

# Dear Stockholders



**Fiscal 2014 was a pivotal year for Cardica.** After several years of diligent work, the Cardica MicroCutter® XCHANGE® 30, *the world's first and only five millimeter surgical stapler that articulates to 80 degrees*, received 510(k) clearance<sup>1</sup> from the United States Food and Drug Administration. As a result, we were able to begin executing on our disciplined commercialization plan to bring the XCHANGE 30 to market in the United States.

This significant corporate and commercial accomplishment resulted from a successful European clinical study that demonstrated the safety of the device, as evaluated through 423 deployments. With this clearance, the XCHANGE 30 is now commercially available in both the United States and Europe, and surgeons have begun using it in a wide variety of surgical procedures.

Responding to the initial introduction of the device, surgeons are realizing the added benefits of the technologically superior XCHANGE 30:

- **Less Invasive:** Surgeons comment frequently that the XCHANGE 30 allows them to perform surgeries in a less invasive manner, thereby reducing the risks associated with surgical procedures compared to conventional staplers that are over twice as large with a diameter of 12 millimeters.
- **The Advantage of Staples:** The XCHANGE 30 enables surgeons to use surgical staplers in procedures where alternative closure methods, such as clips, have been used in the past.
- **No Longer Limited by Size:** Most importantly, surgeons are employing the XCHANGE 30 in new applications and procedures where the small size and large range of articulation provide substantial advantages over conventional staplers.

With this positive feedback regarding the benefits of the XCHANGE 30 and significant increases in its adoption by hospitals, we are continuing to refine our strategies and ensure we are taking the best steps to achieve our goals.

Our team, both in the U.S. and internationally, continues to strive to bring this unique surgical stapler into more operating rooms, with the ultimate goal of improved patient outcomes. While it is still early, to date we have been pleased with the sequential growth in both product sales and ordering hospitals. With a core team of sales representatives in the U.S. and technical distributors in Europe, we are building a base of users, who subsequently become champions of the device within their hospital.

During the year, we established sales and distribution channels and refined our manufacturing and internal processes to support commercial growth in the U.S. and internationally. We have also invested in product development to expand our portfolio of MicroCutter products. Importantly, we strengthened our balance sheet to fuel our corporate and commercial progression. Furthermore, we have enhanced our management team and Board, recruiting several senior executives with significant commercialization and sales experience to provide valuable strategic insights and perspectives.

Specifically, we accomplished the following:

## **Product Advancements and Financial Strength**

- We continued to work with a wide range of laparoscopic and general surgeons to solicit feedback and make necessary modifications to the XCHANGE 30. We improved our manufacturing process to contain costs and improve our gross margin.
- We expanded our internal infrastructure to support commercial growth.
- We advanced development of a new iteration of the XCHANGE® 30, increasing the tissue range.
- We developed a short-shaft XCHANGE 30, specifically designed for confined surgical spaces, which will be introduced in early fiscal 2015.
- We continued development of the XCHANGE® 45, a laparoscopic surgical stapler with an eight millimeter diameter and 45 millimeter staple line, targeted for stapling thicker tissue such as the stomach or rectum.
- We raised \$44.5 million in net proceeds from an underwritten public offering of 37,375,000 shares of Cardica's common stock, at a price of \$0.85 per share, and 191,474 shares of Series A convertible preferred stock, at a price of \$85.00 per share.

