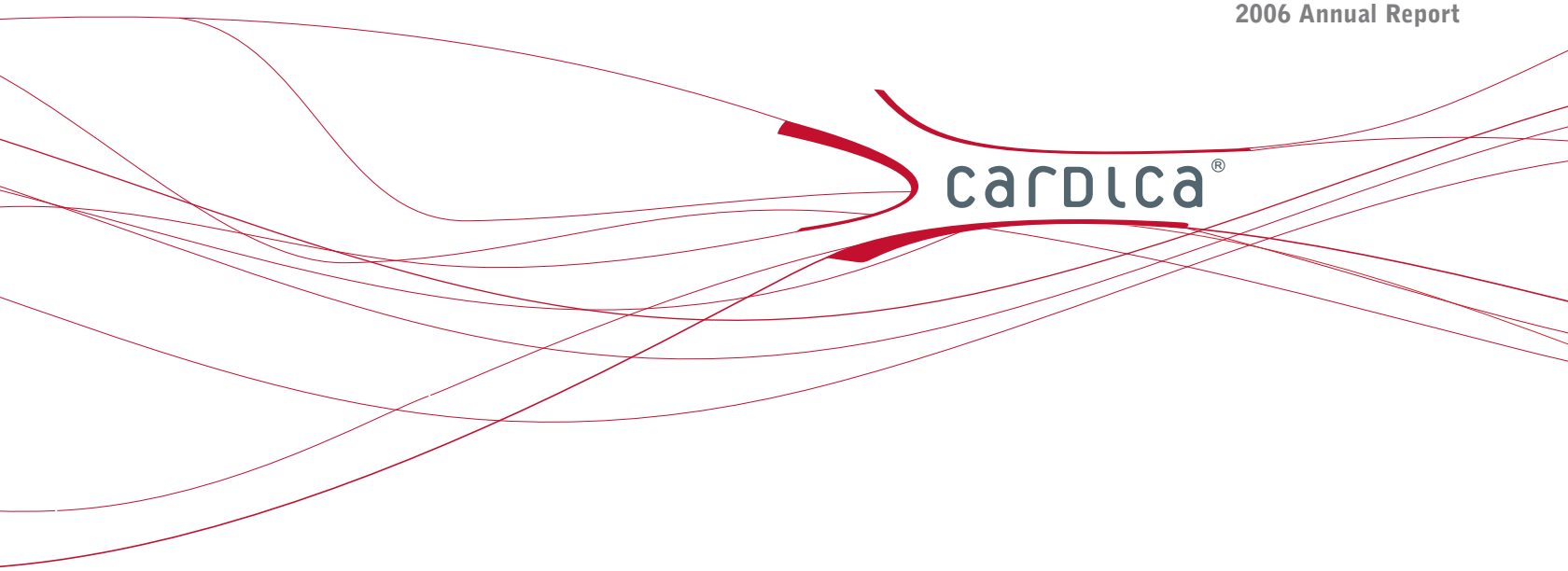
