FORM 10-K

CARDICA INC - CRDC

Filed: September 18, 2009 (period: June 30, 2009)

Annual report which provides a comprehensive overview of the company for the past year

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended June 30, 2009

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number: 000-51772

CARDICA, INC.

(Exact name of registrant as specified in its charter)

Delaware	**94-3287832**
(State or other jurisdiction of Incorporation or Organization)	*(I.R.S. Employer Identification No.)*

900 Saginaw Drive
Redwood City, California 94063
(650) 364-9975
(Address, including zip code, and telephone number, including area code, of principal executive offices)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $0.001 par value per share	The NASDAQ Global Market

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☑

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☑

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files) Yes ☐ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☑

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐	Accelerated filer ☐	Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☑

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☑

The aggregate market value of the voting stock held by non-affiliates of the registrant as of December 31, 2008 was approximately $43,170,897 (based on the closing sales price of the registrant's common stock as reported by the

NASDAQ Global Market, on December 31, 2008).

The number of shares of common stock outstanding as of September 9, 2009 was 15,825,549.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for its 2009 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days after the registrant's fiscal year ended June 30, 2009 are incorporated by reference.

CARDICA, INC.
ANNUAL REPORT ON FORM 10-K
For the Year Ended June 30, 2009

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Item 1. *Business*

Overview

Historically, our business focused on the design, manufacture and marketing of proprietary automated anastomotic systems used by cardiac surgeons to perform coronary bypass surgery. Recently, we have expanded our business to include the development of an endoscopic microcutter intended for use by general, thoracic, gynecologic, bariatric and urologic surgeons. We are also developing a PFO device in collaboration with Cook Incorporated, or Cook. Our agreement with Cook related to the development of this device, provides us with opportunities for potential milestone and royalty revenue.

We currently sell our C-Port® Distal Anastomosis Systems, or C-Port systems, in the United States and Europe. Each of the C-Port systems is used to perform a distal anastomosis, which is the connection of a bypass graft vessel to a coronary artery downstream of the occluded portion of the coronary artery. Our C-Port systems include the C-Port xA system, which was cleared by the U.S. Food and Drug Administration, or FDA, in November 2006, the C-Port Flex A system, which was cleared by the FDA in April 2007, and the C-Port X-CHANGE system, which was cleared by the FDA in December 2007. As of June 30, 2009, we had sold over 9,300 C-Port systems in Europe and the United States. We also currently sell our PAS-Port ® Proximal Anastomosis System, or PAS-Port system, in the United States and in Europe and Japan through distributors. The PAS-Port system is used to perform a proximal anastomosis, which is the connection of a bypass graft vessel to the aorta or other source of blood. We received 510(k) clearance to market our PAS-Port system in the United States in September 2008. As of June 30, 2009, more than 14,000 PAS-Port systems had been sold in the United States, Europe and Japan. In addition to our commercialized cardiac surgery products, we have commenced development of the Cardica Microcutter, a multi-fire endolinear microcutter device based on our proprietary "staple-on-a-strip" technology, which would expand our commercial opportunity into additional surgical markets. We are in discussions with multiple potential development and commercialization partners to advance further development of the Cardica Microcutter and other potential products in this product line, and we may enter into an arrangement to pursue further development of this product with a partner.

We are in the process of adding independent distributors and manufacturers' representatives to support a core direct sales team for our C-Port systems and PAS-Port system in the United States in order to contain sales costs while continuing to serve our customers and potential customers for our automated anastomosis product line. We are shifting our development efforts to focus on our endoscopic microcutter.

Our Strategy

Our goal is to become the leading provider of automated anastomotic systems for coronary artery bypass grafting, or CABG, procedures and closure devices for other surgical procedures. Other existing technologies either do not enable or are less compatible with less invasive and minimally invasive surgery. Because less invasive surgery has many advantages relative to patient outcomes, our strategy involves developing and, ultimately, marketing and selling devices that enable or facilitate less invasive and minimally invasive procedures, which in turn may help enlarge the market for these types of surgeries.

The principal elements of our strategy to achieve our vision and goals include:

- *Driving market adoption of the C-Port and PAS-Port systems.* We intend to drive commercial adoption of our C-Port systems, our PAS-Port system and any future anastomosis products by marketing them as integrated anastomotic tools for use in both on- and off-pump CABG procedures.
- *Modifying our sales and marketing activities.* To reduce our expenses, we are modifying our sales structure to rely primarily on an independent network of manufacturers' representatives and distributors to market and sell our C-Port systems and the PAS-Port system in the United States. Our U.S. distributors and representatives are initially targeting selected influential surgeons in high volume cardiac surgery centers. Through this effort, we seek to increase both confidence in and demand for our anastomosis products, while minimizing direct expense to us. We also intend to increase the number of distributors carrying our products in Europe and Asia.

- *Developing our endoscopic microcutter.* We have begun development of a multi-fire endolinear microcutter device based on our proprietary "staple-on-a-strip" technology, which would expand our commercial opportunity into additional surgical markets. Our microcutter technology is designed to allow the connecting, stapling and cutting of tissue similar to currently marketed competitive endolinear stapling products. The innovative features we plan to incorporate into this new product line are its ability to deploy multiple successive rows of staples without replacing cartridges, a significant reduction in tool shaft diameter and the ability to increase the amount of articulation of the end-effector. Our planned introduction of the microcutter will enable more minimally invasive procedures in general, bariatric, thoracic, gynecologic and urologic surgeries, such as single incision laparoscopic surgery (SILS). We are evaluating whether to pursue further development of this product independently or with a development and commercialization partner.
- *Leveraging our core competency to develop innovative products for other surgical applications.* We believe that our core technology, which comprises extensive technological innovations, can be adapted for a variety of surgical applications and disease indications. For example, we are currently developing products for use in other applications, such as PFO closure.
- *Establishing a strong proprietary position.* As of June 30, 2009, we had 74 issued U.S. patents, 84 additional patent applications in the United States, five issued foreign patents and another 11 patent applications filed in selected international markets. We plan to continue to invest in building our intellectual property portfolio.

Cardiac Industry Background

Coronary Artery Disease

According to the American Heart Association, approximately 13.2 million people in the United States have coronary artery disease, and approximately 653,000 people in the United States die each year as a result of the disease. Coronary artery disease, sometimes referred to as atherosclerosis, is a degenerative disease resulting from the deposit of cholesterol and other fatty materials on the interior walls of blood vessels, forming a build-up known as plaque. The accumulation of plaque, usually over decades, causes the vessel to become inelastic and progressively narrows the interior of the artery, impairing its ability to supply blood and oxygen to the heart muscle. When there is insufficient blood flow to the heart muscle, an injury may occur, often resulting in chest pain, or angina, a heart attack or even death. Coronary artery disease is caused by aging and is exacerbated by dietary and environmental factors, as well as by genetic predisposition. As a patient ages, the disease will typically advance and become more diffuse, compromising the coronary artery system more globally and occluding more small-diameter vessels.

Current Treatment Alternatives for Coronary Artery Disease

Physicians and patients may select among a variety of treatments to address coronary artery disease, with the selection often depending upon the stage and severity of the disease and the age of the patient. In addition to changes in patient lifestyle, such as smoking cessation, weight reduction, diet changes and exercise programs, the principal existing treatments for coronary artery disease include the following:

Medical Treatment with Pharmaceuticals

Before the advent of interventional cardiology or bypass surgery, medical treatment with pharmaceuticals was the only form of therapy available to patients with coronary heart disease. In patients with less severe disease, pharmaceuticals remain the primary treatment approach and include drugs such as platelet adhesion inhibitors or drugs that reduce the blood cholesterol or triglyceride levels. The objective for medical treatment with pharmaceutical agents is to reduce the incidence, progression or exacerbation of coronary artery disease and its associated symptoms. For more serious disease, however, pharmacological therapy alone is often inadequate.

Interventional Cardiology Techniques

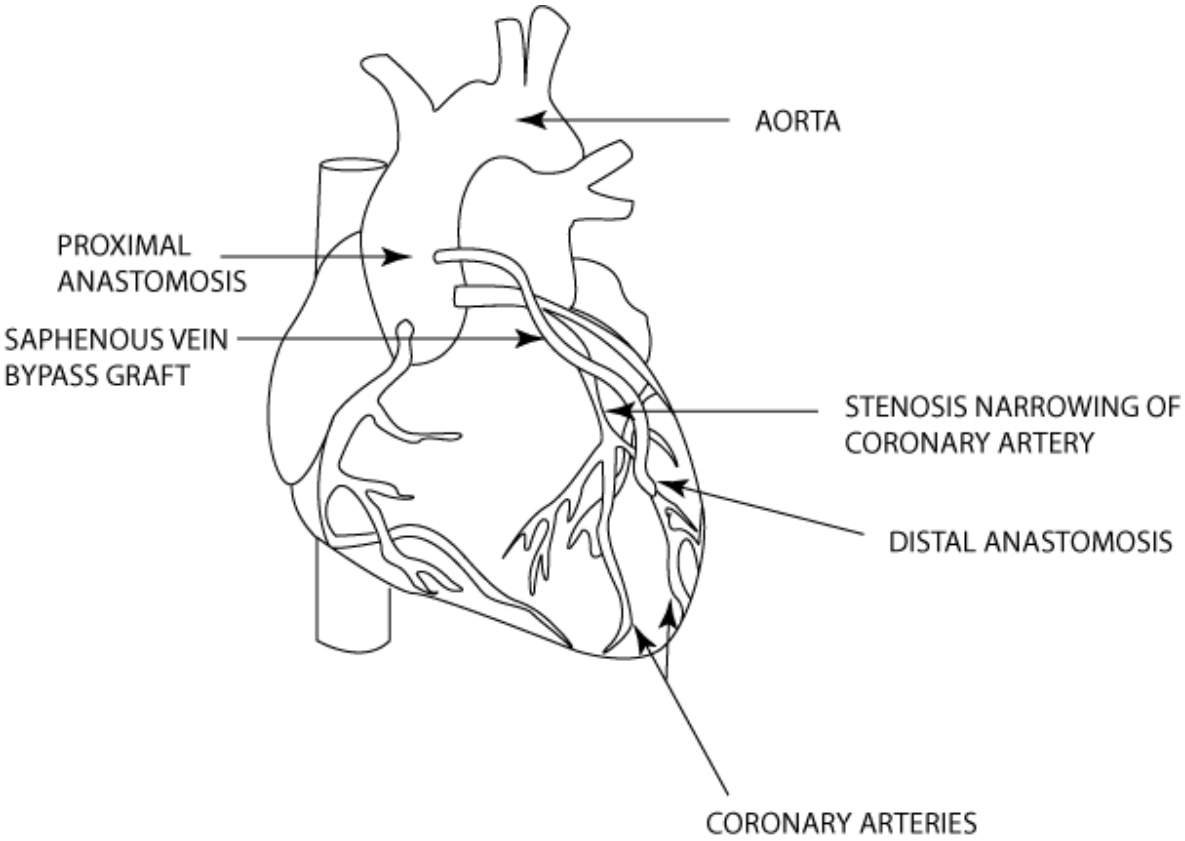
Coronary Angioplasty. Percutaneous transluminal coronary angioplasty, commonly referred to as balloon angioplasty, is a surgical procedure that involves the dilation of the obstructed artery with a balloon catheter. To perform an angioplasty, the surgeon maneuvers a flexible balloon catheter to the site of the blockage in the coronary artery, inflates the balloon, compressing the plaque and stretching the artery wall to create a larger channel for blood flow. The balloon is then deflated and removed. Angioplasty is generally successful in increasing immediate blood flow and, relative to current surgical procedures, offers the benefits of shorter periods of hospitalization, quicker recovery times, reduced patient discomfort and lower cost. However, angioplasty does not always provide prolonged efficacy: independent studies indicate that 25% to 40% of vessels treated with balloon angioplasty return to their pre-treatment, narrowed size, a process known as restenosis, within six months following the procedure. Restenosis is primarily the result of cell proliferation in response to the "injury" caused by the angioplasty procedure.

