

BUY					HOLD			SELL								SELL	RATING SINCE	03/31/2009
A+	A	A-	B+	B	B-	C+	C	C-	D+	D	D-	E+	E	E-	F			
Annual Dividend Rate NA					Annual Dividend Yield NA			Beta 0.80			Market Capitalization \$2.9 Billion			52-Week Range \$23.56-\$79.55				

Sector: **Health Care** | Sub-Industry: **Biotechnology** | Source: **S&P**
**VRUS BUSINESS DESCRIPTION**

Pharmasset, Inc., a clinical-stage pharmaceutical company, focuses on discovering, developing, and commercializing novel drugs to treat viral infections.

**STOCK PERFORMANCE (%)**

	3 Mo.	1 Yr.	3 Yr (Ann)
Price Change	80.69	193.69	63.43

**GROWTH (%)**

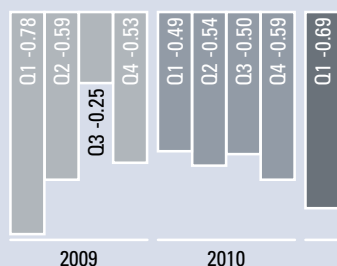
	Last Qtr	12 Mo.	3 Yr CAGR
Revenues	-8.18	-92.39	-51.77
Net Income	-69.46	-47.92	NA
EPS	-40.81	-24.73	NA

**RETURN ON EQUITY (%)**

	VRUS	Ind Avg	S&P 500
Q1 2011	-89.25	7.56	12.84
Q1 2010	-299.51	11.32	3.25
Q1 2009	-323.47	-2.99	9.77

**P/E COMPARISON**

n/m	83.53	18.45
VRUS	Ind Avg	S&P 500

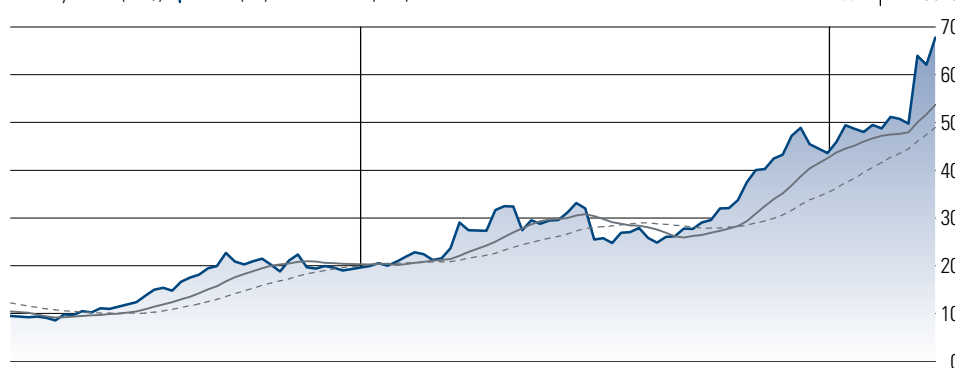
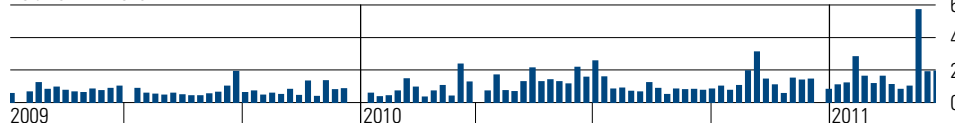
**EPS ANALYSIS' (\$)**


NA = not available NM = not meaningful

1 Compustat fiscal year convention is used for all fundamental data items.

Weekly Price: (US\$) | SMA (50) — SMA (100) ---

1 Year | 2 Years


**Rating History**
**SELL**
**Volume in Millions**


COMPUSTAT for Price and Volume, TheStreet.com Ratings, Inc. for Rating History

**RECOMMENDATION**

We rate PHARMASSET INC (VRUS) a SELL. This is driven by multiple weaknesses, which we believe should have a greater impact than any strengths, and could make it more difficult for investors to achieve positive results compared to most of the stocks we cover. The company's weaknesses can be seen in multiple areas, such as its deteriorating net income, weak operating cash flow and feeble growth in its earnings per share.

**HIGHLIGHTS**

The company, on the basis of change in net income from the same quarter one year ago, has significantly underperformed when compared to that of the S&P 500 and the Biotechnology industry. The net income has significantly decreased by 69.5% when compared to the same quarter one year ago, falling from -\$13.87 million to -\$23.50 million.

