

ViroPharma

Neutral (2)

June 6, 2008

Analysts

Rachel McMinn, Ph.D.
 (415) 646-7229
 rachel.mcminn@cowen.com

Masha Chapman
 (415) 646-7224
 masha.chapman@cowen.com

Boris Peaker, Ph.D.
 (415) 646-7231
 boris.peak@cowen.com

What To Make Of The Upcoming FDA Panel

Conclusion: VPHM announced that the FDA advisory committee meeting for Pharmaceutical Science and Clinical Pharmacology to be held on July 23rd will include a discussion on bioequivalence methods for locally acting GI drugs. Although Vancocin is not explicitly mentioned, given the relatively narrow focus of the meeting, we expect discussion to include Vancocin. The outcome of the FDA meeting is difficult to predict and binary in nature. This panel could give investors confidence that potential for generic Vancocin far off in the future; alternatively, the panel could go the other way and lead to a sense of certainty on a near-term generic entry.

■ A Public Forum May Provide Insight, But Outcome Uncertain.

Based on the panel topic, we expect the committee meeting will provide a close look into FDA's latest perspective on the potential for generic Vancocin; VPHM is likely to reiterate its safety concerns in a public forum and present its data supporting the claim that Vancocin doesn't fall under OGD dissolution requirements. The meeting will also be an opportunity for the OGD to present its scientific data on bioequivalence of dissolution testing. The outcome is difficult to predict as the panel may raise serious concerns about bioequivalence by dissolution testing or simply may represent one step towards generic Vancocin approval.

- **Thinking About Valuation.** We believe VPHM shares reflect the uncertainty of timing on generic Vancocin (\$5 net cash/sh plus Camvia value of \$4-\$5/sh + \$1-\$2/sh for Vancocin in a limited generic Vancocin scenario). However, if investors can get comfort in a significant generic Vancocin delay, our NPV analysis suggests a value of \$5 - \$7/sh if Vancocin retains exclusivity through the end of 2010 and 2011. Additional upside/downside to valuation is possible on Camvia Phase 3 data, expected in 1Q 2009.

VPHM (06/05)	\$10.99	Revenue \$MM							
Mkt cap	\$926.5MM	FY	2007	2008E		2009E		2010E	2011E
Dil shares out	84.3MM	Dec	Actual	Prior	Current	Prior	Current	Current	Current
Avg daily vol	1,402.5K	Q1	49.0	—	50.9A	—	—	—	—
52-wk range	\$7.1-15.0	Q2	56.1	—	58.7	—	—	—	—
Dividend	Nil	Q3	50.9	—	53.5	—	—	—	—
Dividend yield	Nil	Q4	47.7	—	53.3	—	—	—	—
BV/sh	\$6.14	Year	203.8	—	216.4	—	88.6	67.8	127.6
Net cash/sh	\$4.91	EV/S	—	—	2.1x	—	5.2x	6.8x	3.6x
Debt/cap	32.6%								
ROE (LTM)	NA								
5-yr fwd EPS	12.0%	EPS ^[1] [2] \$							
		FY	2007	2008E		2009E		2010E	2011E
		Dec	Actual	Prior	Current	Prior	Current	Current	Current
		Q1	0.31	—	0.22A	—	—	—	—
		Q2	0.39	—	0.27	—	—	—	—
		Q3	0.26	—	0.21	—	—	—	—
S&P 500	1404.1	Q4	0.25	—	0.20	—	—	—	—
		Year	1.21	—	0.90	—	(0.08)	(0.59)	(0.15)
		P/E	—	—	12.2x	—	—	—	—