Stents. High rates of restenosis following treatment by balloon angioplasty led to the introduction of stents, mesh-like metallic tubes that are placed within the narrowed portion of the coronary vessel to hold the vessel open after the angioplasty balloon has been removed. Although clinical outcomes for procedures using stents reflect an improvement over balloon angioplasty alone, the effectiveness of stents is still limited by restenosis, which for base metal stents occurs in about 10% to 35% of cases within six months of the procedure.

Some manufacturers have introduced drug-eluting stents, which incorporate, on the surface of the stent, specially formulated, slow-release drugs designed to prevent restenosis. According to published studies, currently marketed drug-eluting stents have been shown in clinical trials to reduce the rate of restenosis, within the first nine months after placement, to less than 10%. Market adoption of drug-eluting stents has been rapid, and industry observers had predicted that drug-eluting stents would capture approximately 90% of the stent market within three years. However, some studies have been presented that associate drug eluting stents with late stage thrombosis, or clotting, which can be an adverse event. Drug eluting stents are still widely used, with a current market share relative to total stent usage in the range of 70-80%.

Despite the advancements and market success of drug-eluting stents and angioplasty therapies, these interventional procedures may be less effective than CABG procedures in addressing diffuse progressive coronary artery disease. In this advanced stage of coronary artery disease, intervention is required for multiple vessels, many of which are less than two millimeters in internal diameter, a diameter currently unsuited for angioplasty and stenting. In addition, stents have been shown to be difficult to place in patients with coronary lesions in sections with vessel branches and in patients with narrowings in the left main coronary artery.

Bypass Surgery. CABG involves the construction of an alternative path to bypass a narrowed or occluded coronary artery and restore blood flow from the aorta to an area past the occlusion. This procedure can be accomplished using either veins or arteries as bypass grafts. Veins are typically harvested from the patient's leg (saphenous vein), while arteries are taken from either the patient's arm (radial artery) or chest wall (mammary artery). For vein grafts and radial arteries, one end of the harvested vessel is then generally attached to the aorta for blood inflow, and the opposite end is attached to the target coronary vessel. If a mammary artery is used as the bypass graft, it must be dissected from the chest wall, leaving one end in place, while the opposite end is attached to the target vessel, providing uninterrupted blood flow from the arterial circulation. Once in place, these grafts provide sufficient blood flow to bypass the narrowed or occluded portion of the coronary artery. (See Figure Below).



Over the last decade approximately 90% of patients undergoing first time CABG surgery received a mammary artery as a bypass graft vessel, a graft that does not require a proximal anastomosis, in addition to other bypass grafts such as veins and radial arteries. When the left anterior descending, or LAD, artery is obstructed, CABG is most commonly performed by grafting the left internal mammary artery, or LIMA, to the LAD. When other coronary arteries are obstructed, saphenous vein grafts are typically used as the bypass vessel. A study shows that patients who undergo a CABG procedure typically receive at least three bypass grafts, of which we believe a majority are performed using one artery and two veins as the bypass graft vessels.

Although CABG surgery is generally a highly invasive and even traumatic procedure, an independent study comparing CABG and implantation of conventional stents has shown that CABG is the more effective treatment for coronary artery disease, achieving the best long-term patient outcomes as measured by survival rate and need for intervention. Studies have shown that following CABG, grafts can remain patent, or open, and functional for as long as 10 years in approximately 50% of venous grafts and approximately 90% of arterial grafts. In addition, CABG procedures can be used to treat diffuse, end-stage coronary artery disease states that are often not amenable to treatment by angioplasty or stents.

According to an independent analysis by Medtech Insight, a division of Windhover Information, entitled "U.S. Surgical Procedure Volumes," dated February 2007, an estimated 257,000 CABG procedures were performed in 2007 in the United States, as compared to approximately 260,000 procedures in 2006. We believe that the decrease in CABG procedures is primarily attributable to the increase in other interventional cardiology procedures, including the increased use of drug-eluting stents. The average CABG surgery requires approximately three bypass grafts per patient, and a majority of grafts require an anastomotic connection at both ends of the graft. Assuming an

average of approximately five anastomoses per CABG procedure, we estimate that approximately 1.2 million of these blood vessel connections are performed in connection with CABG procedures annually in the United States. We believe approximately two-thirds of the procedures are performed using veins as the bypass graft. A similar number of CABG procedures with similar grafting frequency are performed outside of the US.

Types of CABG Procedures

There are currently three types of CABG procedures, two of which are commonly performed:

Conventional On-Pump CABG Procedures. Conventional on-pump CABG procedures are particularly invasive and traumatic to the patient, typically requiring the surgeon to open the patient's chest cavity by splitting the sternum and to place the patient on a pump to circulate the blood throughout the body. Redirecting the blood flow to a pump enables the surgeon to clamp the aorta and stop the heart, which results in a motionless and bloodless field in which the surgeon can perform the difficult and tedious task of manually suturing the small vessels to one another. The absence of blood flow and motion are important factors in ensuring precision and providing positive clinical outcomes; however, the use of a pump for circulation exposes the patient's blood to foreign surfaces, which has been shown to increase the incidence of bleeding and short-term neurocognitive defects. Additionally, stopping the heart may result in impairment or damage to the heart muscle. Moreover, clamping of the aorta has been shown in clinical studies to cause the release of particles into the blood stream that may produce blockages in other parts of the body, such as the brain. Blockages in the brain can lead to neurological damage, including strokes. Clamping the aorta also carries the risk of injury to the vessel wall with later bleeding complications. Notwithstanding these potential problems, the majority of CABG procedures performed today use this on-pump technique.

Off-Pump CABG Procedures. In 1995, a new method of performing CABG procedures that avoids the use of external pumps, requiring the surgeon to perform the anastomosis while the heart is beating was introduced. The clinical literature suggests that this procedure, termed off-pump coronary artery bypass, or OPCAB, offers several benefits as compared to on-pump CABG procedures, including reductions in bleeding, kidney dysfunction, short-term neurocognitive dysfunction and length of hospital stay. OPCAB procedures currently represent approximately 25% of all CABG procedures performed in the United States.

Notwithstanding these advantages, the technical challenges inherent in OPCAB have impeded its widespread adoption. Because the patient's heart is beating during the procedure, the surgeon is required to perform the delicate anastomosis on a target vessel, which could be as small as one millimeter in internal diameter, while the vessel is moving with each heart contraction. The technical demands of the procedure, together with the longer learning curve required to achieve surgical proficiency, may also initially adversely affect long-term graft patency and completion of revascularization. In addition, surgeons will still typically be required to place a partially occluding clamp on the ascending aorta to hand suture the proximal vein graft anastomosis. As a result, even in OPCAB procedures, patients still face the risk of the serious adverse effects associated with the application of aortic clamps.

Minimally Invasive Endoscopic Procedures. Recently, a very small number of CABG procedures have been performed using minimally invasive endoscopic procedures to reduce patient trauma. These procedures are known as totally endoscopic coronary artery bypass, or TECAB, and typically involve the use of Intuitive Surgical's da Vinci surgical robot system. In this approach, the sternum is left intact and the surgery is performed through small access ports. The anastomoses are performed on selected, readily reachable vessels using special surgical instruments or the da Vinci robot system, and this procedure requires special surgical skills. Although endoscopic procedures offer the promise of faster post-operative patient recovery times, rapid ambulation, long-term graft patency and a low incidence of adverse outcomes, in the past there were a number of challenges to wide-scale realization of that potential, including the absence of a method to enable surgeons to perform reproducible and effective anastomoses that can be rapidly deployed through small incisions. While many patients may be eligible for minimally invasive endoscopic techniques, the TECAB procedures are currently performed in less than 1% of all CABG patients.

Surgical Techniques for Anastomoses

The current method of performing anastomoses, which surgeons generally view as the most critical aspect of CABG procedures, typically employs tedious and time-consuming hand-sewn placement of individual stitches with

a continuous suture to connect the bypass graft to the aorta or coronary vessels. Conventional anastomosis can require ten to 25 minutes to suture, depending upon the size and disease state of the vessels. Proper vessel alignment and suture tension among the many individually placed fine stitches are critical for optimal bypass graft blood flow and function. Furthermore, long-term clinical outcomes may be improved if the anastomosis is "compliant," that is, if its shape and size can adapt to changes in flow and blood pressure by placement of many single sutures rather than one continuous suture. However, most surgeons prefer the use of a continuous suture because placement of individual sutures may be more technically challenging and time-consuming. Whether the surgeon elects to operate on the patient on- or off-pump, a hand-sewn proximal anastomosis generally requires clamping of the aorta and therefore carries with it the risk of neurological damage and other serious adverse effects. Recently, new technology has been introduced that allows the surgeon to perform hand-sewn proximal anastomoses to the aorta without clamping of the aorta. These facilitating devices temporarily cover the opening in the aortic wall from the inside while the surgeon places the stitches to create the anastomosis and are removed after the anastomosis has been completed to allow blood flow into the bypass graft. We believe these systems, in their current implementations, are not suitable for endoscopic bypass surgery.

