

Cardica, Inc. (CRDC)

Buy

June 13, 2008

Jose J Haresco, Ph.D.
Senior Medical
Technology Analyst
(415) 248-5629

Detailed EPIC Trial Results In-Line with Our Expectations; We Estimate Approval Remains a C2H08 Event; Maintain Buy

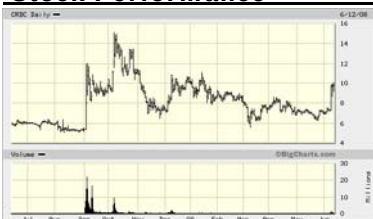
Key Metrics

Price:	\$9.85
Rating:	Buy
52-Week Range:	\$4.45-15.15
Cash (M):	\$30
Debt (M):	\$0
Debt/Capital:	NA
Book Value/Share:	\$1.32

Market Data

Market Cap (M):	\$155
Enterprise Value (M):	\$125
Shares Out. (M):	15.6
Float (M):	8.95
10-Day Avg. Volume:	340.711
Institutional Ownership:	12.8%

Stock Performance



Source: BigCharts.com

Valuation (FY09E)

EV/Sales:	5.8x
EV/EBITDA:	NM
PEG Ratio:	NM

Company Description

Cardica designs and manufactures proprietary automated anastomotic systems used by surgeons to perform coronary bypass surgery. The company's products provide cardiovascular surgeons with easy-to-use automated systems to perform consistent, rapid and reliable connections (anastomoses) of the vessels, which surgeons generally view as the most critical aspect of the bypass procedure.

Investment Conclusion

Patency for the PAS-Port was 80.3% vs. 82% for hand sewn anastomoses. There were no serious adverse events associated with the device. The trial met its non-inferiority endpoint in a manner in-line with our expectations. We believe some investors may be disappointed by the lack of a wider margin between the two cohorts, but as we commented earlier this week, the trial was inherently incapable of delivering on such expectations. We believe that the PAS-Port will be approved in C2H08. We are maintaining our Buy rating.

Summary

- **The EPIC Trial** was a prospective, randomized, controlled, blinded study that enrolled 220 patients in 12 centers on two continents. Seventeen surgeons participated in the study, many with little or no experience with the PAS-Port. The trial was designed as a non-inferiority trial.
- **The study met its safety, primary and secondary endpoints.** The trial's primary endpoint was graft patency at nine months. 80.3% of the PAS-Port grafts were patent at nine months vs. 82% for the HS cohort, a -7.95% difference; the target was anything less than -10%. Secondary endpoints also demonstrated non-inferiority and a marked time savings over HS anastomoses. Mortality of the PAS-Port cohort at 30, and 270/360 days was comparable to those in the literature.
- **The trial met its endpoints, and we believe the data supports approval of the PAS-Port.** We believe some investors earlier in the week may have been hoping for a wider spread between the PAS-Port and HS groups, but as we commented in our response to this hope, the trial was inherently incapable of showing that PAS-Port is superior to HS. The FDA is scheduled to render a decision (or issue its first set of questions) to Cardica before the end of July. We remain optimistic that the product will likely be approved in C2H08.

MCF Estimates

	FY07A*	FY08E*	FY09E
REVS. (M)			
1Q	\$0.5	\$1.4	-
2Q	0.9	1.7	-
3Q	1.1	1.7A	-
4Q	1.0	2.1	-
FY (Jun)	\$3.5	\$6.9	\$21.6
EV/S	NM	17.9x	5.8x
EPS			
1Q	(\$0.37)	(\$0.27)	-
2Q	(0.23)	(0.29)	-
3Q	(0.31)	(0.35)A	-
4Q	(0.34)	(0.26)	-
FY (Jun)	(\$1.18)	(\$1.12)	(\$0.38)
P/E	NM	NM	NM

*EPS reflects share count adjustment

MERRIMAN CURHAN
FORD
600 California Street
9th Floor
San Francisco, CA 94108
(415) 248-5600 Main
(415) 248-5690 Fax
(800) 909-7897 Trading
www.mcfco.com

NASDAQ:MERR

Member FINRA/SIPC

Please see
**Important
Disclosures** on the
last page of this
report.

