guaranties or similar agreements by that person in respect of, and obligations or liabilities (contingent or otherwise) of that person to purchase or otherwise acquire or otherwise assure a creditor against loss in respect of, indebtedness, obligations or liabilities of another person of the kind described in clauses (1) through (4); (6) any indebtedness or other obligations described in clauses (1) through (4) secured by any mortgage, pledge, lien or other encumbrance existing on property which is owned or held by such person, regardless of whether the indebtedness or other obligation secured thereby shall have been assumed by such person; and (7) any and all deferrals, renewals, extensions, refinancings, replacements, restatements and refundings of, or amendments, modifications or supplements to, any indebtedness, obligation or liability of the kind described in clauses (1) through (6).

Any Senior Debt will continue to be Senior Debt and will be entitled to the benefits of the subordination provisions irrespective of any amendment, modification or waiver of any of its terms.

The indenture provides that in the event of any payment or distribution of our assets upon our dissolution, winding up, liquidation or reorganization, the holders of our Senior Debt shall first be paid in respect of all Senior Debt, in full, in cash or other payment satisfactory to the holders of Senior Debt before we make any payments of principal of, or premium, if any, and interest (including liquidated damages, if any) on the notes. In addition, if the notes are accelerated because of an event of default, the holders of any Senior Debt would be entitled to payment in full in cash or other payment satisfactory to the holders of Senior Debt of all obligations in respect of Senior Debt before the holders of the notes are entitled to receive any payment or distribution. Under the indenture, we must promptly notify holders of Senior Debt if payment of the notes is accelerated because of an event of default.

The indenture further provides if any default by us has occurred and is continuing in the payment of principal of, premium, if any, or interest on, rent or other payment obligations in respect of, any Senior Debt, then no payment shall be made on account of principal of, premium, if any, or interest (including liquidated damages, if any) on the notes, or to acquire any of the notes, until all such payments due in respect of that Senior Debt have been paid in full in cash or other payment satisfactory to the holders of that Senior Debt.

During the continuance of any event of default with respect to any Designated Senior Debt, as described below, (other than a default in payment of the principal of, or premium, if any, or interest on, rent or other payment obligations in respect of, any Designated Senior Debt), permitting the holders thereof to accelerate the maturity thereof (or, in the case of any lease, permitting the landlord either to terminate the lease or to require us to make an irrevocable offer to terminate the lease following an event of default thereunder), no payment may be made by us, directly or indirectly, with

respect to principal of, premium, if any, or interest (including liquidated damages, if any) on the notes for 179 days following written notice to us, from any holder, representative or trustee under any agreement pursuant to which that Designated Senior Debt may have been issued, that such an event of default has occurred and is continuing, unless such event of default has been cured or waived or that Designated Senior Debt has been paid in full in cash or other payment satisfactory to the holders of that Designated Senior Debt. However, if the maturity of that Designated Senior Debt is accelerated (or, in the case of a lease, as a result of such event of default, the landlord under the lease has given us notice of its intention to terminate the lease or to require us to make an irrevocable offer to terminate the lease following an event of default thereunder), no payment may be made on the notes until that Designated Senior Debt has been paid in full in cash or other payment satisfactory to the holders of that Designated Senior Debt or such acceleration (or termination, in the case of the lease) has been cured or waived.

The term "Designated Senior Debt" means our Senior Debt which, at the date of determination, has an aggregate amount outstanding of, or under which, at the date of determination, the holders thereof are committed to lend up to, at least $20 million and is specifically designated in the instrument evidencing or governing that Senior Debt as "Designated Senior Debt" for purposes of the indenture. However, the instrument may place limitations and conditions on the right of that Senior Debt to exercise the rights of Designated Senior Debt. At March 31, 2004, we had no Designated Senior Debt outstanding.

By reason of these subordination provisions, in the event of insolvency, funds which we would otherwise use to pay the holders of notes will be used to pay the holders of Senior Debt to the extent necessary to pay Senior Debt in full in cash or other payment satisfactory to the holders of Senior Debt.

The notes will be effectively subordinated to all existing and future liabilities of our subsidiaries. Any right we have to receive assets of any of our existing and future subsidiaries upon the latter's liquidation or reorganization (and the consequent right of the holders of the notes to participate in those assets) will be effectively subordinated to the claims of that subsidiary's creditors, except to the extent that we are ourselves recognized as a creditor of that subsidiary, in which case our claims would still be subordinate to any security interests in the assets of that subsidiary and any indebtedness of that subsidiary senior to that held by us. There are no restrictions in the indenture on the ability of our subsidiaries to incur Indebtedness or other liabilities. As of March 31, 2004, none of our existing subsidiaries had outstanding indebtedness.

We are obligated to pay reasonable compensation to the trustee and to indemnify the trustee against any losses, liabilities or expenses incurred by it in connection with its duties relating to the notes. The trustee's claims for such payments will be senior to those of holders of the notes in respect of all funds collected or held by the trustee.

Conversion rights

The holders of notes may, at any time prior to the close of business on the final maturity date of the notes, convert any outstanding notes (or portions thereof) into shares of our common stock, initially at the conversion price set forth on the cover page of this prospectus subject to adjustment as described below. Holders may convert notes only in denominations of $1,000 and whole multiples of $1,000. Except as described below, no payment or other adjustment will be made on conversion of any notes for interest accrued thereon or dividends paid on any common stock. Accrued and unpaid interest on the notes at the time of conversion will be treated as paid in stock rather than cancelled.