Net operating cash flow has significantly decreased to -\$24.02 million or 65.22% when compared to the same quarter last year. In addition, when comparing to the industry average, the firm's growth rate is much lower.

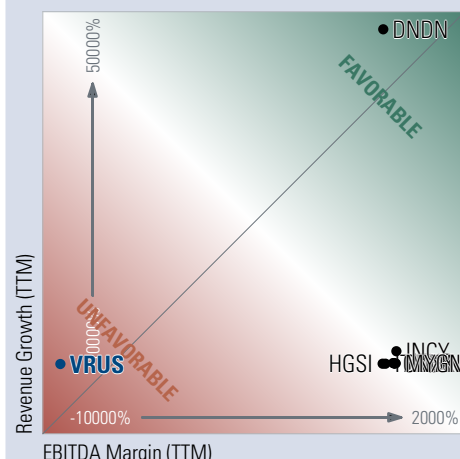
PHARMASSET INC's earnings per share declined by 40.8% in the most recent quarter compared to the same quarter a year ago. This company has reported somewhat volatile earnings recently. We feel it is likely to report a decline in earnings in the coming year. During the past fiscal year, PHARMASSET INC continued to lose money by earning -\$2.12 versus -\$2.15 in the prior year. For the next year, the market is expecting a contraction of 17.9% in earnings (-\$2.50 versus -\$2.12).

The company's current return on equity greatly increased when compared to its ROE from the same quarter one year prior. This is a signal of significant strength within the corporation. Compared to other companies in the Biotechnology industry and the overall market, PHARMASSET INC's return on equity significantly trails that of both the industry average and the S&P 500.

VRUS, with its decline in revenue, slightly underperformed the industry average of 3.4%. Since the same quarter one year prior, revenues slightly dropped by 8.2%. Weakness in the company's revenue seems to have hurt the bottom line, decreasing earnings per share.

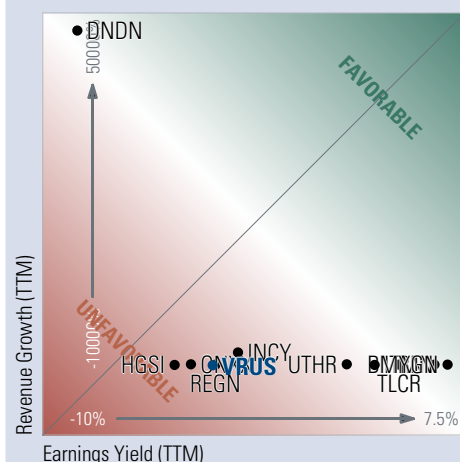
## Sector: Health Care | Biotechnology | Source: S&amp;P

Annual Dividend Rate <b>NA</b>	Annual Dividend Yield <b>NA</b>	Beta <b>0.80</b>	Market Capitalization <b>\$2.9 Billion</b>	52-Week Range <b>\$23.56-\$79.55</b>	Price as of 3/31/2011 <b>\$78.71</b>
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**PEER GROUP ANALYSIS**
**REVENUE GROWTH AND EBITDA MARGIN\***


Companies with higher EBITDA margins and revenue growth rates are outperforming companies with lower EBITDA margins and revenue growth rates. Companies for this scatter plot have a market capitalization between \$1.8 Billion and \$5.4 Billion. Companies with NA or NM values do not appear.

\*EBITDA – Earnings Before Interest, Taxes, Depreciation and Amortization.

**REVENUE GROWTH AND EARNINGS YIELD**


Companies that exhibit both a high earnings yield and high revenue growth are generally more attractive than companies with low revenue growth and low earnings yield. Companies for this scatter plot have revenue growth rates between -92.4% and 47481.2%. Companies with NA or NM values do not appear.

**INDUSTRY ANALYSIS**

The biotechnology industry employs biological and biochemical knowledge to develop, manufacture and trade products and processes for the diagnosis and treatment of diseases and ailments. It also develops genetically modified plant and animal species and food varieties. The industry has a noncyclical growth profile, which is insensitive to overall economic conditions. The industry focuses on specialty markets with primary sales and efforts targeted towards specialists such as hematologists, oncology physicians, rheumatologists and dermatologists. Consequently, the industry is highly reliant on research and development (R&D). US biotech companies dominating the market include larger players like Amgen (AMGN), Genentech (DNA) and Genzyme (GENZ).