EPIC Trial Enrollment

The EPIC Trial was a prospective, randomized, controlled, multi-center international study performed in 12 centers with 17 surgeons; it is very notable that many of the surgeons in this trial had little or prior experience with the PAS-Port. It enrolled patients requiring elective on or off-pump CABG surgery. Endpoints as determined by coronary angiogram were performed pre-procedure, three months, and nine months. Adverse events, as measured by device-related MACE, were evaluated during the procedure, at discharge, at three months, and at nine months.

The primary endpoint of the trial was angiographic patency of the proximal anastomosis (PAS-Port vs. hand-sewn (HS) at nine months. This was a non-inferiority trial, where the differences between the PAS-Port and HS results would need to be less than -10%. Patency was defined as less than 50% stenosis at the proximal anastomosis. The FDA further mandated that the trial must have at least an 80% compliance rate. Secondary endpoints included, among other things, time studies designed to measure the time savings associated with the PAS-Port.

Patients were evaluated for their need for two revascularizations and enrolled after passing a number of health-related inclusion criteria. Each patient served as their own control. The choice of whether to use the PAS-Port or the HS was randomly determined at the time of surgery. A core lab at Harvard independently evaluated the results, using the Fitzgibbon classification for stenosis. A graft was considered patent if it met the Fitzgibbon A (0-49% occluded) criteria, and occluded if either the Fitzgibbon B (50-99% occluded) or Fitzgibbon O (100% stenosis) were found.

The trial enrolled 220 patients in each cohort. In the PAS-Port arm, two patients could not continue to complete the trial before the surgery, while an additional three patients died for non-device related reasons. This left 215 patients in each cohort at the time of the surgery. Thirteen additional patients died for non-device related reasons before the nine-month follow-up, leaving 202 patients who completed the nine-month follow-up. In the HS cohort, two patients died before surgery, leaving 204 patients at the nine-month follow-up.

Primary and Secondary Endpoints Met

87% of patients returned at the nine-month follow-up, meeting the FDA's criteria of a minimum of 80% compliance. The primary non-inferiority was met very nicely, in our view. 80.3% of PAS-Port anastomoses were patent at nine months vs. 82% of HS anastomoses, which translates into a -7.95% difference between the two. The trial required a difference of no less than -10%, hence the trial met its primary non-inferiority endpoint. The secondary endpoints were also met. One notable mention is that the time savings for the PAS-Port was 5.5 minutes ($p < 0.001$). The main safety endpoint was met as well. Thirty-day mortality was 1.4% compared to 2% in the literature, while 270-360 day mortality was 4.1% vs. 3.7% in the literature.

Data Supports Approval, In Our View

Earlier this week, we believe investors may have been hoping for a larger spread between the PAS-Port results and the HS results. However, as we commented in our response to this hope, the trial was inherently incapable of showing a wide spread between the two groups. As a non-inferiority trial, the study never had enough patients in the trial to show a wide margin of response; the trial was simply not designed to demonstrate superiority. Even if there was one, we believe it would be statistically non-significant. Furthermore, patency in this trial is determined primarily by the distal anastomoses rather than the proximal, hence again, this would limit the spread of responses between the two cohorts.

We believe the data supports the eventual approval of the PAS-Port device in C2H08. The trial was, in our view, well-structured and the results were definitive, showing that the trial hit its non-inferiority endpoint. We continue to remain very supportive of the company's efforts, and as such, maintain our Buy rating on CRDC shares.