The laborious and time-consuming nature of manually applied sutures and the limitations associated with their use, together with advances occurring in coronary surgical procedures, have fueled the need for easy-to-use, fast and highly reliable automated systems to expedite and standardize the performance of anastomoses in CABG procedures. Although a number of companies have attempted to develop automated systems to perform anastomoses, to date, Cardica is the only company with FDA clearance to market a distal and proximal anastomosis devices in the United States, and only one other non-automated system for use in performing a proximal anastomosis is currently commercially available in the United States.

Microcutter Industry Background

Market

Laparoscopic surgery is a type of minimally invasive surgery in which a small incision is made in the abdominal wall through which an endoscope, an instrument usually consisting of a fiber-optic tube connected to a viewing device, is inserted to permit structures within the abdomen and pelvis to be seen. A number of different tubes or instruments can be introduced through the same opening, which enables performing a number of surgical procedures without the need for a large surgical incision. The advantages of laparoscopic surgery include a shorter post-operative recovery period with less pain, shorter lengths of stay in the hospital, decreases in post-operative complications and a quicker return to routine activities compared to traditional open surgical procedures. Laparoscopic surgery was originally used by gynecologists for the diagnosis of diseases of the ovary and uterus. Removal of the gall bladder by laparoscopic techniques was introduced in the late 1980s. Smaller surgical instruments and improvements in endoscopic fiber-optic and video cameras have expanded the use of laparoscopic surgery to surgical procedures involving the appendix, stomach, lungs, colon, uterus and other organs and procedures.

The use of disposable devices closing and/or cutting in both traditional and laparoscopic surgical procedures has been broadly adopted clinically in a number of surgical specialties including colorectal, bariatric, gynecologic, urologic and thoracic surgery. The world-wide laparoscopic surgery products market is estimated at $3.6 billion with the cutter and stapler segment representing approximately $1.3 billion. Based on our market research, we estimate that 55-70% of the worldwide laparoscopic stapling-cutting closure product revenue is generated in the United States market.

We estimate there are approximately 1.4 million surgical procedures per year in the United States involving bariatric and general, thoracic, gynecologic and urologic surgery, involving, we estimate, over 4 million staple cartridge deployments, 3 million of which we believe are deployed in laparoscopic procedures.

Current Devices for Surgical Stapling

Current, conventional surgical stapling technology generally involves:

- Deploying multiple U-shaped wire against a deforming surface, called an anvil, to reshape the wires into a B-shaped wires and thereby connecting or sealing tissue;
- Deploying multiple rows of staples, usually two to three rows per side, with a tissue dividing cut between the rows;
- Individually placing sets of staples in reloadable cartridges, designed for single use;
- A deployment tool, consisting of a handle and shaft (with a minimum diameter of 12 millimeters), that is reusable within a single surgical procedure; and
- Cartridges that can be loaded, following each deployment, into a receptacle at the end of the deployment tool.

Unlike many other surgical instruments and devices, there have been few significant innovations in surgical stapling technology over the past ten years.

Our Cardiac Solutions

We design, manufacture and market proprietary automated anastomotic systems used by surgeons to perform anastomoses during on- or off-pump CABG procedures. We believe that by enabling consistent and reliable anastomoses of the vessels at this most critical step in CABG surgery through a fast, automated process, our products can improve the quality and consistency of these anastomoses, which we believe will ultimately contribute to improved patient outcomes. We have designed our products to meet the needs of surgeons, including:

- *Physiological features.* Our clips use medical grade stainless steel that is identical to that used in conventional coronary stents, which is known to be compatible with the human body (in the absence of allergies to certain components of medical grade stainless steel). Our products minimize trauma to both the graft and target vessel during loading and deployment, thereby reducing the risk of scar formation and associated narrowings or occlusions. Additionally, our PAS-Port system can be used without clamping the aorta, which has been shown to be a cause of adverse events, including neurological complications. In addition, our C-Port system creates compliant anastomoses, which potentially allow the shape and size of the anastomosis to adapt to changes in flow and blood pressure.
- *Handling features.* Our anastomotic systems can create anastomoses more rapidly than hand suturing, resulting in a surgical procedure that can be performed more quickly. For example the PAS-Port system can be set-up and deployed in approximately three minutes compared with approximately ten to 25 minutes for a hand-sewn anastomosis. In addition, the system is easy to use, typically requiring only a few hours of training to become technically proficient in the technique. The C-Port system is compatible with coronary arteries as small as 1.3 millimeters in internal diameter, which is typically the lower limit of target vessels considered to be candidates for revascularization. The C-Port system can also be deployed at various angles, allowing access to all coronary targets during both on- and off-pump procedures. Both the C-Port system and the PAS-Port system are designed as integrated products, where all steps necessary to create an anastomosis are performed by a single tool, with one user interface. The need for target vessel preparation is minimal for the PAS-Port system, a feature that is especially important in patients undergoing a second or third coronary bypass procedure with the presence of significant scarring in and around the heart and aorta.
- *Standardized results.* Our products enable consistent, reproducible anastomoses, largely independent of surgical technique and skill set, using a wide range in quality of graft tissues. In comparison with hand-sewn sutures, our systems offer mechanically-governed repeatability and reduced procedural complexity.
- *Reduced costs.* Because our products can help to expedite the CABG procedure, we believe that they may contribute to reduced operating room time and a reduction in associated expenses, partially offset by the increased direct cost of our products compared to current alternatives, such as sutures. Additionally, our C-Port system creates anastomoses rapidly and does not require the interruption of blood flow. It may reduce

some of the technical challenges inherent in performing anastomosis in off-pump procedures, which may advance adoption of the off-pump approach. By helping more surgeons perform off-pump CABG, the need for a costly pump may also be reduced or eliminated, thereby potentially reducing the total costs of the procedure. The C-Port Flex A allows the surgeon to perform coronary revascularization through small openings in the chest wall, thereby reducing the trauma and morbidity associated with the CABG procedure, which therefore may help reduce costs by reducing the time to patient discharge. Finally, to the extent complications such as strokes or injury to the heart muscle decrease, post-operative costs of a CABG procedure may be significantly reduced.

Our Planned Microcutter Solutions

Based upon much of the technology we developed for our cardiac surgery anastomosis products, we have begun development of a new product line of multi-fire endolinear stapling devices, a product line we have termed the microcutter. We believe that our endoscopic microcutter design potentially will address many of the limitations in currently available stapling products and would provide surgeons with a smaller and more effective stapling and cutting device for more minimally invasive surgical procedures, including:

- *Staple Design and Formation.* Our microcutter would utilize our innovative three dimensional, or 3D, staple design, which we engineered in connection with our vascular anastomotic products, that in vascular applications allow single rows of staples to effectively prevent blood leakage at physiological blood pressures. These 3D staples allow for a large contact surface between staple and tissue, which dramatically improves sealing while significantly reducing the likelihood of the staple cutting through tissue. These 3D staples are guided into their final shape by the anvil rather than forced to buckle, which reduces the forming forces and helps to eliminate malformed staples. The 3D design with a rectangular cross-section significantly increases the stiffness compared to round wire, resulting in a much stronger final form that is significantly more resistant to unbending or yielding.
- *Device Size.* By changing the technology used to form the staple, our microcutter is being designed to have a smaller-sized end-effector and tool shaft. Depending upon the chosen staple line length and staple height, the microcutter outer diameter could be as small as five millimeters. Due to its smaller size, our microcutter should enable procedures requiring minimal access, such as robot-assisted surgery and the rapidly emerging area of single incision laparoscopic surgery, or SILS.
- *"Staple-On-A-Strip" Technology.* We have further advanced our 3D staple technology in connection with the microcutter by introducing a novel design where 3D staples are stamped from sheet metal and left connected to a metal band that is then loaded into the device. This differs from conventional technology where individual staples are typically loaded into cartridge bays. We believe that our "staple-on-a-strip" technology will enable tighter spacing between individual staples, which improves sealing performance.
- *True Multi-Fire Capability.* Our "staple-on-a-strip" technology is being designed to allow the surgeon to conduct multiple deployments within a procedure, without the need to remove the stapler from the tissue site or having to replace a cartridge. Conventional stapling technology requires a tedious, repetitive thirteen step process after each deployment in which the stapler is first clamped and then removed from the body cavity. True multi-fire capability reduces this multi-step process to 4 simple steps: unclamping of the device, advance, clamp and deploy. After each deployment a new set of staples is automatically advanced into the end-effector and the knife system is reset, making the device immediately ready for the next deployment.
- *Low Deployment Forces.* In our microcutter's design, the need to clamp the tissue would be completely decoupled from staple deployment, which significantly reduces the deployment forces. This reduction in deployment forces potentially gives the user more control during deployment. Additionally, our compact staple mechanism would allow more design space to be dedicated to the anvil, which helps to ensure excellent tissue compression. These features combine to result in excellent staple formation.
- *Articulation, Rotation and Handling.* Articulation and rotation clearly improve tissue access and ease of use, and both are expected by surgeons in stapling devices. Our microcutter design incorporates an end-effector that can be angled up to 60 degrees, as compared to the 45 degrees of maximum articulation

achieved with the vast majority of currently marketed linear stapling technologies. In addition, our microcutter enables 360 degree rotation of the end-effector. Our microcutter also would be the first truly single-hand operated handle for articulating staplers: 360 degree rotation and 60 degree articulation would be accomplished by rotating a single knob at the end of the handle.

Our Cardiac Products

We currently market four proprietary products to perform anastomoses, the C-Port xA system, C-Port Flex A system, C-Port X-CHANGE system and the PAS-Port system. The C-Port systems automate a distal anastomosis between the graft vessel and target artery. The original C-Port system, which is no longer marketed, was studied using veins rather than arteries as the graft vessel and received FDA 510(k) clearance for the creation of anastomoses between grafts and target vessels generally. The C-Port xA system, our next generation of the C-Port system, was developed to use veins and arteries as the bypass graft vessel and received 510(k) clearance in November 2006. A new generation of the C-Port xA system, the C-Port Flex A system, designed to further enable minimally invasive CABG surgery, received 510(k) clearance from the FDA in March 2007 and the C-Port X-CHANGE system, a reloadable cartridge-based system, received 510(k) clearance from the FDA in December 2007. The PAS-Port system automates the performance of a proximal anastomosis between a graft vessel, typically a saphenous vein, and the aorta. The PAS-Port system received 510(k) clearance from the FDA in September 2008 following completion of a prospective, international, randomized study. A study shows that patients who undergo a CABG procedure typically receive at least three bypass grafts, of which we believe a majority are performed using one artery and two veins as the bypass graft vessels.