If notes are converted after a record date for an interest payment but prior to the next interest payment date, those notes must be accompanied by funds equal to the interest payable to the record holder on the next interest payment date on the principal amount so converted, provided that no such payment will be required from a holder if such notes have been called for redemption. We will not issue fractional shares of common stock upon conversion of notes and instead will pay a cash adjustment based upon the market price of our common stock on the last business day before the date of the conversion. In the case of notes called for redemption, conversion rights will expire at the close of business on the business day preceding the date fixed for redemption, unless we default in payment of the redemption price.

A holder may exercise the right of conversion by delivering the new note to be converted to the specified office of a conversion agent, with a completed notice of conversion, together with any funds that may be required as described in the preceding paragraph. The conversion date will be the date on which the notes, the notice of conversion and any required funds have been so delivered. A holder delivering a note for conversion will not be required to pay any taxes or duties relating to the issuance or delivery of the common stock for such conversion, but will be required to pay any tax or duty which may be payable relating to any transfer involved in the issuance or delivery of the common stock in a name other than the holder of the note. Certificates representing shares of common stock will be issued or delivered only after all applicable taxes and duties, if any, payable by the holder have been paid. If any note is converted within two years after its original issuance, the common stock issuable upon conversion will not be issued or delivered in a name other than that of the holder of the note unless the applicable restrictions on transfer have been satisfied. See "Restrictions on transfer of the notes."

The initial conversion price will be adjusted for certain events, including: (1) the issuance of our common stock as a dividend or distribution on our common stock; (2) certain subdivisions and combinations of our common stock; (3) the issuance to all holders of our common stock of certain rights or warrants to purchase our common stock (or securities convertible into our common stock) at less than (or having a conversion price per share less than) the current market price of our common stock; (4) the dividend or other distribution to all holders of our common stock of shares of our capital stock (other than common stock) or evidences of our indebtedness or our assets (including securities, but excluding those rights and warrants referred to in clause (3) above and dividends and distributions in connection with a reclassification, change, merger, consolidation, statutory share exchange, combination, sale or conveyance resulting in a change in the conversion consideration pursuant to the second succeeding paragraph below and dividends or distributions paid exclusively in cash); (5) dividends or other distributions consisting exclusively of cash to all holders of our common stock (excluding any cash that is distributed upon a reclassification, change, merger, consolidation, statutory share exchange, combination, sale or conveyance as described in the second succeeding paragraph hereof or as part of a distribution referred to in clause (4) above) to the extent that such distributions, combined together with (A) all other such all-cash distributions made within the preceding 12 months for which no adjustment has been made plus (B) any cash and the fair market value of other consideration paid for any tender or exchange offers by us or any of our subsidiaries for our common stock concluded within the preceding 12 months for which no adjustment has been made, exceeds 10% of our market capitalization on the record date for such distribution (market capitalization is the product of the then current market price of our common stock times the number of shares of our common stock then outstanding); and (6) payments to holders of our common stock pursuant to a tender or exchange offer made by us or any of our subsidiaries to the extent that the same involves aggregate consideration that, together with (A) any cash and the fair market value of any other consideration paid in any other tender or exchange offer by us or any of our subsidiaries for our common stock expiring within the 12 months preceding such tender or exchange offer for which no adjustment has been made plus (B) the aggregate amount of any all-cash distributions referred to in clause (5) above to all holders of our common stock within 12 months preceding the expiration of such

tender or exchange offer for which no adjustments have been made, exceeds 10% of our market capitalization on the expiration of such tender or exchange offer.

No adjustment in the conversion price will be required unless such adjustment would require a change of at least 1% in the conversion price then in effect at such time. Any adjustment that would otherwise be required to be made shall be carried forward and taken into account in any subsequent adjustment. Except as stated above, the conversion price will not be adjusted for the issuance of our common stock or any securities convertible into or exchangeable for our common stock or carrying the right to purchase any of the foregoing.

In the case of:

- any recapitalization, reclassification or change of our common stock (other than changes in par value or resulting from a subdivision or combination);
- a merger, consolidation, statutory share exchange or combination involving us; or
- a sale, conveyance or lease to another corporation of all or substantially all of our property and assets,

in each case as a result of which holders of our common stock are entitled to receive stock, other securities, other property or assets (including cash or any combination thereof) with respect to or in exchange for our common stock, the holders of the notes then outstanding will be entitled thereafter to convert those notes into the kind and amount of shares of stock, other securities or other property or assets (including cash or any combination thereof) which they would have owned or been entitled to receive upon such recapitalization, reclassification, change, merger, consolidation, statutory share exchange, combination, sale or conveyance had such notes been converted into our common stock immediately prior to such recapitalization, reclassification, change, merger, consolidation, statutory share exchange, combination, sale or conveyance. We may not become a party to any such transaction unless its terms are consistent with the foregoing.

If a taxable distribution to holders of our common stock or other transaction occurs which results in any adjustment of the conversion price, the holders of notes may, in certain circumstances, be deemed to have received a distribution subject to U.S. income tax as a dividend. In certain other circumstances, the absence of an adjustment may result in a taxable dividend to the holders of common stock. In particular, any adjustment in the conversion rate to compensate holders of notes for taxable distributions of cash on any of our outstanding common stock will be treated as a deemed distribution of stock to the holders, which will be taxable as a dividend. See "Certain U.S. federal income tax consequences."