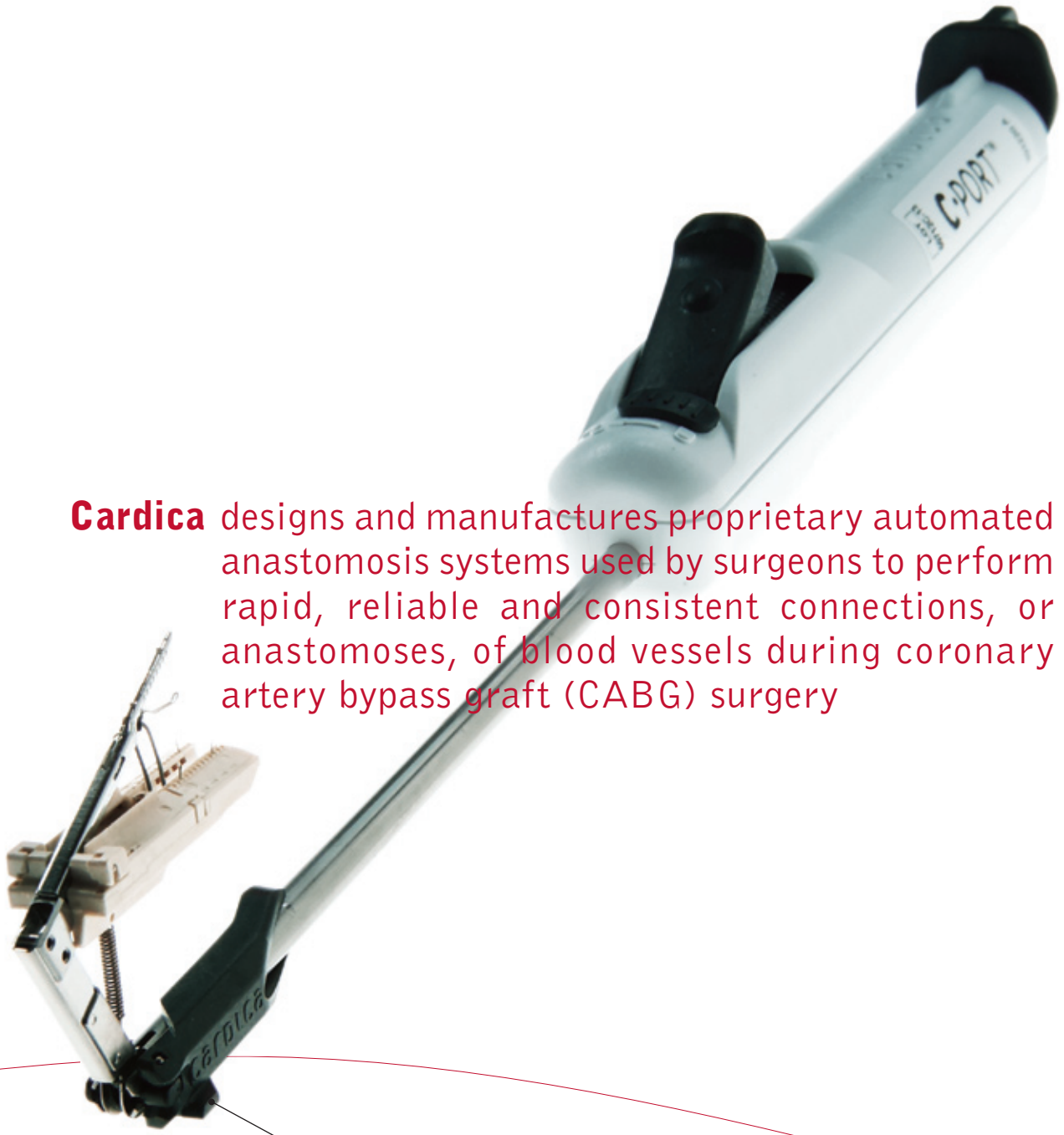
2006 Annual Report