^[1]EPS includes stock option expense ^[2]EPS is based on if converted method

Investment Thesis

ViroPharma is a pharmaceutical company focused on infectious diseases. ViroPharma's Vancocin for *Clostridium difficile* has transformed the company into a profitable company, although recent market trends suggest growth is limited to price increases and potential for market share shift with direct promotion. Additionally, there is risk of approval of generic Vancocin, which would change the model to one of cash burn. The FDA's Office of Generic Drugs suggested a path for generic Vancocin entrants that would include a waiver of bioequivalence for Vancocin ANDA, which implies that lengthy head-to-head non-inferiority studies may not be required. VPHM subsequently petitioned the FDA to reverse OGD's proposal, and the petition is currently being reviewed by the FDA. Despite generic filer Akorn (AKRX) making significant noise on expected approval of generic Vancocin, that approval has yet to occur. Timelines for a potential approval remain opaque. Camvia (maribavir) is VPHM's most advanced pipeline product, an oral anti-cytomegalovirus (CMV) UL-97 kinase inhibitor. It has demonstrated proof of concept in a 111-patient Phase 2 trial, and is currently in Phase 3 development for the prevention of CMV infection in stem cell transplant and in liver transplant recipients. Data from the most advanced stem cell transplant trial are expected in early 2009. If the trials confirm initial efficacy/safety seen in Phase 2, experts believe Camvia could be the new standard of care for CMV prevention. We reiterate our Neutral rating based on: (1) lack of transparency on the potential for generic Vancocin; (2) market price in line with our NPV valuation, and (3) limited news flow in 2008. We would consider upgrading VPHM shares pending more comfort on a positive Camvia Phase 3 trial, and additional diligence on the size of the stem cell market, VPHM's initial target market.

Upcoming ViroPharma Milestones

Milestone	Timing
FDA panel on locally-acting GI drugs	July 23rd, 2008
Complete enrollment in Camvia liver transplant Phase 3 trial	2H:08/1H:09
Camvia SCT Phase 3 trial data	Early '09
File NDA and MAA for Camvia	Mid-09
Camvia approval in US	Late '09/Early '10

Source: Cowen and Company.

ViroPharma Quarterly P&L

Dec 31 FY, (\$000s, except per share)	1Q07A	2Q07A	3Q07A	4Q07A	2007A	1Q08A	2Q08E	3Q08E	4Q08E	2008E
Revenues										
Vancocin sales	49,029	56,101	50,944	47,696	203,770	50,937	58,703	53,497	53,257	216,394
License fee and milestone revenue	0	0	0	0	0	0	0	0	0	0
Total Revenues	49,029	56,101	50,944	47,696	203,770	50,937	58,703	53,497	53,257	216,394
<i>Yr/yr growth</i>	67%	28%	-8%	24%	22%	3.9%	5%	5%	12%	6%
Operating Expenses:										
Cost of Goods Sold	2,230	2,641	2,029	2,034	8,934	1,918	2,466	2,140	2,130	8,654
% of Product Sales	4.5%	4.7%	4.0%	4.3%	4.4%	3.8%	4.2%	4.0%	4.0%	4.0%
CMV	2,957	4,110	6,262	8,347	21,676	9,208	10,000	11,000	12,500	42,708
HCV	250	131	451	77	909	375	200	100	0	675
CDAD	112	266	257	820	1,455	1,219	1,300	1,400	1,500	5,419
Pleconiril	0	0	0	0	0	0	0	0	0	0
Development	2,210	2,786	3,573	3,260	11,829	4,166	4,500	4,600	4,700	17,966
Research and development	5,529	7,293	10,543	12,504	35,869	14,968	16,000	17,100	18,700	66,768
% of Total Revenue	11%	13%	21%	26%	18%	29%	27%	32%	35%	31%
MG&A	6,973	8,341	9,027	12,710	37,051	12,846	13,000	13,500	14,000	53,346
% of Product Sales	14%	15%	18%	27%	18%	25%	22%	25%	26%	25%
Intangible amortization [1]	1,376	1,942	1,401	1,401	6,120	1,688	1,500	1,350	1,350	5,888
Total Operating Expenses	16,108	20,217	23,000	28,649	87,974	31,420	32,966	34,090	36,180	134,656
<i>Yr/yr growth</i>	1%	12%	11%	112%	29%	95%	63%	48%	26%	53%
Operating Income (Loss)	32,921	35,884	27,944	19,047	115,796	19,517	25,738	19,407	17,077	81,739
<i>Yr/yr growth</i>	145%	39%	-19%	-24%	17%	-41%	-28%	-31%	-10%	-29%
<i>Operating Margin</i>	67%	64%	55%	40%	57%	38%	44%	36%	32%	38%
Interest Income	3,580	6,488	6,978	7,219	24,265	6,311	6,109	6,325	6,514	25,259
Interest Expense	92	1,434	1,435	1,434	4,395	1,419	1,414	1,414	1,414	5,661
Total Other Income	3,488	5,054	5,543	5,785	19,870	4,892	4,695	4,911	5,100	19,598
Pre-Tax Income	36,409	40,938	33,487	24,832	135,666	24,409	30,433	24,319	22,176	101,337
<i>Yr/yr growth</i>	166%	47%	-10%	-17%	25%	-33%	-26%	-27%	-11%	-25%
Income tax	14,351	9,302	12,199	4,461	40,313	6,959	8,825	7,053	6,431	29,268
<i>Tax Rate</i>	39%	23%	36%	18%	30%	29%	29%	29%	29%	29%
Net Income, incl SOE	22,058	31,636	21,288	20,371	95,353	17,450	21,607	17,266	15,745	72,069
<i>Yr/yr growth</i>	169%	84%	-9%	13%	43%	-21%	-32%	-19%	-23%	-24%
EPS, incl SOE	\$0.31	\$0.39	\$0.26	\$0.25	\$1.21	\$0.22	\$0.27	\$0.21	\$0.20	\$0.90
Options Expense Before Taxes	1,134	1,753	2,114	2,500	7,501	2,073	2,173	2,273	2,373	8,892
Net Income, excl SOE	23,192	33,389	23,402	22,871	102,854	19,523	23,780	19,539	18,118	80,961
EPS, excl SOE	\$0.32	\$0.41	\$0.29	\$0.28	\$1.37	\$0.24	\$0.29	\$0.24	\$0.22	\$1.00
Average shares outstanding	71,547	83,994	83,901	83,830	80,891	84,272	84,385	84,498	84,611	84,441
Additional purchase price to LLY	360	5,590	0	0	5,950	2,078	4,922	0	0	7,000