C-Port® Distal Anastomosis Systems

C-Port® xA Anastomosis System

Our C-Port xA Distal Anastomosis System, which may be used in either on- or off-pump CABG procedures, is designed to perform an end-to-side distal anastomosis by attaching the end of a bypass graft to a coronary artery downstream of an occlusion or narrowing. Based upon our original C-Port system which received the CE Mark for marketing in the European Union in April 2004 and 510(k) clearance from the FDA in November 2005, the C-Port xA system, which received its 510(k) clearance from the FDA in November 2006, is inserted in a small incision in the coronary artery with a bypass graft vessel attached to the device. The C-Port xA system is actuated by depressing a trigger which activates a manifold powered by a cylinder of compressed carbon dioxide to provide smooth actuation. Miniature stainless steel staples are deployed to securely attach the bypass graft to the coronary artery and at the same time a miniature knife completes an opening inside the coronary artery to complete the bypass. After deployment, the C-Port system is removed from the coronary artery and the entry incision is closed typically with a single stitch. Our C-Port xA system is effective in creating compliant anastomoses in vessels as small as 1.3 millimeters in internal diameter. In addition, the C-Port xA system has been designed to:

- perform an end-to-side 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;
- achieve nearly complete alignment of the natural blood lining surfaces of the coronary artery and the bypass graft to minimize scarring and potential occlusion of the anastomosis;
- minimize the amount of foreign material in the blood stream that may cause clotting and subsequent graft failure; and
- suitable for all grafts typically used in CABG procedures with wall thicknesses of less than or equal to 1.4 millimeters.

C-Port® Flex A Anastomosis System

The C-Port Flex A system includes modifications to the C-Port xA system that are designed to enable automated anastomoses to be performed as part of minimally invasive and robot-facilitated CABG procedures. In March 2007, we received 510(k) clearance from the FDA to market the C-Port Flex A system in the United States.

The C-Port Flex A system includes all of the features and benefits of the C-Port xA system and has a flexible, rather than rigid, shaft. The flexible shaft is designed to allow the working end of the device that creates the anastomosis to be inserted through a 14-millimeter diameter port to access the chest cavity and heart. The device is designed to be loaded with the bypass graft vessel inside or outside the chest cavity and deployed to create the anastomosis to the coronary artery. This product is designed to enable technology for completion of robotically assisted, including endoscopic, CABG surgery through four or five relatively small incisions between the ribs. Avoiding both the incision through the sternum and the use of the pump should significantly reduce patient trauma and accelerate post-operative recovery.

C-Port® X-CHANGE System

The C-Port X-CHANGE system, the most recent offering in the C-Port product line, is a cartridge-based reloadable C-Port system. The C-Port X-CHANGE system includes modifications to the C-Port xA system that are designed to enable multiple automated anastomoses to be performed using the same handle with up to three separate cartridges. The C-Port X-CHANGE system provides for a lower cost per deployment for multiple deployments in one CABG procedure. In December 2007, we received 510(k) clearance from the FDA to market the C-Port X-CHANGE system in the U.S. As of June 30, 2009, we had sold an aggregate of nearly 9,300 units of all the versions of our C-Port systems.

PAS-Port® Proximal Anastomosis System

Our PAS-Port system is a fully automated device used to perform an end-to-side proximal anastomosis between a saphenous vein and the aorta. To complete a proximal anastomosis, the cardiac surgeon simply loads the bypass graft vessel into the PAS-Port system, places the end of the delivery device against the aorta and turns the knob on the opposite end of the delivery tool. The device first creates an opening in the aorta and subsequently securely attaches the bypass graft to the aortic wall, using a medical grade stainless steel implant that is formed into its final shape by the delivery tool. The innovative design of the PAS-Port system allows the surgeon to load the bypass graft and rapidly complete the anastomosis, typically in approximately three minutes, with little or no injury to the bypass graft vessel or the aorta.

An important advantage of our PAS-Port system is that, in contrast to conventional hand-sewn proximal anastomoses, the vascular connections created can be performed without clamping the aorta, potentially avoiding associated risks, such as neurological complications. Surgeons use our PAS-Port system in conventional CABG procedures and in OPCAB. Similar to hand-sewn anastomosis, anastomoses completed using our PAS-Port system occasionally require additional stitches intra-operatively to obtain hemostasis (absence of bleeding in the anastomosis site). These additional stitches may be required intra-operatively in an individual anastomosis depending on the quality of the target and graft vessels, adequacy of target site preparation and quality of the loading of the graft to the deployment cartridge.

The PAS-Port system is cleared or approved for sale and marketed in the United States, Europe and Japan. As of June 30, 2009, over 14,000 PAS-Port systems had been sold, primarily in Japan and the United States. Total product sales of our C-Port and PAS-Port systems were $6.8 million, $4.9 million, $2.1 million and $1.0 million, for fiscal years 2009, 2008, 2007 and 2006, respectively. Total product sales represent 69%, 65%, 59% and 50% of total revenues for fiscal years 2009, 2008, 2007 and 2006, respectively.

Future Product Programs

Microcutter

We intend to launch a full range of products that cover the needs of general, bariatric, thoracic, urologic and gynecologic surgeons. The first of these products would be the Cardica Microcutter, which is currently under development and of which we have a prototype. We anticipate that this offering, our microcutter product line, will include products that provide staple line lengths from 30 to 60 millimeters, come in shaft diameters ranging from five to ten millimeters, accommodate staple heights from 2 to 5.3 millimeters and articulate up to 60 degrees. We plan to design all of these products with true multi-fire capability combined with our unique staple design, including the “staple-on-a-strip” technology. We anticipate that each device will provide a number of deployments that is a

function of shaft length and desired staple line length, ranging from six to 12 deployments in one device. In addition, we plan to expand the microcutter product line by introducing products with flexible shafts to facilitate minimally invasive procedures as well as cartridge-based products for procedures where single deployments of a particular staple size are performed that do not warrant use of true multi-fire microcutter products. We plan to design all of these products with reduced shaft diameters.

Cardica Hybrid Technology

Because our microcutter would be significantly smaller than other endostaplers and incorporates our true multi-fire technology, it allows different product platforms to be combined into one product. The most promising of these potential combined products is the Cardica Hybrid, which would combine both bi-polar, or thermal, tissue sealing technology and true multi-fire endostapling. With this potential product, the surgeon would be able to switch between tissue sealing and stapling, depending on the structures encountered during tissue dissection, enabling the surgeon to quickly advance through tissue without the need to switch products. By combining two technologies into one product, we anticipate hospitals may be offered significant cost savings. We are also considering exploring other potential forms of hybrid technology that would include the use of different staple sizes within one product, which would allow the surgeon to have procedure-specific products that deliver varying staple sizes, as required within a procedure, in one product. Finally, based upon our C-Port Flex A system technology, we plan to develop a flexible microcutter. We believe that, due to its small shaft diameter (as small as five millimeters) and its flexibility, this potential product would offer surgeons new capability to perform single incision laparoscopic surgery and intraluminal resections.

Collaborations

Our product research and development efforts are focused on building innovative devices that enhance our current products or leverage our core competency in mechanical micro-clip formation for applications in endoscopic CABG and other medical fields. To date, we have had two contracts, one of which remains active, with Cook Incorporated, or Cook, to apply our proprietary technology to solve other medical needs.

Cook Vascular Closure Device

We developed the Cook Vascular Closure Device to provide an innovative, simple mechanical solution to close the vascular access sites used in interventional vascular procedures, pursuant to a collaboration with Cook. Similar to our other products, the Cook Vascular Closure Device consists of a deployment tool and a vascular clip. At the end of an interventional vascular procedure, the surgeon inserts the deployment tool into a standard introducer sheath and then simply presses a button to deploy a micro-stainless steel four-pronged clip over the opening in the vessel wall, sealing off the vascular access site.

During fiscal year 2009, we completed initial human clinical feasibility trials of the Cook Vascular Closure Device. While the product generally met product specifications, Cook decided to discontinue the project.

On December 9, 2005, we entered into, and in September 2007 amended and in July 2009 amended and partially terminated, an agreement with Cook to develop the Cook Vascular Closure Device. Under the agreement, Cook funded certain development activities, and we and Cook jointly developed the device, under the direction of a Development Committee that included representatives from each party. Under the original agreement and the first amendment in September 2007, Cook received an exclusive, worldwide, royalty-bearing license, with the right to grant sublicenses, to make, have made, use, sell, offer for sale and import the Cook Vascular Closure Device for medical procedures in any part of the body. Under this agreement, we received payments totaling approximately $5.3 million, including $1.0 million, $1.5 million, $1.8 million and $1.0 million in fiscal years 2009, 2008, 2007 and 2006, respectively. In July 2009, we entered into a partial termination and second amendment of this agreement to terminate Cook's participation in the project and to provide to Cook a royalty on net sales of the Cook Vascular Closure Device if we successfully commercialize the product.

Patent Foramen Ovale Closure Device

We are developing a patent foramen ovale (PFO) closure device in collaboration with Cook. A PFO is a defect in the wall, or septum, between the two upper, or atrial, chambers of the heart. This defect is an incomplete closure of the atrial septum that results in the creation of a flap or a valve-like opening in the atrial septal wall. A PFO is present in everyone before birth but normally seals shut in the first year or two after birth. In 20-25% of the population, the foramen ovale remains open or patent. The PFO may allow blood to flow from the heart's right atrium to the left atrium and vice versa. Most people who have a PFO do not need treatment and do not know they have the condition. However, a PFO may increase the risk of stroke or migraine headaches but the clinical evidence is not clear. For those patients who need to have the PFO closed, there are several catheter procedure-based alternatives. Our PFO closure device has a catheter based guiding and deployment mechanism with a four pronged micro-clip that is actuated at the tip of the catheter after it is positioned at the proper site within the PFO.

On June 12, 2007, we entered into, and in September 2007 and June 2009 amended, an agreement with Cook to develop and commercialize a specialized device to close the PFO. Under the agreement, we and Cook will jointly develop the device, under the direction of a Development Committee that includes representatives from each party. Cook receives an exclusive, worldwide, royalty-bearing license, with the right to grant sublicenses, to make, have made, use, sell, offer for sale and import the PFO Closure Device.

