

Dear Stockholders,

Fiscal 2009 was a challenging year for Cardica, leading to a period of transition for both our commercial and development operations. While we generated annual product revenue of approximately \$6.8 million, slower than expected clinical adoption rates for our cardiac devices coupled with constrained hospital spending necessitated a revised commercial strategy and financial prudence. To protect the future viability of our products and technology, we reduced our workforce substantially, and in September 2009 we completed a private placement of equity capital.

With over 16,000 PAS-Port<sup>®</sup> Proximal Anastomosis Systems and 9,500 C-Port<sup>®</sup> Distal Anastomosis Systems shipped to date worldwide, we continue to offer a full suite of automated anastomosis devices to cardiothoracic surgeons. However, to help address our challenges, we changed the cost structure of our cardiac surgery business, retaining a small direct sales team and adding regionally-focused independent distributors and manufacturers' representatives. We believe this revised sales model will improve our operational efficiency while building clinical adoption in a systematic fashion.

Concurrent with the changes in our cardiac business, we expanded our market focus beyond cardiac surgery, shifting our development focus to the Cardica Microcutter, the first endolinear cutting device based on our proprietary "staple-on-a-strip" technology. Assuming successful development, this product would expand our market opportunity beyond cardiac surgery, as it has the potential to be used for numerous surgical applications, including bariatric, colorectal, urologic, thoracic and general surgical procedures. In addition to standard surgical procedures, the small diameter of the Cardica Microcutter is designed to facilitate port-only and pediatric surgery.

Importantly, the Cardica Microcutter is designed to offer a technological improvement in the current "gold standard" for the connection of tissue, and would not require surgeons to change their current practice to adopt new technology. We are in discussions with multiple potential partners for further development and commercialization of this product line.

In addition, our work with Cook Medical to develop a closure device for patent foramen ovals (PFO) continues, and, as noted above, we raised approximately \$10.2 million in gross proceeds through a private placement of our common stock and warrants to purchase our common stock in the first quarter of fiscal 2010. We believe that this financing will fund our commercial operations and development of the Cardica Microcutter through calendar year 2010.

In closing, while we made many difficult decisions during fiscal 2009, we remain confident that our innovative and proprietary technology has broad market potential in the fields of bariatric, colorectal, urologic, thoracic and general surgery through our Cardica Microcutter, and specific applications in cardiac surgery through our automated anastomosis products.

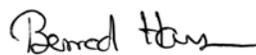
We plan to advance the development of our microcutter product line while growing clinical adoption of our cardiac surgery products through the use of independent distributors and manufacturers' representatives. We believe we will navigate this transitional period successfully, and that we will rebuild stockholder value over time.

Thank you for your continued support.

Sincerely,



Kevin T. Larkin  
Chairman of the Board



Bernard A. Hausen, M.D., Ph.D.  
President and CEO

October 7, 2009



Anastomosis Made Fast and Simple<sup>®</sup>

## Forward-Looking Statements

This Annual Report contains "forward-looking" statements, including all statements with respect to a potential strategic transaction, Cardica's ability to enter into arrangements with, and the success of, independent distributors and manufacturer's representatives for its automated anastomosis product line, and the future development and therapeutic and commercial potential of the Cardica Microcutter. Any statements contained in this Annual Report that are not historical facts may be deemed to be forward-looking statements. The words "continue," "believe," "will," "assuming," "would," "plan" and similar expressions are intended to identify forward-looking statements. There are a number of important factors that could cause Cardica's results to differ materially from those indicated by these forward-looking statements, including that Cardica may be unable to enter into a strategic transaction, which would force Cardica to delay, reduce or eliminate its research and development programs or commercialization efforts; that Cardica's current and any future products may never gain any significant degree of market acceptance; that Cardica may not be successful in its efforts to develop the Cardica Microcutter and expand its product portfolio; that any future Cardica products face development, regulatory, reimbursement and manufacturing risks; that Cardica's intellectual property rights may not provide adequate protection; that Cardica's sales, marketing and distribution strategy and capabilities may not be sufficient or successful; and that recent workforce reductions and general business and economic conditions may impair Cardica's ability to market and develop products, as well as other risks detailed from time to time in Cardica's reports filed with the U.S. Securities and Exchange Commission, including its Quarterly Report on Form 10-Q for the fiscal year ended September 30, 2009. Cardica does not undertake any obligation to update forward-looking statements. You are encouraged to read Cardica's reports filed with the U.S. Securities and Exchange Commission, available at [www.sec.gov](http://www.sec.gov).