SOE = stock option expense

[1] Intangible amortization is related to the purchase of Vancocin from LLY incl amortization of additional purchase price consideration.

Source: Company reports, Cowen and Company Estimates.

ViroPharma Inc., Annual P&L

December 31 FY, (\$000s, except per share)	2006A	2007A	2008E	2009E	2010E	2011E	2012E
Revenues							
Vancocin sales	166,617	203,770	216,394	88,614	47,715	37,200	37,200
Maribavir sales					20,061	90,444	155,458
License fee and milestone revenue	564	0	0	0	0	0	0
Total Revenues	167,181	203,770	216,394	88,614	67,776	127,644	192,658
Yr/yr growth		22%	6%	-59%	-24%	88%	51%
Operating Expenses:							
Cost of Goods Sold	18,984	8,934	8,654	5,453	7,228	18,682	29,735
% of Product Sales	11%	4.4%	4.0%	6.2%	10.7%	14.6%	15.4%
Research and development	19,162	35,869	66,768	67,072	71,474	75,631	78,204
% of Total Revenue	11%	18%	31%	76%	105%	59%	41%
MG&A	24,560	37,051	53,346	43,346	53,346	66,683	78,685
% of Product Sales	15%	18%	25%	49%	79%	52%	41%
Intangible amortization	5,669	6,120	5,888	5,888	5,788	5,388	5,388
Total Operating Expenses	68,375	87,974	134,656	121,759	137,835	166,384	192,012
Yr/yr growth		29%	53%	-10%	13%	21%	15%
Operating Income (Loss)	98,806	115,796	81,739	(33,146)	(70,060)	(38,740)	646
Yr/yr growth		17%	-29%	-141%	111%	-45%	-102%
<i>Margin</i>	59%	57%	38%	NM	NM	NM	0%
Loss on bond redemption	1,127	0	0	0	0	0	0
Interest Income	9,853	24,265	25,259	33,441	33,308	33,563	35,809
Interest Expense	686	4,395	5,661	5,661	5,661	5,661	5,661
Other income	1,682	0	0	0	0	0	0
Total Other Income	9,722	19,870	19,598	27,780	27,647	27,902	30,148
Pre-Tax Income	108,528	135,666	101,337	(5,365)	(42,412)	(10,838)	30,793
Income tax	41,862	40,313	29,268	0	0	0	9,238
<i>Tax Rate</i>	39%	30%	29%	0%	0%	0%	30%
Net Income, incl SOE	66,666	95,353	72,069	(5,365)	(42,412)	(10,838)	21,555
Yr/yr growth		43%	-24%	NM	NM	NM	NM
EPS, incl SOE	\$0.95	\$1.21	\$0.90	(\$0.08)	(\$0.59)	(\$0.15)	\$0.27
Options Expense	4,998	7,501	8,892	12,892	16,892	20,892	24,892
Net Income, excl SOE, incl royalty	65,014	102,854	80,961	7,527	(25,520)	10,054	46,447
EPS, excl SOE, incl royalty	\$1.02	\$1.37	\$1.00	\$0.11	(\$0.36)	\$0.14	\$0.52
Average shares outstanding	70,338	80,891	84,441	70,683	71,434	72,386	90,954
Additional purchase price to LLY	6,650	5,950	7,000	7,000	950	0	0

SOE = stock option expense

Source: Company reports, Cowen and Company Estimates.