Under this agreement, we have received payments totaling approximately $3.2 million, including $1.0 million, $1.7 million and $500,000 in fiscal years 2009, 2008 and 2007, respectively. In fiscal year 2010, we are eligible to receive approximately $0.3 million in additional payments as we accomplish key deliverables under the development plan. After the product achieves satisfactory clinical results and regulatory approvals, we will receive a royalty based on Cook's annual worldwide sales, if any, of the PFO Closure Device. This royalty is reduced if Cook sells a designated number of product units per calendar year for a defined period of time, and may also be reduced if patents are not issued covering the product in certain countries within a defined period of time. Certain minimum royalty payments are required under the agreement, which may be reduced during time periods in which certain product improvements are being developed because product sales are unexpectedly low for reasons other than Cook's failure to diligently commercialize the product.

Cook agreed to use commercially reasonable efforts to develop a production version of the product, and to apply for a CE mark and for FDA approval of the product, at its own expense. Additionally, Cook agreed to use commercially reasonable efforts to commercialize the product following regulatory approval. We agreed to supply a certain number of product units for Cook's use in development of the product. Cook has the right to manufacture the product during later stages of development, and has the obligation to supply the product for commercial purposes. The term of the agreement will expire on June 12, 2027, subject to renewal by mutual agreement between Cook and us. Cook may terminate the agreement for convenience at any time, and either party may terminate the agreement for uncured material breach by the other party.

If the agreement is terminated either by Cook for convenience, or by us for Cook's material breach, then we are required to reimburse Cook a pro-rated amount of the current development phase payment based on the amount of the development phase payment less the expenses of any work actually performed including an overhead factor. Additionally, in such case, Cook is required to transfer to us certain technology and regulatory filings and assist us in other respects to enable us to develop, manufacture and commercialize the product, and Cook agrees not to sue us under certain intellectual property rights as necessary to allow us to continue, on our own or with or through third parties, to make, use, sell, offer for sale and import the product anywhere in the world for use in medical procedures. We agreed to reimburse Cook up to $50,000 for documented expenses related to the transfer and if an IDE, premarket approval, or PMA, is undertaken by Cook for approval of the product, then the filing fees, transfer costs and other costs associated with the IDE and PMA, such as the costs of clinical studies, to be paid by us will not exceed an amount to be negotiated in good faith and can be paid in ten equal installments due semiannually. In such case, for five years after such termination (unless a court does not determine that our termination for Cook's breach was proper), Cook cannot grant to any competitor of ours a license under Cook's intellectual property rights to facilitate the competitor in making, using, selling, offering for sale or importing the Cook PFO Closure Device or any improvement anywhere in the world for use in medical procedures in the body.

If Cook terminates the agreement for our breach after it has paid to us all of the development payments, then Cook's license survives such termination, subject to its continuing obligation to pay royalties to us. If Cook terminates the agreement for material breach by us in failing to meet any of the milestone phases defined in the agreement, then we must repay the amount of the development phase payment, less costs we incurred in developing the product including an overhead factor.

Cook has the first right to enforce the Cook PFO Closure Device intellectual property against third parties, and Cook bears all expenses associated with such enforcement unless we choose to participate. We may undertake such enforcement if Cook permits us to do so. In the event that a third party takes legal action to assert intellectual property rights against us and/or Cook with regard to the product, then Cook may offset against the total royalty payment due to us a portion of any monies expended by Cook in defending against the action.

Regulatory Status and Clinical Trial Summary

Regulatory Status

Other than our PAS-Port system and C-Port systems, all of our products are in a pre-clinical development stage.

International

The PAS-Port system received the CE Mark in March 2003 and the C-Port system received the CE Mark in April 2004. The C-Port xA system received the CE Mark in June 2006, the C-Port Flex A system received the CE Mark in August 2007, and the C-Port X-CHANGE system received the CE Mark in July 2009.

United States

PAS-Port. We received 510(k) clearance from the FDA to market the PAS-Port in the United Stares in September 2008.

C-Port. We received 510(k) clearance from the FDA to market the C-Port system in the United States in November 2005. We received 510(k) clearance from the FDA to market the C-Port xA system in the United States in November 2006. We received 510(k) clearance from the FDA to market the C-Port Flex A system in the United States in March 2007 and the C-Port X-CHANGE in December 2007.

We intend to continue to gather additional clinical data for our products to further support our sales and marketing efforts. We believe these studies will primarily consist of registry trials and physician-initiated studies

Cardiac Product Sales and Marketing

United States

Our initial products focus on the needs of cardiovascular surgeons worldwide. We are changing our sales approach in the United States. Rather than building a direct sales force, we are now beginning to build a network of independent medical device manufacturers' representatives and distributors to sell our sales domestically. We are targeting manufacturers' representatives and distributors who carry other cardiac surgery products, are clinically knowledgeable and are capable of training cardiac surgeons on the use of our products and proctoring initial cases in the operating room. We plan to manage this network of manufacturers' representatives and distributors with a direct sales force of four to five sales representatives across the United States. We anticipate that these manufacturers' representatives and distributors will target, as our direct sales force has, selected influential surgeons in high volume cardiac surgery centers in the United States to sell our C-Port and PAS-Port systems. As of June 30, 2009, we have trained 413 U.S. cardiac surgeons in the use of our C-Port systems and 290 U.S. cardiac surgeons in the use of the PAS-Port system.

International

We currently distribute our PAS-Port system in Japan through our exclusive distributor, Century Medical, Inc., or Century. For the fiscal years ended June 30, 2009, 2008, 2007 and 2006, sales to Century comprised approximately 10%, 13%, 25% and 32%, respectively, of our total revenue and approximately 15%, 20%, 42%

and 64%, respectively, of our product sales. As of June 30, 2009, Century had trained over 300 Japanese cardiac surgeons in over 200 hospitals. Century has a direct sales organization of approximately 16 representatives who are responsible for the development of the anastomotic device market and directly contact cardiac surgeons. Century provides clinical training and support for end-users in Japan. We provide Century with promotional support, ongoing clinical training, representation at trade shows and guidance in Century's sales and marketing efforts. Our agreement with Century expires in July 2014, but automatically renews for an additional five-year term if Century meets certain sales milestones. Either party may terminate this agreement if the other party defaults in performance of material obligations and such default is not cured within a specified period or if the other party becomes insolvent or subject to bankruptcy proceedings. In addition, we may terminate the agreement within 90 days following a change of control by payment of a specified termination fee. For the specifics of our revenue by geographic location please see Note 1, Concentrations of Credit Risk and Certain Other Risks, located in Notes to Financial Statements.

Total product sales of our C-Port and PAS-Port systems were $6.8 million, $4.9 million, $2.1 million and $1.0 million, for fiscal years 2009, 2008, 2007 and 2006, respectively. Total product sales represent 69%, 65%, 59% and 50% of total revenues for fiscal years 2009, 2008, 2007 and 2006, respectively.

We have engaged SIC Systems as our exclusive distributor in Italy, and we may engage additional distributors in several other European countries; however, we do not anticipate significant product sales from Europe in part because European healthcare systems are difficult to penetrate for new higher cost medical products. In January 2008, we engaged Arabian Trade House as our exclusive distributor in Saudi Arabia and other countries in the Middle East. We are continuing to sell to selected international customers and will continue to evaluate further opportunities to expand our distribution network in Europe and in other parts of the world where the healthcare economics are conducive to the introduction and adoption of new medical device technologies.

Competition

Cardiac Products

The market for medical devices used in the treatment of coronary artery disease is intensely competitive, subject to rapid change, and significantly affected by new product introductions and other market activities of industry participants. We believe the principal competitive factors in the market for medical devices used in the treatment of coronary artery disease include:

- improved patient outcomes;
- access to and acceptance by leading physicians;
- product quality and reliability;
- ease of use;
- device cost-effectiveness;
- training and support;
- novelty;
- physician relationships; and
- sales and marketing capabilities.

There are numerous potential competitors in the medical device, biotechnology and pharmaceutical industries, such as Maquet Cardiovascular LLC, formerly the cardiac surgery division of Boston Scientific Corporation, Edwards Lifesciences Corporation, Johnson & Johnson, Inc., Abbott Laboratories, which acquired an additional division of Guidant Corporation, Medtronic, Inc. and St. Jude Medical, that are targeting the treatment of coronary artery disease broadly. Each of these companies has significantly greater financial, clinical, manufacturing, marketing, distribution and technical resources and experience than we have. In addition, new companies have been, and are likely to continue to be, formed to pursue opportunities in our market.

The landscape of active competitors in the market for anastomotic solutions is currently limited. Medtronic, with its acquisition of Coalescent Surgical, obtained the only marketed proximal anastomotic system in the United States, the Spyder, which deploys a series of nitinol-based U-Clips to attach a graft to the aorta. Several companies market systems designed to facilitate or stabilize proximal anastomoses, such as Maquet Cardiovascular's Heartstring Aortic Occluder and Novare Surgical Systems' Enclose anastomotic assist device. St. Jude Medical previously had a commercially available proximal anastomotic system that was marketed both in the United States and Europe; however, St. Jude Medical voluntarily withdrew this product from the market in 2004. Johnson & Johnson has obtained FDA clearance for a proximal system that has been developed by Bypass Inc. but has divested the division that was originally responsible for selling this product, and this proximal anastomosis product is now not available for cardiac surgeons in the United States or abroad.

Our C-Port systems are the only automated anastomosis devices for distal anastomosis cleared for marketing in the United States. The only currently marketed facilitating device for distal anastomosis is the U-Clip, which substitutes clips for sutures, but still requires manual application of typically 12 to 14 individually placed clips per anastomosis by the surgeon.

Currently, the vast majority of anastomoses are performed with sutures and, for the foreseeable future, sutures will continue to be the principal competitor for alternative anastomotic solutions. The direct cost of sutures used for anastomoses in CABG procedures is far less expensive than the direct cost of automated anastomotic systems, and surgeons, who have been using sutures for their entire careers, may be reluctant to consider alternative technologies, despite potential advantages.

In addition, cardiovascular diseases may also be treated by other methods that do not require anastomoses, including interventional techniques such as balloon angioplasty and use of drug-eluting stents, pharmaceuticals, atherectomy catheters and lasers. Further, technological advances with other therapies for cardiovascular disease such as drugs, local gene therapy or future innovations in cardiac surgery techniques could make other methods of treating this disease more effective or less expensive than CABG procedures.

