

Dear Stockholders,

Fiscal 2011 was a year of continued progress, defined by advancement of our MicroCutter™ product pipeline and preparation for its commercial introduction. Specifically, we achieved these corporate and development objectives over the last year:

- We signed a distribution agreement with Century Medical for distribution of our planned MicroCutter product line in Japan. Century Medical provided Cardica with an up to \$4 million loan commitment in exchange for the distribution rights.
- We achieved the first milestone under the Century loan commitment, allowing us to draw down the first \$2 million of the loan.
- We completed development of, and applied the CE Mark to, the first version of our MicroCutter XPRESS™ 30, a stapling-cutting device used in laparoscopic surgical procedures.
- Surgeons in selected centers in Europe are now using the XPRESS 30 to perform laparoscopic procedures.
- We continued to advance multiple products within our planned MicroCutter line toward commercialization, including the XPRESS™ 45 and the XCHANGE™ 30.
- We continued to support our existing cardiac surgery customers as we pursue new physician accounts.
- Our automated anastomosis devices continue to facilitate less invasive cardiac bypass procedures, including the connector procedure, the minimally invasive cardiac surgery (MICS) procedure and closed-chest beating heart totally endoscopic coronary artery bypass (TECAB) surgeries.
- We signed an exclusive worldwide royalty-bearing licensing agreement with Intuitive Surgical for our proprietary stapling technology in the field of robotic surgery.

As we look toward the year ahead, we are pleased to report that the XPRESS 30 device has now been used in a variety of laparoscopic procedures with no complications. We continue to receive positive feedback from surgeons, and we are even more excited about the broad applicability and fundamental innovation that our MicroCutter devices may bring to the stapling market. The U.S. stapling market, which is estimated to be approximately \$800 million, has not been the focus of revolutionary technology for close to 20 years. We believe that Cardica is well positioned to offer an innovative product design for this established market.

In preparation for a commercial launch of the MicroCutter XPRESS 30, we are working with a core group of European surgeons to gain feedback on the uses and applicability of this device, as well as any needed enhancements or adjustments for future device iterations for improved performance of our MicroCutter product line. We anticipate that we will complete initial design verification and be able to apply the CE Mark to the XCHANGE 30 in calendar 2011. This would allow us to offer two products to the market at the time that we anticipate a commercial launch in Europe. In addition, we intend to conduct a single-arm clinical trial of the MicroCutter XPRESS 30 in Europe to gather the clinical data we plan to include in our 510(k) submission in the United States.

For our cardiac surgery business, our current sales continue to be accretive on a variable cost cash basis. We see our automated anastomosis devices used often in less invasive, specialized procedures such as the MICS procedure and closed-chest TECAB procedures conducted on a beating heart.

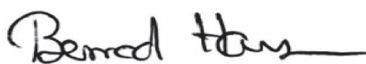
As we look ahead to fiscal 2012, we anticipate that we will need additional capital to meet our corporate objectives. We've put into place the Century Medical loan agreement for up to \$4 million and we have entered into two common stock purchase facilities that could provide up to \$16 million of additional funding. In addition, we will continue to seek additional sources of capital to allow the commercial introduction of our MicroCutter product line.

We believe we are well positioned to meet the opportunities and challenges that lie ahead. We look forward to keeping you apprised of our progress.

Sincerely,



Kevin T. Larkin  
Chairman of the Board



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

October 7, 2011



## Forward-Looking Statements

This Annual Report contains “forward-looking” statements, including all statements regarding the continued development, regulatory approval and commercial launch of products in Cardica’s proposed MicroCutter product line, including the Cardica MicroCutter XPRESS 30, XPRESS 45 and XCHANGE 30 and statements related to future financing. Any statements contained in this press release that are not historical facts may be deemed to be forward-looking statements. The words and phrases “may,” “believe,” “anticipate,” “will,” “would,” “intend,” “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 not be successful in its efforts to complete the development of the Cardica MicroCutter product line on Cardica’s anticipated timeframe; that Cardica’s current and any future products may never gain any significant degree of market acceptance; 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 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 Annual Report on Form 10-K for the fiscal year ended June 30, 2011. The Cardica MicroCutter products require 510(k) review and are not yet commercially available in the U.S. Cardica expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein. 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).