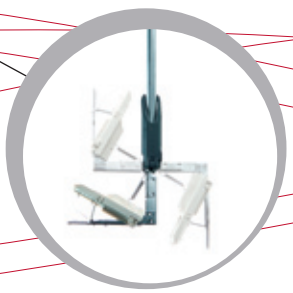


Anastomosis Made Simple

Cardica designs and manufactures proprietary automated anastomosis systems used by surgeons to perform rapid, reliable and consistent connections, or anastomoses, of blood vessels during coronary artery bypass graft (CABG) surgery



C-Port Head Configuration



C-PORT® DISTAL ANASTOMOSIS SYSTEM

- Received 510(k) clearance from the U.S. Food and Drug Administration (FDA) (November 2005)
- Established an experienced cardiothoracic surgery sales force
- Trained 38 leading cardiothoracic surgeons in the United States
- Published clinical trial results in *The Journal of Thoracic and Cardiovascular Surgery* (December 2005)
- Received European CE Mark for the C-Port® xA system, the next iteration of the C-Port system (July 2006)
- Submitted 510(k) application to the FDA for the C-Port xA system (December 2005)

PAS-PORT® PROXIMAL ANASTOMOSIS SYSTEM

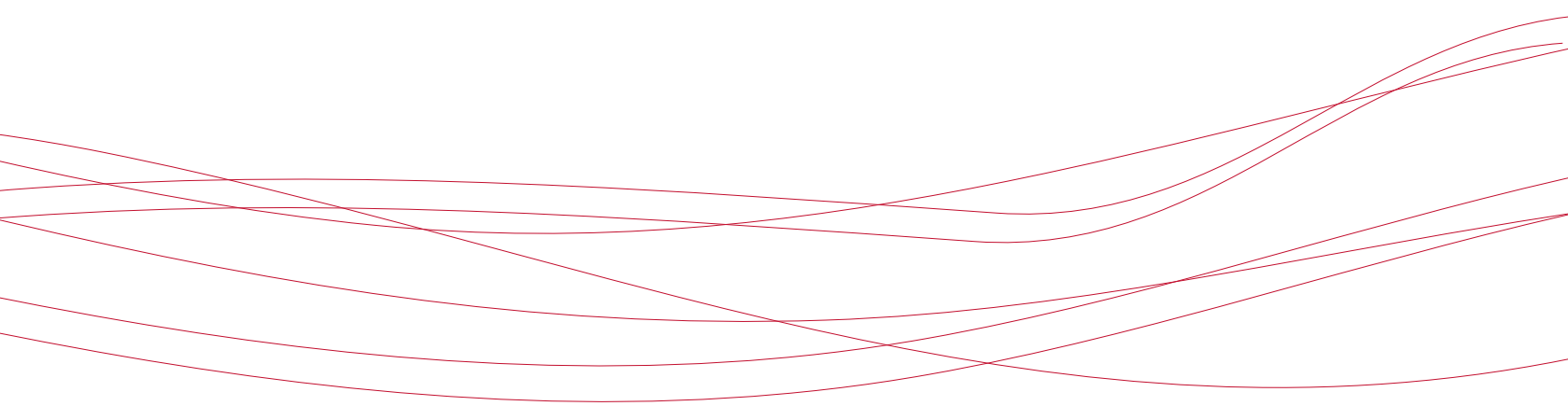
- Initiated a pivotal clinical trial in the United States and Europe to evaluate safety and efficacy during CABG surgery (June 2006)
- Increased sell through in Japan from an average of 95 units per month in fiscal 2005 to over 120 units per month in fiscal 2006

COLLABORATIONS AND DEVELOPMENT

- Entered into an agreement with Cook Incorporated to develop the X-Port™ Vascular Access Closure Device (December 2005)
- Made significant development progress in the C-Port® Flex A system and X-Port Vascular Access Closure Device

FINANCIAL STRENGTH

- Raised $32.5 million in net proceeds through the sale of 3,700,000 shares of common stock in Cardica's initial public offering (February 2006)
- Received $1 million in milestone payments from Cook Incorporated



To Our Stockholders

Cardica has had a tremendous year of achievement as we continue to provide innovative solutions to the most critical aspects of heart surgery. We received clearance from the FDA and launched the C-Port® Distal Anastomosis System in the United States. Our PAS-Port® Proximal Anastomosis System gained acceptance in Japan, and we initiated a pivotal clinical trial of this innovative device in the United States and Europe. In addition, we made significant progress with our next iteration of the C-Port system, submitting the C-Port® xA system for 510(k) clearance in the U.S. and receiving the European CE Mark. Also in fiscal 2006, we strengthened our financial resources by completing our initial public offering.

In 2006, an estimated 250,000 coronary artery bypass graft, or CABG, procedures will be performed in the United States. The current method of performing an anastomosis in a CABG procedure utilizes technically demanding, tedious and time-consuming hand-sewn sutures to connect a bypass graft vessel to the aorta and to coronary vessels. Surgeons often consider the anastomosis as the most critical aspect of the bypass procedure.

By replacing the hand-sewn sutures with an easy-to-use automated system to perform consistent, rapid and reliable anastomoses, we believe that our proprietary systems can improve patient results.