Medical spending is expected to grow significantly in the coming quarters due to an aging population, increasing obesity and demand for quality treatment. Healthcare service providers have shown a willingness to incur higher costs to treat diseases and this supports margin expansion for successful treatments. US healthcare spending for the next decade is expected to be around \$4.2 trillion or 20% of GDP.

The biotechnology pipeline has become an important consideration for the pharmaceutical industry and its suppliers. The industry has witnessed an increase in financing and multi-billion-dollar mergers and acquisitions. R&D spending remains robust. The US continues to dominate in R&D spending, with approximately 81 cents of global expenditures being domestic.

An average drug takes about 10 to 15 years from pre-clinical development to market approval. According to the FDA, for every 20 drugs that enter the clinical testing stage, only a few pass trial and gain approval. The traditional sales and profit metrics do not completely reveal the biotech companies' otherwise lengthy, cost-intensive product-development periods. It is essential for investors to consider the number of products the biotech companies have in their pipeline, the time necessary for development and the potential market size of drugs. Patents held, effectiveness of these patents to protect market share, cash position, and current leverage position all impact biotech company outlook. Finally, R&D effectiveness, management competency and potential synergies from new or proposed M&A activities are important factors for investors to consider.

**PEER GROUP: Biotechnology**

Ticker	Company Name	Recent Price (\$)	Market Cap (\$M)	Price/Earnings	Net Sales TTM (\$M)	Net Income TTM (\$M)
<b>VRUS</b>	<b>PHARMASSET INC</b>	<b>78.71</b>	<b>2,914</b>	<b>NM</b>	<b>1.00</b>	<b>-75.72</b>
DNDN	DENDREON CORP	37.43	5,447	NM	48.06	-439.48
HGSI	HUMAN GENOME SCIENCES INC	27.45	5,196	NM	157.35	-233.23
REGN	REGENERON PHARMACEUT	44.94	3,945	NM	459.07	-104.47
UTHR	UNITED THERAPEUTICS CORP	67.02	3,871	38.30	603.83	105.92
TLCR	TALECRIS BIOTHERAPEUTICS HLDG	26.80	3,372	20.94	1,601.62	166.07
BMRN	BIOMARIN PHARMACEUTICAL INC	25.13	2,785	16.01	376.27	205.82
ITMN	INTERMUNE INC	47.19	2,774	26.51	26.99	122.37
ONXX	ONYX PHARMACEUTICALS INC	35.18	2,218	NM	324.52	-84.85
INCY	INCYTE CORP	15.85	1,956	NM	169.88	-31.85
MYGN	MYRIAD GENETICS INC	20.15	1,811	14.71	377.06	133.23

The peer group comparison is based on Major Biotechnology companies of comparable size.

Sector: Health Care | Biotechnology | Source: S&amp;P

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### COMPANY DESCRIPTION

Pharmasset, Inc., a clinical-stage pharmaceutical company, focuses on discovering, developing, and commercializing novel drugs to treat viral infections. Its primary focus is on the development of nucleoside/tide analogs as oral therapeutics for the treatment of chronic hepatitis C virus (HCV) infection; and Racivir for the treatment of human immunodeficiency virus (HIV) infection. The company has three product candidates under development, which include RG7128, a HCV nucleoside polymerase inhibitor that is in Phase IIb clinical trial; PSI-7851, a HCV nucleotide polymerase inhibitor that completed Phase I clinical trial; and Racivir, which completed Phase II clinical trial, for the treatment of HIV. It has strategic collaboration agreement with F. Hoffmann-LaRoche Ltd. and Hoffmann-La Roche Inc. for the development of PSI-6130 and its products, including RG7128. The company also has collaboration and licensing agreements with University of Cincinnati; Apath, LLC; Emory University; Bukwang Pharm. Co., Ltd; University of Georgia Research Foundation, Inc. and Yale University; and Boehringer Ingelheim Chemicals, Inc. Pharmasset, Inc. was founded in 1998 and is based in Princeton, New Jersey.

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### STOCK-AT-A-GLANCE

Below is a summary of the major fundamental and technical factors we consider when determining our overall recommendation of VRUS shares. It is provided in order to give you a deeper understanding of our rating methodology as well as to paint a more complete picture of a stock's strengths and weaknesses. It is important to note, however, that these factors only tell part of the story. To gain an even more comprehensive understanding of our stance on the stock, these factors must be assessed in combination with the stock's valuation. Please refer to our Valuation section on page 5 for further information.