Microcutter

The Cardica Microcutter, if it is successfully launched, would compete in the market for stapling and cutting devices within laparoscopic stapling and sealing devices currently marketed in the United States. We believe the principal competitive factors in the market for laparascopic staplers include:

- reduced product size;
- ease of use;
- product quality and reliability;
- multi-fire capability;
- device cost-effectiveness;
- degree of articulation;
- physician relationships; and
- sales and marketing capabilities.

Two large competitors, Ethicon Endo-Surgery, part of Johnson & Johnson and Covidien, currently control over 80% of this market. Other large competitors in the laparoscopic device market include Stryker Endoscopy and Olympus which recently acquired another competitor, Gyrus Medical. Ethicon Endo-Surgery and Covidien, which is in the process of acquiring a small competitor, Power Medical, each have large direct sales forces in the U.S. and have together dominated the market for single use disposable laparoscopic stapling devices for many years.

Manufacturing

Our manufacturing operations, sterile products manufacturing, packaging, storage and shipping, as well as our research and development laboratories and administrative activities all take place at our headquarters facility. We believe that our current facilities will be sufficient to meet our manufacturing needs for at least the next two years.

We believe our manufacturing operations are in compliance with regulations mandated by the FDA and the European Union. Our facility is ISO 13485:2003 certified. In connection with our CE mark approval and compliance with European quality standards, our facility was initially certified in June 2002 and has been inspected annually thereafter.

There are a number of critical components and sub-assemblies required for manufacturing the C-Port and PAS-Port systems that we purchase from third-party suppliers. The vendors for these materials are qualified through stringent evaluation and monitoring of their performance over time. We audit our critical component manufacturers on a regular basis and at varied intervals based on the nature and complexity of the components they provide and the risk associated with the components' failure.

We use or rely upon sole source suppliers for certain components and services used in manufacturing our products, and we utilize materials and components supplied by third parties, with which we do not have any long-term contracts. In recent years, many suppliers have ceased supplying materials for use in implantable medical devices. We cannot quickly establish additional or replacement suppliers for certain components or materials, due to both the complex nature of the manufacturing processes employed by our suppliers and the time and effort that may be required to obtain FDA clearance or other regulatory approval to use materials from alternative suppliers. Any significant supply interruption or capacity constraints affecting our facilities or those of our suppliers would affect our ability to manufacture and distribute our products.

Third-Party Reimbursement

Sales of medical products are increasingly dependent in part on the availability of reimbursement from third-party payors such as government and private insurance plans. Currently, payors provide coverage and reimbursement for CABG procedures only when they are medically necessary. Our technology will be used concomitantly in CABG procedures. Cardica technologies bring added direct costs to medical providers and may not be reimbursed separately by third-party payors at rates sufficient to allow us to sell our products on a competitive and profitable basis.

We believe the majority of bypass graft patients in the United States will be Medicare beneficiaries. Further, private payors often consider Medicare's coverage and payment decisions when developing their own policies. The Centers for Medicare & Medicaid Services, or CMS, is the agency within the Department of Health and Human Services that administers Medicare and will be responsible for reimbursement decisions for the Cardica devices when used to treat Medicare beneficiaries during CABG surgery.

Once a device has received approval or clearance for marketing by the FDA, there is no assurance that Medicare will cover the device and related services. In some cases, CMS may place certain restrictions on the circumstances in which coverage will be available. In making such coverage determinations, CMS considers, among other things, peer-reviewed publications concerning the effectiveness of the technology, the opinions of medical specialty societies, input from the FDA, the National Institutes of Health, and other government agencies.

In general, Medicare makes a predetermined, fixed payment amount for its beneficiaries receiving covered inpatient services in acute care hospitals. This payment methodology is part of the inpatient prospective payment system, or IPPS. For acute care hospitals, under IPPS, payment for an inpatient stay is based on diagnosis-related groups, or DRGs, which include reimbursement for all covered medical services and medical products that are provided during a hospital stay. Additionally, a relative weight is calculated for each individual DRG which represents the average resources required to care for cases in that particular DRG relative to the average resources required to treat cases in all DRGs. Generally, DRG relative weights are adjusted annually to reflect changes in medical practice in a budget neutral manner.

CMS has made no decisions with respect to DRG assignment when patients undergo CABG procedures in which our products would be used, and there can be no assurance that the DRG to which such patients will be assigned will result in Medicare payment levels that are considered by hospitals to be adequate to support purchase of our products.

Under current CMS reimbursement policies, CMS offers a process to obtain add-on payment for a new medical technology when the existing DRG prospective payment rate is inadequate. To obtain add-on payment, a technology must be considered "new," demonstrate substantial improvement in care and exceed certain payment thresholds. Add-on payments are made for no less than two years and no more than three years. We must demonstrate the safety and effectiveness of our technology to the FDA in addition to CMS requirements before add-on payments can be made. Further, Medicare coverage is based on our ability to demonstrate the treatment is "reasonable and necessary" for Medicare beneficiaries. The process involved in applying for additional reimbursement for new medical technologies from CMS is lengthy and expensive. In November 2006, CMS denied our request for an add-on payment. According to CMS, we met the "new" criteria and exceeded the payment threshold but did not in their view demonstrate substantial improvement in care. Our products may not be awarded additional or separate reimbursement in the foreseeable future, if at all. Moreover, many private payors look to CMS in setting their reimbursement policies and payment amounts. If CMS or other agencies limit coverage and decrease or limit reimbursement payments for hospitals and physicians, this may affect coverage and reimbursement determinations by many private payors.

Medicare policies allow Medicare contractors discretion to cover items involving Category B investigational devices. However, even with items or services involving Category B devices, Medicare coverage may be denied if any other coverage requirements are not met, for example if the treatment is not medically necessary for the specific Medicare beneficiary.

For classification of physician services, the American Medical Association, referred to as the AMA, has developed a coding system known as the Current Procedural Terminology, or CPT. CPT codes are established by the AMA and adopted by the Medicare program in the Healthcare Common Procedure Coding System, to describe and develop payment amounts for physician services. Physician services are reimbursed by Medicare based on a physician fee schedule whereby payment is based generally on the number of "relative value units" assigned by CMS to the service furnished by the physician. No decision has been made concerning whether existing CPT codes would be appropriate for use in coding anastomosis procedures when our products are used or if new CPT codes and payment are required. We cannot assure you that codes used for submitting claims for anastomosis procedures using our products will result in incremental payment to physicians. CPT codes are used by many other third-party payors in addition to Medicare. Failure by physicians to receive what they consider to be adequate reimbursement for anastomosis procedures in which our products are used could have a material adverse effect on our business, financial condition and results of operations.

Research and Development

As of June 30, 2009, we had 13 employees in our research and development department. Future research and development efforts will involve development of the microcutter in a variety of formats that accommodate different staple sizes and staple line lengths and different tool form factors, such as flexible versus rigid shafts, and combining stapling with sealing devices. We are also continuing development of the C-Port X-CHANGE II system, a cartridge based device with enhanced ease of use features and lower cost of goods than existing C-Port systems. We are continuing the development of the PFO closure device under our development agreement with Cook. We are also exploring the development of other products that can be derived from our core technology platform and intellectual property. Research and development expenses for fiscal years ended June 30, 2009, 2008, and 2007 were $8.2 million, $8.6 million, and $7.0 million, respectively. We expect research and development expenses to be lower in absolute dollar terms in fiscal year 2010 based on the restructuring and reductions in headcount that we completed in fiscal year 2009.

Patents and Intellectual Property

We believe our competitive position will depend significantly upon our ability to protect our intellectual property. Our policy is to seek to protect our proprietary position by, among other methods, filing U.S. and foreign patent applications related to our technology, inventions and improvements that are important to the development of our business. As of June 30, 2009, we have 74 issued U.S. patents, 84 additional U.S. patent applications, five issued foreign patents and another 11 patent applications filed in select international markets. Our issued patents expire between 2018 and 2026.

We also rely upon trade secrets, technical know-how and continuing technological innovation to develop and maintain our competitive position. We typically require our employees, consultants and advisors to execute confidentiality and assignment of inventions agreements in connection with their employment, consulting or advisory relationships with us. There can be no assurance, however, that these agreements will not be breached or that we will have adequate remedies for any breach. Furthermore, no assurance can be given that competitors will not independently develop substantially equivalent proprietary information and techniques or otherwise gain access to our proprietary technology, or that we can meaningfully protect our rights in unpatented proprietary technology.

Patent applications in the United States and in foreign countries are maintained in secrecy for a period of time after filing, which results in a delay between the actual discoveries and the filing of related patent applications and the time when discoveries are published in scientific and patent literature. Patents issued and patent applications filed relating to medical devices are numerous, and there can be no assurance that current and potential competitors and other third parties have not filed or in the future will not file applications for, or have not received or in the future will not receive, patents or obtain additional proprietary rights relating to products, devices or processes used or proposed to be used by us. We are aware of patents issued to third parties that contain subject matter related to our technology. We believe that the technologies we employ in our products and systems do not infringe the valid claims of any such patents. There can be no assurance, however, that third parties will not seek to assert that our devices and systems infringe their patents or seek to expand their patent claims to cover aspects of our products and systems.

The medical device industry in general, and the industry segment that includes products for the treatment of cardiovascular disease in particular, has been characterized by substantial litigation regarding patents and other intellectual property rights. Any such claims, regardless of their merit, could be time-consuming and expensive to respond to and could divert our technical and management personnel. We may be involved in litigation to defend against claims of infringement by other patent holders, to enforce patents issued to us, or to protect our trade secrets. If any relevant claims of third-party patents are upheld as valid and enforceable in any litigation or administrative proceeding, we could be prevented from practicing the subject matter claimed in such patents, or would be required to obtain licenses from the patent owners of each such patent, or to redesign our products, devices or processes to avoid infringement. There can be no assurance that such licenses would be available or, if available, would be available on terms acceptable to us or that we would be successful in any attempt to redesign our products or processes to avoid infringement. Accordingly, an adverse determination in a judicial or administrative proceeding or failure to obtain necessary licenses could prevent us from manufacturing and selling our products, which would have a material adverse effect on our business, financial condition and results of operations. We intend to vigorously protect and defend our intellectual property. Costly and time-consuming litigation brought by us may be necessary to enforce patents issued to us, to protect trade secrets or know-how owned by us or to determine the enforceability, scope and validity of the proprietary rights of others. See “Risk Factors.”