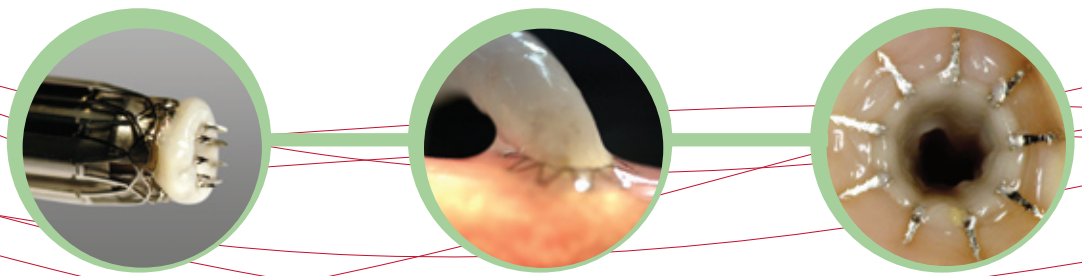
THE C-PORT SYSTEM: POISED FOR GROWTH In the second half of fiscal 2006, we began a measured commercial introduction of our C-Port Distal Anastomosis System in the United States. We have shipped over 600 C-Port systems worldwide and have trained 38 surgeons in the United States. Our commercial strategy is to build strong relationships with leading cardiothoracic surgeons and to provide them with thorough training and education to establish a solid foundation for the C-Port system and other potential products.

Assuming an average of approximately five anastomoses per CABG procedure, we estimate that approximately 1.2 million anastomoses are performed in connection with CABG procedures annually in the United States. Approximately two-thirds of these anastomoses are connections between bypass grafts and coronary arteries, and the remaining one-third are between bypass grafts and the aorta.

Moving forward, we expect the C-Port system to follow an adoption pattern for medical devices similar to breakthrough technologies such as bowel mechanical anastomoses, beating heart stabilizers or endoscopic vein harvesting, each of which improved patient outcomes and reduced hospital stays. These revolutionary technologies are now the standard of care notwithstanding their higher direct cost and initial training requirements. We believe that reduced patient trauma, decreased operating time and/or improved patient outcomes were the driving forces for surgeon adoption of these technologies and that our anastomosis systems provide very similar advantages.

Since founding Cardica in 1997, our long-term vision has always been to enable less invasive bypass procedures through easy-to-use, consistent and reliable automated anastomoses, and we are designing our next iteration devices to bring us closer to realizing this vision. In July 2006, we received the European CE Mark for the C-Port xA Distal Anastomosis System, the next iteration of our C-Port system, which allows surgeons to perform both venous and arterial CABG surgeries, and we have submitted this device to the FDA for clearance.

PAS-Port Deployment



Over the course of the last year, we made significant development progress with the C-Port Flex A Anastomosis System, a C-Port xA system with a flexible arm. We anticipate submitting this device for regulatory approval in both the United States and Europe in the second half of fiscal 2007 for use in open chest CABG procedures.

THE PAS-PORT PROXIMAL ANASTOMOSIS SYSTEM: EXPANDING SALES

The PAS-Port system is currently approved for marketing in Japan and Europe, and to date we have shipped a total of over 3,700 PAS-Port systems worldwide. In Japan, we are selling the PAS-Port system through our distributor Century Medical. While the Japanese CABG market in general is relatively small, our PAS-Port system is used in over 10 percent of all coronary revascularization procedures in Japan.

We initiated a pivotal clinical trial in June 2006 to evaluate the safety and efficacy of the PAS-Port system during CABG surgery. This prospective randomized trial is being conducted at 11 clinical sites in the United States and Europe and will enroll a total of 220 patients, each of whom will receive both a PAS-Port system automated anastomosis and a hand-sewn anastomosis as a control. If this trial is successful, we plan to submit a 510(k) application to the FDA by the end of calendar year 2007 based on the results of this pivotal trial.

LEVERAGING OUR PROPRIETARY TECHNOLOGY Looking beyond our automated anastomosis products, we are also developing the X-Port™ Vascular Access Closure Device. In December 2005, we entered into an agreement with Cook Incorporated, under which we are responsible for design and preclinical development of the X-Port device and Cook is responsible for clinical development and regulatory approval. Under the agreement, Cook has exclusive commercialization rights for medical procedures anywhere in the body, and we are eligible to receive product development milestone payments of up to $2 million, of which we have received $1 million thus far, as well as royalties on future worldwide sales.