ViroPharma Inc., Change In Financial Position

December 31 FY (\$000s)	2006A	2007A	2008E	2009E	2010E	2011E	2012E
Net Income	66,666	95,353	72,069	(5,365)	(42,412)	(10,838)	21,555
Cash Flow from operations:							
Gain (loss) on bond redemption	1,127	0					
Gain on sale of ST investments	(1,682)	0					
Non-cash share based compensation	4,998	7,600	8,892	12,892	16,892	20,892	24,892
Non-cash interest expense	75	625					
Deferred tax provision	19,387	11,464					
Stock option tax benefit	0	0					
Depreciation and amortization	6,166	6,924	8,124	9,324	9,919	10,419	10,919
Changes in operating assets/liabilities:							
Accounts receivable	5,440	(8,237)					
Inventory	6,236	57					
Interest receivable	(3,278)	(1,805)					
Prepaid expenses and other	(127)	(111)					
Income tax receivable	1,897	(23)					
Accounts payable	(6,513)	(726)					
Due to partners	762	225					
Accrued expenses and other	(5,329)	10,378					
Income taxes payable	140	1,133					
Deferred revenue	(564)	0					
Other liabilities	(385)	10					
Operating Requirements	(1,721)	901					
Cash flow provided (consumed)	95,016	122,867	89,085	16,851	(15,601)	20,473	57,366
Investing activities:							
Purchase of Vancocin assets	(6,650)	(5,950)	(7,000)	(7,000)	(950)	0	0
Purchase of P&E	(1,771)	(8,866)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)
Maturities of restricted investments	0						
Adjustments for cash	2,090	(608)					
Cash flow provided (consumed)	(6,331)	(15,424)	(12,000)	(12,000)	(5,950)	(5,000)	(5,000)
Financing activities:							
Common stock proceeds	10,855	712	2,710	4,562	6,813	9,465	12,517
Excess tax benefits	2,052	304				0	0
Proceeds from senior notes	0	241,825					
Purchase of derivatives		(21,370)					
Insurance for senior notes	0						
Redemption of subordinated converts	(79,596)						
Cash flow provided (consumed)	(66,689)	221,471	2,710	4,562	6,813	9,465	12,517
Effect of exchange rate		5					
Change in Liquidity	21,996	328,919	79,795	9,412	(14,738)	24,938	64,883
Cash at Beginning of Year	233,413	255,409	584,328	664,123	673,535	658,797	683,735
Cash at End of Year	255,409	584,328	664,123	673,535	658,797	683,735	748,619

Source: Company reports, Cowen and Company Estimates.

ViroPharma Inc., Historical Balance Sheet

(\$000s)	03/31/07	06/30/07	09/30/07	12/31/07	03/31/08
Current Assets					
Cash and Cash Equivalents	\$252,052	\$103,614	\$71,749	\$179,691	\$324,211
Short-term investments	\$228,574	\$413,201	\$480,475	\$404,637	\$274,794
Accounts receivable, net	\$22,983	\$24,111	\$21,796	\$17,684	\$22,690
Inventory	\$5,771	\$5,453	\$5,771	\$4,703	\$5,172
Interest receivable	\$3,564	\$5,510	\$5,370	\$5,095	\$3,374
Income taxes receivable	\$0	\$0	\$0	\$842	\$0
Deferred income taxes	\$9,154	\$9,557	\$9,382	\$7,983	\$7,277
Other Current Assets	\$1,481	\$3,886	\$541	\$2,138	\$6,493
Total Current Assets	\$523,579	\$565,332	\$595,084	\$622,773	\$644,011
Long Term Assets					
Intangible assets, net	\$121,656	\$125,304	\$123,903	\$122,502	\$122,891
Equipment and leasehold improvements,	\$11,037	\$11,026	\$10,988	\$10,890	\$11,678
Deferred income taxes	\$14,191	\$9,483	\$5,783	\$12,312	\$8,146
Debt issue costs, net	\$8,162	\$7,958	\$7,754	\$7,550	\$7,211
Other Assets	\$0	\$0	\$12	\$39	\$175
Total Assets	\$678,625	\$719,103	\$743,524	\$776,066	\$794,112
Current Liabilities					
Accounts Payable	\$3,701	\$2,634	\$3,048	\$3,025	\$3,104
Accrued expenses and other current	\$10,847	\$20,324	\$16,943	\$24,466	\$21,447
Current portion of LT debt	\$0	\$0	\$0	\$0	\$0
Deferred revenue	\$0	\$0	\$0	\$0	\$0
Income tax payable	\$1,356	\$280	\$1,776	\$879	\$0
Total Current Liabilities	\$15,904	\$23,238	\$21,767	\$28,370	\$24,551
Long term debt	\$250,000	\$250,000	\$250,000	\$250,000	\$250,000
Other liabilities	\$0	\$0	\$1,262	\$1,133	\$2,131
Total Liabilities	\$265,904	\$273,238	\$273,029	\$279,503	\$276,682
Total Stockholders' Equity	\$412,721	\$445,865	\$470,495	\$496,563	\$517,430
Total Liabilities and Stockholder's	\$678,625	\$719,103	\$743,524	\$776,066	\$794,112