Government Regulation

The FDA and other regulatory bodies extensively regulate the research, development, manufacture, labeling, distribution and marketing of our products. Our current products are regulated by the FDA as medical devices, and we are required to obtain review and clearance or approval from the FDA prior to commercializing our devices in the United States.

FDA regulations govern nearly all of the activities that we perform, or that are performed on our behalf, to ensure that medical products distributed domestically or exported internationally are safe and effective for their intended uses. The activities that the FDA regulates include the following:

- product design, development and manufacture;
- product safety, testing, labeling and storage;
- pre-clinical testing in animals and in the laboratory;
- clinical investigations in humans;
- marketing applications, such as 510(k) notifications and PMA applications;
- record keeping and document retention procedures;
- advertising and promotion;
- product marketing, distribution and recalls; and
- post-marketing surveillance and medical device reporting, including reporting of deaths, serious injuries, device malfunctions or other adverse events.

FDA's Premarket Clearance and Approval (PMA) Requirements. Unless an exemption applies, each medical device distributed commercially in the United States will require either prior 510(k) clearance or PMA from the FDA. The FDA classifies medical devices into one of three classes. Class I devices are subject to only general controls, such as establishment registration and device listing, labeling, medical devices reporting, and prohibitions against adulteration and misbranding. Class II medical devices generally require prior 510(k) clearance before they may be commercially marketed in the United States. The FDA will clear marketing of a medical device through the 510(k) process if the FDA is satisfied that the new product has been demonstrated to be substantially equivalent to another legally marketed device, or predicate, device, and otherwise meets the FDA's requirements. Class II devices are also subject to general controls and may be subject to performance standards and other special controls. Devices deemed by the FDA to pose the greatest risk, such as life-sustaining, life-supporting or implantable devices, or devices deemed not substantially equivalent to a predicate device, are placed in Class III, generally requiring submission of a PMA supported by clinical trial data.

510(k) Clearance Pathway. To obtain 510(k) clearance, we must submit a notification to the FDA demonstrating that our proposed device is substantially equivalent to a predicate device, i.e., a device that was in commercial distribution before May 28, 1976, a device that has been reclassified from Class III to Class I or Class II, or a 510(k)-cleared device. The FDA's 510(k) clearance process generally takes from three to 12 months from the date the application is submitted, but can take significantly longer. If the FDA determines that the device, or its intended use, is not substantially equivalent to a previously-cleared device or use, the device is automatically placed into Class III, requiring the submission of a PMA. Any modification to a 510(k)-cleared device that would constitute a major change in its intended use, design or manufacture, requires a new 510(k) clearance and may even, in come circumstances, require a PMA, if the change raises complex or novel scientific issues. The FDA requires every manufacturer to make the determination regarding the need for a new 510(k) submission in the first instance, but the FDA may review any manufacturer's decision. If the FDA disagrees with a manufacturer's determination, the FDA can require the manufacturer to cease marketing and/or recall the device until 510(k) clearance or PMA is obtained. If the FDA requires us to seek 510(k) clearance or PMAs for any modifications, we may be required to cease marketing and/or recall the modified device, if already in distribution, until 510(k) clearance or PMA is obtained and we could be subject to significant regulatory fines or penalties. Furthermore, our products could be subject to voluntary recall if we or the FDA determines, for any reason, that our products pose a risk of injury or are otherwise defective. Moreover, the FDA can order a mandatory recall if there is a reasonable probability that our device would cause serious adverse health consequences or death. Delays in receipt or failure to receive clearances or approvals, the loss of previously received clearances or approvals, or the failure to comply with existing or future regulatory requirements could reduce our sales, profitability and future growth prospects.

Premarket Approval Pathway. A PMA must be submitted to the FDA if the device cannot be cleared through the 510(k) process. The PMA process is much more demanding than the 510(k) notification process. A PMA must

be supported by extensive data, including but not limited to data obtained from preclinical or clinical studies or relating to manufacturing and labeling to demonstrate to the FDA's satisfaction the safety and effectiveness of the device.

After a PMA is complete, the FDA begins an in-depth review of the submitted information, which generally takes between one and three years, but may take significantly longer. During this review period, the FDA will typically request additional information or clarification of the information already provided. Also, an advisory panel of experts from outside the FDA may be convened to review and evaluate the application and provide recommendations to the FDA as to the approvability of the device. The FDA may or may not accept the panel's recommendation. In addition, the FDA will conduct a pre-approval inspection of the manufacturing facility to ensure compliance with Quality System Regulation, or QSR. New PMA applications or PMA supplements are required for significant modifications to the device, including, for example, certain types of modifications to the device's indication for use, manufacturing process, labeling and design. PMA supplements often require submission of the same type of information as a PMA application, except that the supplement is limited to information needed to support any changes from the device covered by the original PMA application and may not require as extensive clinical data or the convening of an advisory panel.

Clinical Trials. Clinical trials are generally required to support a PMA application and are sometimes required for 510(k) clearance. To perform a clinical trial in the United States for a significant risk device, prior submission of an application for an Investigational Device Exemption, or IDE, to the FDA is required. An IDE amendment must also be submitted before initiating a new clinical study under an existing IDE, such as initiating a pivotal trial following the conclusion of a feasibility trial. The IDE application must be supported by appropriate data, such as animal and laboratory testing results, and any available data on human clinical experience, showing that it is safe to test the device in humans and that the testing protocol is scientifically sound. The animal and laboratory testing must meet the FDA's good laboratory practice requirements.

The IDE and any IDE supplement for a new trial must be approved in advance by the FDA for a specific number of patients. Clinical trials conducted in the United States for significant risk devices may not begin until the IDE application or IDE supplement is approved by the FDA and the appropriate institutional review boards, or IRBs, overseeing the welfare of the research subjects and responsible for that particular clinical trial. If the product is considered a non-significant risk device under FDA regulations, only the patients' informed consent and IRB approval are required. Under its regulations, the agency responds to an IDE or an IDE amendment for a new trial within 30 days. The FDA may approve the IDE or amendment, grant an approval with certain conditions, or identify deficiencies and request additional information. It is common for the FDA to require additional information before approving an IDE or amendment for a new trial, and thus final FDA approval on a submission may require more than the initial 30 days. The FDA may also require that a small-scale feasibility study be conducted before a pivotal trial may commence. In a feasibility trial, the FDA limits the number of patients, sites and investigators that may participate. Feasibility trials are typically structured to obtain information on safety and to help determine how large a pivotal trial should be to obtain statistically significant results.

Clinical trials are subject to extensive recordkeeping and reporting requirements. Our clinical trials must be conducted under the oversight of an IRB for the relevant clinical trial sites and must comply with FDA regulations, including but not limited to those relating to good clinical practices. We are also required to obtain the patients' informed consent in form and substance that complies with both FDA requirements and state and federal privacy and human subject protection regulations. We, the FDA or the IRB may suspend a clinical trial at any time for various reasons, including a belief that the risks to study subjects outweigh the anticipated benefits. Even if a trial is completed, the results of clinical testing may not adequately demonstrate the safety and efficacy of the device or may otherwise not be sufficient to obtain FDA approval to market the product in the United States. Similarly, in Europe the clinical study must be approved by a local ethics committee and in some cases, including studies with high-risk devices, by the ministry of health in the applicable country.

Pervasive and Continuing Regulation. There are numerous regulatory requirements governing the approval and marketing of a product. These include:

- product listing and establishment registration, which helps facilitate FDA inspections and other regulatory action;

- QSR, which requires manufacturers, including third-party manufacturers, to follow stringent design, testing, control, documentation and other quality assurance procedures during all aspects of the manufacturing process;
- labeling regulations and FDA prohibitions against the promotion of products for uncleared, unapproved or off-label use or indication;
- clearance or approval of product modifications that could significantly affect safety or efficacy or that would constitute a major change in intended use;
- medical device reporting regulations, which require that manufacturers comply with FDA requirements to report if their device may have caused or contributed to an adverse event, a death or serious injury or malfunctioned in a way that would likely cause or contribute to a death or serious injury if the malfunction were to recur;
- post-approval restrictions or conditions, including post-approval study commitments;
- post-market surveillance regulations, which apply when necessary to protect the public health or to provide additional safety and effectiveness data for the device; and
- notices of correction or removal and recall regulations.

Advertising and promotion of medical devices are also regulated by the Federal Trade Commission and by state regulatory and enforcement authorities. Recently, some promotional activities for FDA-regulated products have been the subject of enforcement action brought under healthcare reimbursement laws and consumer protection statutes. In addition, under the federal Lanham Act and similar state laws, competitors and others can initiate litigation relating to advertising claims.

We have registered with the FDA as a medical device manufacturer. The FDA has broad post-market and regulatory enforcement powers. We are subject to unannounced inspections by the FDA to determine our compliance with the QSR, and other regulations, and these inspections may include the manufacturing facilities of our suppliers.

Failure by us or by our suppliers to comply with applicable regulatory requirements can result in enforcement action by the FDA or state authorities, which may include any of the following sanctions:

- warning letters, fines, injunctions, consent decrees and civil penalties;
- customer notifications, repair, replacement, refunds, recall or seizure of our products;
- operating restrictions, partial suspension or total shutdown of production;
- delay in processing marketing applications for new products or modifications to existing products;
- mandatory product recalls;
- withdrawing approvals that have already been granted; and
- criminal prosecution.

Fraud and Abuse and False Claims. We are directly and indirectly subject to various federal and state laws governing our relationship with healthcare providers and pertaining to healthcare fraud and abuse, including anti-kickback laws. In particular, the federal healthcare program Anti-Kickback Statute prohibits persons from knowingly and willfully soliciting, offering, receiving or providing remuneration, directly or indirectly, in exchange for or to induce either the referral of an individual, or the furnishing, arranging for or recommending a good or service, for which payment may be made in whole or part under federal healthcare programs, such as the Medicare and Medicaid programs. Penalties for violations include criminal penalties and civil sanctions such as fines, imprisonment and possible exclusion from Medicare, Medicaid and other federal healthcare programs. The Anti-Kickback Statute is broad and prohibits many arrangements and practices that are lawful in businesses outside of the healthcare industry. In implementing the statute, the Office of Inspector General of the U.S. Department of Health and Services, or OIG, has issued a series of regulations, known as the “safe harbors.” These safe harbors set forth

provisions that, if all their applicable requirements are met, will assure healthcare providers and other parties that they will not be prosecuted under the Anti-Kickback Statute. The failure of a transaction or arrangement to fit precisely within one or more safe harbors does not necessarily mean that it is illegal or that prosecution will be pursued. However, conduct and business arrangements that do not fully satisfy each applicable element of a safe harbor may result in increased scrutiny by government enforcement authorities, such as the OIG.