An estimated 8.5 million diagnostic and interventional catheterization procedures were performed worldwide in 2005, and the worldwide market for vascular artery closure devices is expected to increase to over $750 million by 2008.

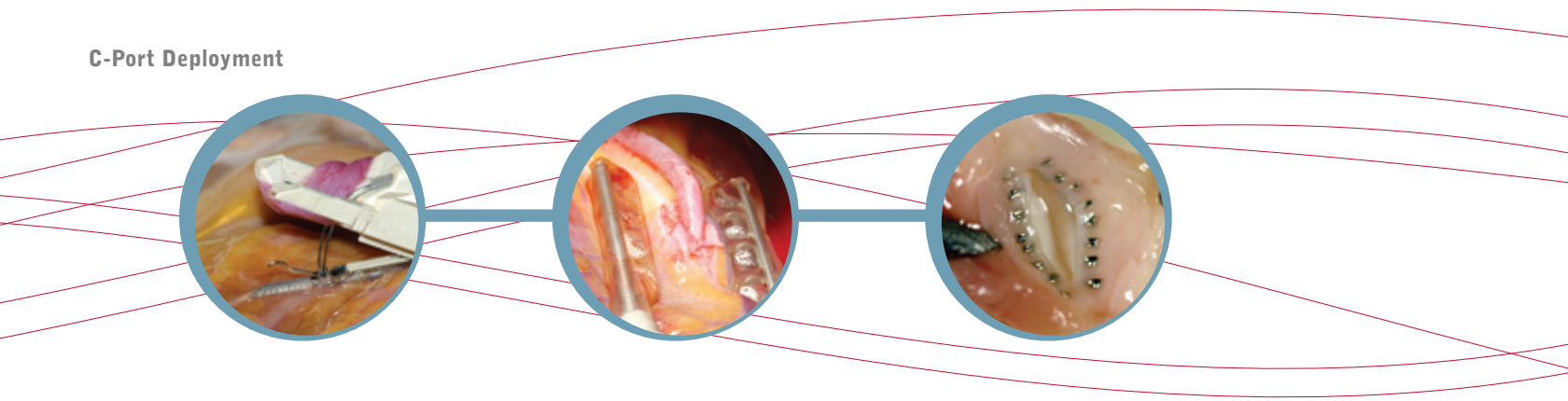
CONTINUED INNOVATION AHEAD Looking forward, we plan to apply our expertise in anastomoses to the development and commercialization of other innovative products.

With our team and innovative technology, Cardica stands poised to deliver important new cardiovascular products to the patients and physicians who need them.

Thank you for your continued support.

Bernard A. Hausen, M.D., Ph.D.
President, Chief Executive Officer and Co-founder

C-Port Deployment



Our Products

The current method of performing an anastomosis in a CABG procedure utilizes technically demanding, tedious and often time-consuming hand-sewn sutures. We believe that the C-Port and PAS-Port systems can improve the quality and consistency of anastomoses, decrease the time required for completing anastomoses, and ultimately contribute to improved patient outcomes.

C-PORT® DISTAL ANASTOMOSIS SYSTEM

The C-Port system is designed to perform a distal anastomosis by attaching the end of a bypass vein graft to a coronary artery using miniature stainless steel staples. In contrast to a non-compliant hand-sewn anastomosis using a continuous suture, the compliant nature of the C-Port anastomosis potentially allows the anastomosis to adapt to changes in blood flow or pressure.

C-PORT SYSTEM BENEFITS

- Performs anastomosis without interruption of native coronary blood flow, which is not possible in a conventional hand-sewn anastomosis during off-pump surgery without the use of a temporarily placed vascular shunt
- Produces a compliant anastomosis potentially allowing the size and shape of the anastomosis to adapt to changes in blood pressure or flow
- Minimizes the amount of foreign material in the blood stream that may cause clotting and subsequent graft failure
- Allows for both on- and off-pump CABG surgeries

PAS-PORT® PROXIMAL ANASTOMOSIS SYSTEM

The PAS-Port system is used to perform a proximal anastomosis between a saphenous vein and the aorta. The fully automated device first creates an opening in the aorta and subsequently attaches the bypass graft securely to the aortic wall, using a medical grade stainless steel implant that is formed into its final shape by the delivery tool.