Source: Company reports.

Addendum

STOCKS MENTIONED IN IMPORTANT DISCLOSURES

Ticker	Company Name
VPHM	ViroPharma

ANALYST CERTIFICATION

Each author of this research report hereby certifies that (i) the views expressed in the research report accurately reflect his or her personal views about any and all of the subject securities or issuers, and (ii) no part of his or her compensation was, is, or will be related, directly or indirectly, to the specific recommendations or views expressed in this report.

IMPORTANT DISCLOSURES

Cowen and Company, LLC and or its affiliates make a market in the stock of VPHM securities.

Cowen and Company, LLC compensates research analysts for activities and services intended to benefit the firm's investor clients. Individual compensation determinations for research analysts, including the author(s) of this report, are based on a variety of factors, including the overall profitability of the firm and the total revenue derived from all sources, including revenues from investment banking. Cowen and Company, LLC does not compensate research analysts based on specific investment banking transactions.

DISCLAIMER

This research is for our clients only. Our research is disseminated primarily electronically and, in some cases, in printed form. Research distributed electronically is available simultaneously to all Cowen and Company, LLC clients. All published research, including required disclosures, can be obtained on the Firm's client website, www.cowenresearch.com.

Further information on any of the above securities may be obtained from our offices. This report is published solely for information purposes, and is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Other than disclosures relating to Cowen and Company, LLC, the information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete statement or summary of the available data. Any opinions expressed herein are statements of our judgment on this date and are subject to change without notice.

Notice to UK Investors: This publication is produced by Cowen & Company, LLC, which is regulated in the United States by FINRA and is disseminated in the United Kingdom by Cowen International Limited ("CIL"). In the United Kingdom, 'Cowen and Company' is a Trading Name of CIL. It is communicated only to persons of a kind described in Articles 19 and 49 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005. It must not be further transmitted to any other person without the consent of CIL.

Copyright, User Agreement and other general information related to this report

© 2008 Cowen and Company, LLC. Member NYSE, FINRA and SIPC. All rights reserved. This research report is prepared for the exclusive use of Cowen clients and may not be reproduced, displayed, modified, distributed, transmitted or disclosed, in whole or in part, or in any form or manner, to others outside your organization without the express prior written consent of Cowen. Cowen research reports are distributed simultaneously to all clients eligible to receive such research prior to any public dissemination by Cowen of the research report or information or opinion contained therein. Any unauthorized use or disclosure is prohibited. Receipt and/or review of this research constitutes your agreement not to reproduce, display, modify, distribute, transmit, or disclose to others outside your organization the contents, opinions, conclusion, or information contained in this report (including any investment recommendations, estimates or price targets). All Cowen trademarks displayed in this report are owned by Cowen and may not be used without its prior written consent.