FACTOR	SCORE					
<b>Growth</b>	<b>0.5 out of 5 stars</b>	★	☆	☆	☆	☆
Measures the growth of both the company's income statement and cash flow. On this factor, VRUS has a growth score better than virtually none of the stocks we rate		weak				strong
<b>Total Return</b>	<b>5.0 out of 5 stars</b>	★	★	★	★	★
Measures the historical price movement of the stock. The stock performance of this company has beaten 90% of the companies we cover.		weak				strong
<b>Efficiency</b>	<b>0.5 out of 5 stars</b>	★	☆	☆	☆	☆
Measures the strength and historic growth of a company's return on invested capital. The company ranks at the bottom of companies we review for income generated per dollar of capital.		weak				strong
<b>Price volatility</b>	<b>4.0 out of 5 stars</b>	★	★	★	★	☆
Measures the volatility of the company's stock price historically. The stock is less volatile than 70% of the stocks we monitor.		weak				strong
<b>Solvency</b>	<b>3.0 out of 5 stars</b>	★	★	★	☆	☆
Measures the solvency of the company based on several ratios. The company is more solvent than 50% of the companies we analyze.		weak				strong
<b>Income</b>	<b>0.5 out of 5 stars</b>	★	☆	☆	☆	☆
Measures dividend yield and payouts to shareholders. This company pays no dividends.		weak				strong

### THESTREET.COM RATINGS RESEARCH METHODOLOGY

TheStreet.com Ratings' stock model projects a stock's total return potential over a 12-month period including both price appreciation and dividends. Our Buy, Hold or Sell ratings designate how we expect these stocks to perform against a general benchmark of the equities market and interest rates. While our model is quantitative, it utilizes both subjective and objective elements. For instance, subjective elements include expected equities market returns, future interest rates, implied industry outlook and forecasted company earnings. Objective elements include volatility of past operating revenues, financial strength, and company cash flows.

Our model gauges the relationship between risk and reward in several ways, including: the pricing drawdown as compared to potential profit volatility, i.e. how much one is willing to risk in order to earn profits; the level of acceptable volatility for highly performing stocks; the current valuation as compared to projected earnings growth; and the financial strength of the underlying company as compared to its stock's valuation as compared to projected earnings growth; and the financial strength of the underlying company as compared to its stock's performance. These and many more derived observations are then combined, ranked, weighted, and scenario-tested to create a more complete analysis. The result is a systematic and disciplined method of selecting stocks.

# PHARMASSET INC

Sector: Health Care | Biotechnology | Source: S&amp;P

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## Consensus EPS Estimates<sup>2</sup> (\$)

IBES consensus estimates are provided by Thomson Financial

-0.65	-2.50 E	-2.61 E
Q2 FY11	2011(E)	2012(E)

## INCOME STATEMENT

	Q1 FY11	Q1 FY10
Net Sales (\$mil)	0.25	0.27
EBITDA (\$mil)	-23.45	-12.92
EBIT (\$mil)	-23.60	-13.17
Net Income (\$mil)	-23.50	-13.87

## BALANCE SHEET

	Q1 FY11	Q1 FY10
Cash & Equiv. (\$mil)	102.65	42.27
Total Assets (\$mil)	105.21	44.96
Total Debt (\$mil)	9.31	17.86
Equity (\$mil)	84.84	17.09

## PROFITABILITY

	Q1 FY11	Q1 FY10
Gross Profit Margin	-9,495.55%	-4,801.86%
EBITDA Margin	-9,495.55%	-4,801.86%
Operating Margin	-9,553.44%	-4,894.80%
Sales Turnover	0.01	0.29
Return on Assets	-71.97%	-113.86%
Return on Equity	-89.25%	-299.51%

## DEBT

	Q1 FY11	Q1 FY10
Current Ratio	6.06	2.80
Debt/Capital	0.10	0.51
Interest Expense	0.40	0.71
Interest Coverage	-59.29	-18.65

## SHARE DATA

	Q1 FY11	Q1 FY10
Shares outstanding (mil)	34	28
Div / share	0.00	0.00
EPS	-0.69	-0.49
Book value / share	2.48	0.60
Institutional Own %	NA	NA
Avg Daily Volume	382,299	258,806

2 Sum of quarterly figures may not match annual estimates due to use of median consensus estimates.

## FINANCIAL ANALYSIS

PHARMASSET INC's gross profit margin for the first quarter of its fiscal year 2011 has significantly decreased when compared to the same period a year ago. Sales and net income have dropped, although the growth in revenues underperformed the average competitor within the industry, the net income growth did not. PHARMASSET INC is extremely liquid. Currently, the Quick Ratio is 6.02 which clearly shows the ability to cover any short-term cash needs. The company's liquidity has increased from the same period last year.

