Dear Cardica Stockholders,

Fiscal 2010 was a year of perseverance for Cardica, resulting in substantial development progress as we move toward a product line expansion with our planned microcutter products, and consistent sales levels for our cardiac surgery products. In addition, in August, we announced an exclusive worldwide royalty-bearing license agreement with Intuitive Surgical for the use of our proprietary technology in the field of robotic surgery.

We are extremely pleased to have licensed our microcutting and stapling technology to Intuitive Surgical, the worldwide leader in robotic surgery. Under the terms of our agreements with Intuitive Surgical, Cardica received a $9 million upfront license fee payment, and Intuitive Surgical purchased approximately 1.25 million shares of our common stock for an additional $3 million. Importantly, the Intuitive Surgical license agreement focuses solely on robotic surgery, excluding vascular anastomosis applications, which allows us to maintain control over the development and commercialization of our planned microcutter product line and cardiac surgery business.

As we talk with key opinion leaders in different surgical fields, feedback on the microcutter product line that we are developing continues to be positive. Currently, we are conducting a series of acute and chronic animal studies to compare the first anticipated microcutter product, our Microcutter ES8, to staple lines from other companies. We are pleased to report that the Microcutter ES8 performed very well in the first stage of testing, demonstrating hemostasis and the ability to withstand leaking across the staple line at pressures significantly above what would be physiologically expected. We've completed the tooling, and our highly skilled engineers are now focused on iterating this device to obtain our design and regulatory objectives.

We plan to secure CE mark for and / or initiate "first in man" testing of the Microcutter ES8 in Europe by the end of calendar 2010, and we believe that we remain on track to launch this device in the United States in the first half of calendar 2011, subject to 510(k) clearance from the U.S. Food and Drug Administration.

Expanding our planned microcutter product line, we have completed product design for the Microcutter MES5, a cartridge-based microcutting and stapling device with a 5 millimeter shaft. Based on market research and enthusiastic feedback from surgeons, we believe that our anticipated microcutter products, because of their miniaturization, ease of use and potential for a flexible shaft, would provide clinicians an improved tool for diverse surgical procedures in a market where innovation has been more evolutionary that revolutionary for two decades.

In addition to our development efforts for our planned microcutter product line, we reached a major commercial milestone in our cardiac surgery business. In fiscal 2010 we surpassed 30,000 PAS-Port® Proximal Anastomosis and C-Port® Distal Anastomosis Systems shipped to date worldwide. We continue to offer a full suite of automated anastomosis devices to cardiothoracic surgeons around the globe. Many of our customers remain on the cutting edge of research, using our products to facilitate minimally-invasive bypass and other heart surgeries for their patients, training other surgeons in the process. We expect our products to continue to be a cornerstone for clinical innovation, eventually enabling cardiac surgeons to provide similar levels of minimally invasive surgery as surgeons from other fields have been providing for patients for decades.

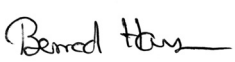
We would like to be able to invest additional time and resources into our cardiac surgery business, as we believe our products are advanced, innovative and necessary for the future of robotic heart surgery. At this time, the marketing expenditures required to change surgeon behaviors exceed our financial resources, but we continue to maintain a level of sales that contributes to our overhead costs and solidifies our presence in the marketplace.

We believe fiscal 2011 will be pivotal for the company as we prepare to launch the Microcutter ES8, subject to clearance from the FDA, and we look forward to keeping you apprised of our progress.

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, 2010

cardica®

Forward-Looking Statements

This Annual Report contains "forward-looking" statements, including all statements with respect to the future development, therapeutic and commercial potential, regulatory approval and commercial launch of all potential products in the planned Cardica Microcutter product line and future sales of Cardica's cardiac surgery products. Any statements contained in this Annual Report that are not historical facts may be deemed to be forward-looking statements. The words "planned," "anticipated, "expect," "continue," "believe," "on track," "will," "subject to," "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's current and any future products may never gain any significant degree of market acceptance; that Cardica needs substantial additional funding; that Cardica may not be successful in its efforts to develop any products in its planned microcutter product line and expand its product portfolio on the anticipated timeline, if at all; that any future Cardica products face development, regulatory, reimbursement and manufacturing risks, including that any products in its planned microcutter product line may not be subject to the 510(k) clearance process by the FDA and may instead be subject to the more lengthy Premarket Approval requirements; 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 Annual Report on Form 10-K for the fiscal year ended June 30, 2010. 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.