Cowen and Company, LLC. New York (646) 562-1000 **Boston** (617) 946-3700 **San Francisco** (415) 646-7200
Chicago (312) 516-4690 **Cleveland** (440) 331-3531 **Atlanta** (866) 544-7009 **Dallas** (214) 978-0107 **London**
(affiliate) 44-207-071-7500 **Geneva (affiliate)** 41-22-707-6900

COWEN AND COMPANY RATING DEFINITIONS (a)

Rating	Definition
Outperform (1)	Stock expected to outperform the S&P 500
Neutral (2)	Stock expected to perform in line with the S&P 500
Underperform (3)	Stock expected to underperform the S&P 500

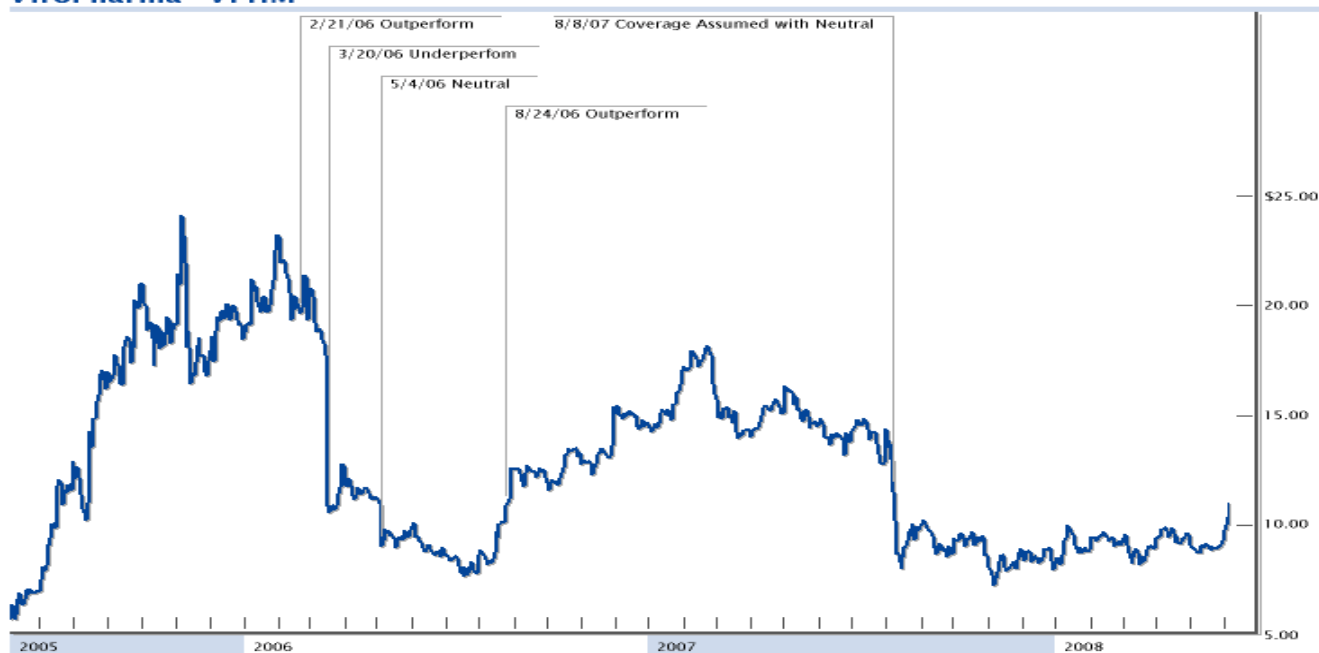
(a) Assumptions: Time horizon is 12 months; S&P 500 is flat over forecast period.

COWEN AND COMPANY RATING ALLOCATION (a)

Rating	Pct of companies under coverage with this rating	Pct for which Investment Banking services have been provided within the past 12 months
Buy (b)	51.2%	7.9%
Hold (c)	46.2%	2.9%
Sell (d)	2.6%	0.0%

(a) As of 03/31/2008. (b) Corresponds to "Outperform" rated stocks as defined in Cowen and Company, LLC's rating definitions (see above). (c) Corresponds to "Neutral" as defined in Cowen and Company, LLC's ratings definitions (see above). (d) Corresponds to "Underperform" as defined in Cowen and Company, LLC's ratings definitions (see above). Note: "Buy," "Hold" and "Sell" are not terms that Cowen and Company, LLC uses in its ratings system and should not be construed as investment options. Rather, these ratings terms are used illustratively to comply with NASD and NYSE regulations.

Cowen and Company Price and Ratings History

ViroPharma - VPHM

Cowen and Company eliminated investment ratings on 03/01/2004. Cowen and Company resumed investment ratings on 02/21/2006. Pricing data provided by Reuters America. Chart as of 6/5/08 in \$US.