At the same time, stockholders' equity ("net worth") has greatly increased by 396.40% from the same quarter last year. Overall, the key liquidity measurements indicate that the company is very unlikely to face financial difficulties in the near future.

Sector: Health Care | Biotechnology | Source: S&amp;P

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### RATINGS HISTORY

Our rating for PHARMASSET INC has not changed since 8/28/2008. As of 3/31/2011, the stock was trading at a price of \$78.71 which is 1.1% below its 52-week high of \$79.55 and 234.1% above its 52-week low of \$23.56.

### 2 Year Chart



### MOST RECENT RATINGS CHANGES

Date	Price	Action	From	To
3/31/09	\$9.81	No Change	Sell	Sell

Price reflects the closing price as of the date listed, if available

### RATINGS DEFINITIONS & DISTRIBUTION OF THESTREET.COM RATINGS

(as of 3/31/2011)

**36.62% Buy** - We believe that this stock has the opportunity to appreciate and produce a total return of more than 10% over the next 12 months.

**38.41% Hold** - We do not believe this stock offers conclusive evidence to warrant the purchase or sale of shares at this time and that its likelihood of positive total return is roughly in balance with the risk of loss.

**24.96% Sell** - We believe that this stock is likely to decline by more than 10% over the next 12 months, with the risk involved too great to compensate for any possible returns.

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### VALUATION

**SELL.** This stock's P/E ratio is negative, making its value useless in the assessment of premium or discount valuation, only displaying that the company has negative earnings per share. For additional comparison, its price-to-book ratio of 31.75 indicates a significant premium versus the S&P 500 average of 2.27 and a significant premium versus the industry average of 6.48. The price-to-sales ratio is well above both the S&P 500 average and the industry average, indicating a premium. Upon assessment of these and other key valuation criteria, PHARMASSET INC seems to be trading at a premium to investment alternatives within the industry.

Price/Earnings	1	2	3	4	5

**VRUS NM** **Peers 83.53**

- Neutral. The absence of a valid P/E ratio happens when a stock can not be valued on the basis of a negative stream of earnings.
- VRUS's P/E is negative making this valuation measure meaningless.

Price/Projected Earnings	1	2	3	4	5

**VRUS NM** **Peers 22.00**

- Neutral. The absence of a valid price-to-projected earnings ratio happens when a stock can not be valued on the basis of a negative expected future earnings.
- VRUS's ratio is negative making this valuation measure meaningless.

Price/Book	1	2	3	4	5

**VRUS 31.75** **Peers 6.48**

- Premium. A higher price-to-book ratio makes a stock less attractive to investors seeking stocks with lower market values per dollar of equity on the balance sheet.
- VRUS is trading at a significant premium to its peers.

Price/Sales	1	2	3	4	5

**VRUS 2704.81** **Peers 66.00**

- Premium. In the absence of P/E and P/B multiples, the price-to-sales ratio can display the value investors are placing on each dollar of sales.
- VRUS is trading at a significant premium to its industry.

Price/CashFlow	1	2	3	4	5

**VRUS NM** **Peers 26.25**

- Neutral. The P/CF ratio, a stock's price divided by the company's cash flow from operations, is useful for comparing companies with different capital requirements or financing structures.
- VRUS's P/CF is negative making the measure meaningless.

Price to Earnings/Growth	1	2	3	4	5

**VRUS NA** **Peers 0.80**

- Neutral. The PEG ratio is the stock's P/E divided by the consensus estimate of long-term earnings growth. Faster growth can justify higher price multiples.
- Ratio not available.

Earnings Growth	1	2	3	4	5

**VRUS -24.73** **Peers -74.22**

- Higher. Elevated earnings growth rates can lead to capital appreciation and justify higher price-to-earnings ratios.
- VRUS is expected to have an earnings growth rate that significantly exceeds its peers.

Sales Growth	1	2	3	4	5

**VRUS -92.39** **Peers 1083.77**

- Lower. A sales growth rate that trails the industry implies that a company is losing market share.
- VRUS significantly trails its peers on the basis of sales growth

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