PAS-PORT SYSTEM BENEFITS

- Creates anastomosis without the need for clamping of the aorta
- Potentially avoids risks such as neurological complications due to aorta clamping
- Allows for both on- and off-pump CABG surgeries
- Performs the anastomosis, including loading, in approximately 3 minutes

Corporate Directory

BOARD OF DIRECTORS

J. Michael Egan
Chairman of the Board
Cardica, Inc.

Bernard A. Hausen, M.D., Ph.D.
President, Chief Executive Officer
and Co-founder
Cardica, Inc.

Kevin T. Larkin
President and Chief Executive Officer
TherOx, Inc.

Richard P. Powers
Vice President and
Chief Financial Officer
Anesiva, Inc.

Jeffrey L. Purvin
Former Chairman and
Chief Executive Officer
Metrika, Inc.

Robert C. Robbins, M.D.
Chairman
Department of Cardiothoracic Surgery
Stanford University School of Medicine
and Director
Stanford Cardiovascular Institute

John Simon, Ph.D.
Managing Director
Allen & Company LLC

Stephen A. Yencho, Ph.D.
President
Water of Life, LLC

William H. Younger, Jr.
Managing Director
Sutter Hill Ventures

MANAGEMENT TEAM

Bernard A. Hausen, M.D., Ph.D.
President, Chief Executive Officer
and Co-founder

Douglas T. Ellison
Vice President
Worldwide Sales and Marketing

Bryan D. Knodel, Ph.D.
Vice President
Research and Development

Robert Y. Newell
Chief Financial Officer and
Vice President
Finance and Operations

ANNUAL MEETING

The annual meeting of stockholders will be held on November 8th, 2006 at 11:30 a.m. Pacific time at Cardica, Inc., 900 Saginaw Drive, Redwood City, California.

INVESTOR INFORMATION

Recent press releases and other Cardica information are available without charge on Cardica's website at www.cardica.com or upon written request to:

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Tel: (650) 364-9975
Fax: (650) 364-3134
Email: investors@cardica.com

STOCK LISTING

Cardica's common stock trades on the Nasdaq Global Market under the symbol CRDC.

TRANSFER AGENT

Computershare Investor Services
250 Royall Street
Canton, MA 02021
(781) 575-4238

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Ernst & Young LLP
Palo Alto, California

CORPORATE COUNSEL

Cooley Godward LLP
Palo Alto, California

FORWARD LOOKING STATEMENTS

This Annual Report contains "forward-looking" statements, including statements relating to commercialization, development and regulatory expectations for Cardica's C-Port Distal Anastomosis System, including the C-Port xA system, PAS-Port Proximal Anastomosis System, X-Port Vascular Access Closure Device and other products and product candidates. Any statements contained in this Annual Report that are not historical facts may be deemed to be forward-looking statements. The words "believe","plan", "expect", "estimate", "intend" and "will" or 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 risks associated with market acceptance of Cardica's C-Port Distal Anastomosis System, manufacturing of the C-Port Distal Anastomosis System, Cardica's sales, marketing and distribution strategy and capabilities, Cardica's ability to obtain U.S. regulatory approval of the C-Port xA Distal Anastomosis System, the timing and success of preclinical studies of and other development activities related to the X-Port Vascular Access Closure Device, the timing and success of development activities related to the C-Port Flex A Anastomosis System and the timing of completion and success of the multi-national clinical trial using Cardica's PAS-Port system, as well as other risks detailed from time to time in Cardica's SEC reports, including its Annual Report on Form 10-K for the fiscal year ended June 30, 2006. Cardica does not undertake any obligation to update forward-looking statements.You are encouraged to read the Company's reports filed with the U.S. Securities and Exchange Commission, available at www.sec.gov.

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