Cardica, Inc.
Quarterly Income Statement

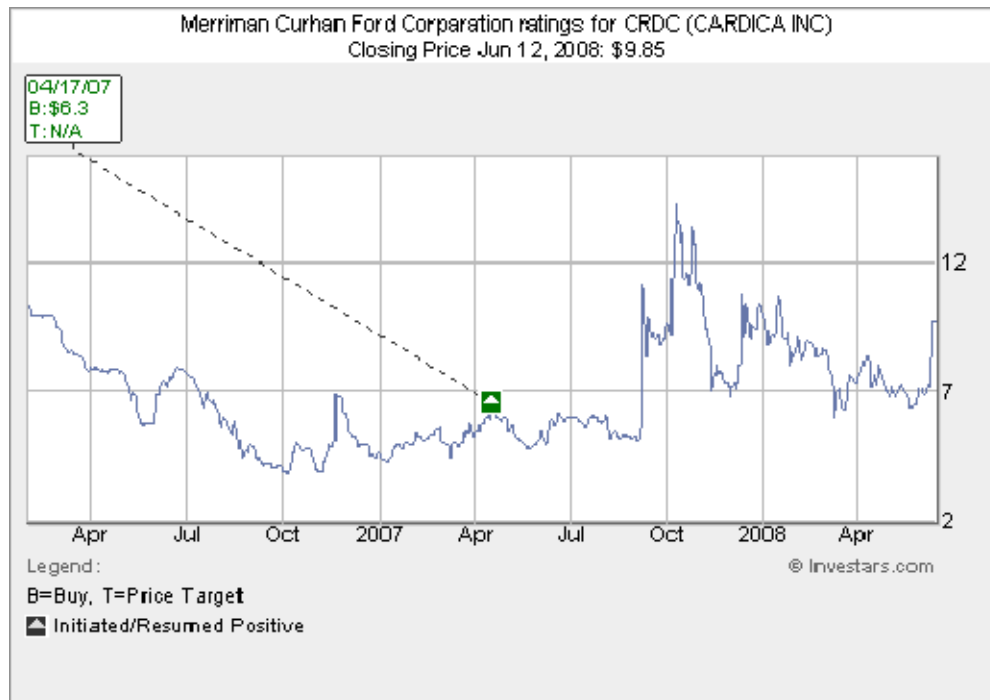
	2007 A				FY2008 E				2009	
	Q1	Q2	Q3	Q4	Q1A	Q2A	Q3	Q4	FY	FY
	9/30/06	12/31/06	3/31/07	6/30/07	9/30/07	12/31/07	3/31/08	6/30/08		6/30/09
Product Revenue	\$ 458	\$ 416	\$ 550	\$ 679	\$ 1,026	\$ 1,283	\$ 1,045	\$ 1,500	\$ 4,854	\$ 19,580
Development Revenue	\$ 13	\$ 500	\$ 561	\$ 309	\$ 307	\$ 395	\$ 646	\$ 600	\$ 1,948	\$ 2,000
Related Party Rev & Royalty	\$ 471	\$ 928	\$ 1,125	\$ 1,005	\$ 16	\$ 16	\$ 16	\$ 13	\$ 61	\$ 100
Total Revenue	\$ 679	\$ 884	\$ 591	\$ 726	\$ 1,349	\$ 1,694	\$ 1,707	\$ 2,113	\$ 6,863	\$ 21,680
Cost of Goods	(208)	44	534	279	336	495	479	1,193	4,360	6,650
Gross Profit	1,488	1,661	1,813	2,052	1,688	1,746	2,511	1,900	7,845	8,000
Operating Expenses	2,070	2,203	2,368	2,416	2,553	3,176	3,724	3,500	12,953	14,000
R&D	3,558	3,864	4,181	4,468	4,241	4,922	6,235	5,400	20,798	22,000
SG&A	(3,766)	(3,820)	(4,772)	(4,189)	(3,905)	(4,427)	(5,756)	(4,207)	(18,295)	(6,970)
Total Operating Expenses	389	298	224	202	271	283	238	150	942	600
Operating Income	(264)	(132)	(36)	(26)	(25)	(25)	(25)	(25)	(100)	(100)
Interest & Other Income	1,183	1,183	1,183	1,183	(3,659)	(4,169)	(5,543)	(4,082)	(17,453)	(6,470)
Interest Expense & Other Expense	-	-	-	-	-	-	-	-	-	-
Gain on early retirement of notes	-	-	-	-	-	-	-	-	-	-
Pretax Income	(3,641)	(2,471)	(3,459)	(4,011)	(3,659)	(4,169)	(5,543)	(4,082)	(17,453)	(6,470)
Taxes	-	-	-	-	-	-	-	-	-	-
Net Income	(3,641)	(2,471)	(3,459)	(4,011)	(3,659)	(4,169)	(5,543)	(4,082)	(17,453)	(6,470)
EPS	\$ (0.37)	\$ (0.23)	\$ (0.31)	\$ (0.34)	\$ (0.27)	\$ (0.29)	\$ (0.35)	\$ (0.26)	\$ (1.12)	\$ (0.38)
Shares Outstanding	9,778	10,642	11,265	11,826	13,604	14,471	15,620	16,000	15,600	17,000
Margins										
Cost of Goods Sold	144.2%	95.3%	52.5%	72.2%	75.1%	70.8%	71.9%	43.5%	63.5%	30.7%
Gross Margin	-44.2%	4.7%	47.5%	27.8%	24.9%	29.2%	28.1%	56.5%	36.5%	69.3%
SG&A	439.5%	237.4%	210.5%	240.4%	189.3%	187.5%	218.2%	165.6%	188.7%	64.6%
Research & Development	315.9%	179.0%	161.2%	204.2%	125.1%	103.1%	147.1%	89.9%	114.3%	36.9%
Operating Expenses	755.4%	416.4%	371.6%	444.6%	314.4%	290.6%	365.3%	255.6%	303.0%	101.5%
Operating Income	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
Net Income, net of taxes	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM

Jose J Haresco, Ph.D.
(415) 248-5629
jharesco@mcfc.com

Source: MCF; company filings

Cardica, Inc.

Buy



IMPORTANT DISCLOSURES

This research has been prepared by Merriman Curhan Ford & Co., a wholly owned subsidiary of Merriman Curhan Ford Group, Inc. Some companies Merriman Curhan Ford & Co. follows are emerging growth companies whose securities typically involve a higher degree of risk and more volatility than the securities of more established companies.

The securities discussed in Merriman Curhan Ford & Co. research reports may be unsuitable for some investors depending on their specific investment objectives, financial status, risk profile, or particular needs. Investors should consider this report as only a single factor in making their investment decisions and should not rely solely on this report in evaluating whether or not to buy or sell the securities of the subject company.

Regulation Analyst Certification ("Reg. AC")

All of the views expressed in this research report accurately reflect the research analyst's personal views about any and all of the subject securities or issuers. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the research analyst in the subject company of this research report. Research analysts are not directly compensated for specific revenue generated by the firm's investment banking transactions/activities.

General Disclosures

MCF & Co. expects to receive or intends to seek compensation for investment banking services for all of the companies in its research universe in the next three months. Investors should assume that MCF & Co. is soliciting or will solicit investment banking or other business relationships from the companies covered in this report in the next three months.

Security prices in this report may either reflect the previous day's closing price or an intraday price, depending on the time of distribution.

Specific Disclosures

- MCF & Co. has received compensation for investment banking services within the last 12 months, or expects to receive or intends to seek compensation for investment banking services in the next three months, from Cardica Inc.
- Within the last 12 months MCF & Co. has managed or co-managed a public offering for Cardica Inc.
- MCF & Co. makes a market in CRDC and as such buys and sells from customers on a principal basis.
- Neither Jose Haresco nor a member of his household owns shares of CRDC.
- Neither MCF & Co. nor its officers, principals, employees, or owners own options, rights, or warrants to purchase CRDC.
- No MCF & Co. employee serves on the board of directors of Cardica Inc.
- Neither Jose Haresco nor a member of his household serves on the board of directors of Cardica Inc.
- Neither MCF & Co. nor its affiliates beneficially owns 1% or more of an equity security of Cardica Inc.

Key to Investment Rankings (expected total share price return inclusive of dividend reinvestment, if applicable)

Rating	Percent of Universe	No. of Stocks	Description	Percent of companies under research coverage from which MCF & Co. received compensation for investment banking services provided in the previous 12 months or expects to receive or intends to seek in the next three months
Buy	74%	133	MCF & Co. expects the stock price to appreciate 10% or more over the next 12 months. Initiate or increase position.	13%
Neutral	24%	44	MCF & Co believes the stock price is fairly valued at current levels. Maintain position or take no action.	1%
Sell	2%	4	MCF & Co. expects the stock price to depreciate over the next 12 months. Sell or decrease position.	0%

MCF & Co. archives and reviews outgoing and incoming email. Such may be produced at the request of regulators. Sender accepts no liability for any errors or omissions arising as a result of transmission. Use by other than intended recipients is prohibited.

The information contained herein is based on information obtained from sources believed to be reliable but is neither all-inclusive nor guaranteed by Merriman Curhan Ford & Co. No independent verification has been made as to the accuracy or completeness of the information. Opinions, if any, reflect our judgment at the time the report is first published and are subject to change without notice. Merriman Curhan Ford & Co. does not undertake to advise you of changes in its opinion or information.

Member FINRA / SIPC. Copyright © 2008. All rights reserved. Additional information supporting the statements in this report is available upon request.