The Federal False Claims Act imposes civil liability on any person or entity who submits, or causes the submission of a false or fraudulent claim to the United States Government. Damages under the Federal False Claims Act can be significant and consist of the imposition of fines and penalties. The Federal False Claims Act also allows a private individual or entity with knowledge of past or present fraud on the federal government to sue on behalf of the government to recover the civil penalties and treble damages. The U.S. Department of Justice on behalf of the government has successfully enforced the Federal False Claims Act against pharmaceutical manufacturers. Federal suits have alleged that pharmaceutical manufacturers whose marketing and promotional practices were found to have included the off-label promotion of drugs or the payment of prohibited kickbacks to doctors violated the Federal False Claims Act on the grounds that these prohibited activities resulted in the submission of claims to federal and state healthcare entitlement programs such as Medicaid, resulting in the payment of claims by Medicaid for the off-label use of the drug that was not a use of the drug otherwise covered by Medicaid. Such manufacturers have entered into settlements with the federal government under which they paid amounts and entered into corporate integrity agreements that require, among other things, substantial reporting and remedial actions.

The Federal authorities, and state equivalents, may likewise seek to enforce the False Claims Act against medical device manufacturers. We believe that our marketing practices are not in violation of the Federal False Claims Act or state equivalents, but we cannot assure you that the federal authorities will not take action against us and, if such action were successful, we could be required to pay significant fines and penalties and change our marketing practices. Such enforcement could have a significant adverse effect on our ability to operate.

We engage in a variety of activities that are subject to these laws and that have come under particular scrutiny in recent years by federal and state regulators and law enforcement entities. These activities have included, consulting arrangements with cardiothoracic surgeons, grants for training and other education, grants for research, and other interactions with doctors.

International Regulation. International sales of medical devices are subject to foreign governmental regulations, which vary substantially from country to country. The time required to obtain certification or approval by a foreign country may be longer or shorter than that required for FDA clearance or approval, and the requirements may differ.

The primary regulatory body in Europe is the European Union, which has adopted numerous directives and has promulgated voluntary standards regulating the design, manufacture and labeling of and clinical trials and adverse event reporting for medical devices. Devices that comply with the requirements of a relevant directive will be entitled to bear CE conformity marking, indicating that the device conforms with the essential requirements of the applicable directives and, accordingly, can be commercially distributed throughout the member states of the European Union and other countries that comply with or mirror these directives. The method for assessing conformity varies depending upon the type and class of the product, but normally involves a combination of self-assessment by the manufacturer and a third-party assessment by a notified body, which is an independent and neutral institution appointed by a country to conduct the conformity assessment. This third-party assessment may consist of an audit of the manufacturer's quality system and specific testing of the manufacturer's device. Such an assessment is required for a manufacturer to commercially distribute the product throughout these countries. International Standards Organization, or ISO, 9001 and ISO 13845 certifications are voluntary standards. Compliance establishes the presumption of conformity with the essential requirements for the CE Mark. We have the authorization to affix the CE Mark to the PAS-Port and C-Port devices and to commercialize the devices in the European Union for coronary artery bypass grafting.

In Japan, medical devices must be approved prior to importation and commercial sale by the Ministry of Health, Labor and Welfare, or MHLW. Manufacturers of medical devices outside of Japan are required to utilize a contractually bound In-Country Caretaker, or ICC, to submit an application for device approval to the MHLW. The MHLW evaluates each device for safety and efficacy. As part of its approval process, the MHLW may require that

the product be tested in Japanese laboratories. The approval process for products such as our existing anastomotic products is typically 13 to 14 months. Other medical devices may require a longer review period for approval. Once approved, the manufacturer may import the device into Japan for sale by the manufacturer's contractually bound importer or distributor.

After a device is approved for importation and commercial sale in Japan, the MHLW continues to monitor sales of approved products for compliance with labeling regulations, which prohibit promotion of devices for unapproved uses and reporting regulations, which require reporting of product malfunctions, including serious injury or death caused by any approved device. Failure to comply with applicable regulatory requirements can result in enforcement action by the MHLW, which may include fines, injunctions, and civil penalties, recall or seizure of our products, operating restrictions, partial suspension or total shutdown of sales in Japan, or criminal prosecution.

We have received approval from the MHLW to distribute our PAS-Port system in Japan. We will be required to submit applications with respect to all new products and product enhancements for review and approval by the MHLW. Our contract with Century, our distributor in Japan, has a multi-year term and is renewable for additional multi-year terms upon mutual agreement of the parties.

In addition to MHLW oversight, the regulation of medical devices in Japan is also governed by the Japanese Pharmaceutical Affairs Law, or PAL. PAL was substantially revised in July 2002, and the new provisions were implemented in stages through April 2005. Revised provisions of the approval and licensing system of medical devices in Japan, which constitutes the core of import regulations, came into effect on April 1, 2005. The revised law changes class categorizations of medical devices in relation to risk, introduces a third-party certification system, strengthens safety countermeasures for biologically derived products, and reinforces safety countermeasures at the time of resale or rental. The revised law also abolishes the ICC system and replaces it with the "primary distributor" system. Under the PAL in effect prior to April 1, 2005, manufacturers of medical devices outside of Japan were required to utilize a Marketing Authorization Holder (MAH) to obtain on their behalf approval of each product by the MHLW prior to the sale or distribution of their products in Japan. Under the revised PAL, manufacturers outside of Japan must now appoint a "primary distributor" located in Japan that holds a primary distributor license for medical devices to provide primary distribution services, including conducting quality assurance and safety control tasks, for each product at the time an application for the approval of each such product is submitted to the MHLW. Century Medical serves as the "primary distributor" for Cardica. As an interim measure, an ICC licensed under the PAL in effect prior to April 1, 2005 will be deemed to be the primary distributor under the revised PAL if that ICC had a license to import and distribute the relevant medical devices that was applied for and obtained under the old PAL. We are unable at this time to determine the impact of such changes on our approved products or future products. We do not anticipate that these changes will have a material impact on our existing level of third-party reimbursement for sales of our products in Japan.

Employees

As of June 30, 2009, we had 42 employees, including 10 employees in manufacturing, 8 employees in sales and marketing, 5 employees in clinical, regulatory and quality assurance, 6 employees in general and administrative and 13 employees in research and development. We believe that our future success will depend upon our continued ability to attract, hire and retain qualified personnel. None of our employees is represented by a labor union or party to a collective bargaining agreement, and we believe our employee relations are good.

Corporate Information

We were incorporated in Delaware in October 1997 as Vascular Innovations, Inc. and changed our name to Cardica, Inc. in November 2001. Our principal executive offices are located at 900 Saginaw Drive, Redwood City, California 94063 and our telephone number is (650) 364-9975. We make our periodic and current reports available, free of charge, on our website as soon as practicable after such material is electronically filed with the Securities and Exchange Commission. Our website address is *www.cardica.com* and the reports are filed under "SEC Filings", on the Investors/Media portion of our website.

MANAGEMENT

Executive Officers and Directors

The following table sets forth certain information concerning our executive officers and directors as of August 31, 2009:

Name	Age	Position
Bernard A. Hausen, M.D., Ph.D.	49	President, Chief Executive Officer, Chief Medical Officer and Director
Robert Y. Newell	61	Vice President, Finance and Chief Financial Officer
Frederick M. Bauer	55	Vice President, Operations
Bryan D. Knodel, Ph.D.	49	Vice President, Research and Development
Kevin T. Larkin(2)(3)	60	Chairman of the Board
Richard P. Powers(1)	65	Director
Jeffrey Purvin(1)(2)(3)	57	Director
John Simon, Ph.D.	66	Director
William H. Younger, Jr.(1)(2)(3)	59	Director

(1) Member of the Audit Committee

(2) Member of the Compensation Committee

(3) Member of the Nominating Committee

Executive Officers and Directors

Bernard A. Hausen, M.D., Ph.D. has been our President and Chief Executive Officer since December 2000. Dr. Hausen co-founded the Company in October 1997 and has served as a director and our Chief Medical Officer since inception. Dr. Hausen received a medical degree from Hannover Medical School in Germany in 1988 and was trained there as a general and cardiothoracic surgeon. Upon completion of his training, he received a Ph.D. degree in Medical Physiology in 1999. From 1996 to 2000, he was employed as a Senior Research Scientist in the Laboratory for Transplantation Immunology of the Department of Cardiothoracic Surgery at Stanford University. Until Dr. Hausen became our full-time employee in October of 2000, he remained responsible for all surgery-related research in that laboratory.

Robert Y. Newell has been our Vice President, Finance and Chief Financial Officer since March 2003 and was Vice President, Finance and Operations, from July 2005 to July 2008. From January 2000 to February 2003 he was Vice President, Finance and Chief Financial Officer for Omnicell, Inc., a hospital supply and medication management company. Mr. Newell holds a B.A. degree in Mathematics from the College of William & Mary and an M.B.A. degree from the Harvard Business School.

Frederick M. Bauer joined Cardica as our Vice President of Operations in July 2008. Since August 2005, he has been President and Owner of 3RLatex, LLC, a containment, transportation and recycling company for the construction industry and from November 2002 to November 2005, he was general manager of Amazon Environmental, a latex paint recycling company. From October 1996 to November 2001, he was Vice President Operations for the Cardiac Surgery division and Vice President Operations for the Perfusion Systems division of Medtronic, Inc., a medical device company. He also held a number of operations and engineering executive positions with Baxter Healthcare International, a healthcare company, from 1981 to 1996. Mr. Bauer holds a B.S. degree in Civil Engineering from the University of Detroit Mercy.

Bryan D. Knodel, Ph.D. joined Cardica as our Vice President of Research and Development in July 2005. Since January 1998, he has been president of Bryan D. Knodel, Inc., a consulting firm specializing in medical device design and product development. From April 2001 until June 2005, Mr. Knodel consulted for us in product development. From 1992 to 1997, he was a principal engineer with Ethicon Endo-Surgery, a Johnson & Johnson

company developing medical devices for less invasive surgery. Mr. Knodel holds B.S., M.S. and Ph.D. degrees in Mechanical Engineering from the University of Illinois.

Kevin T. Larkin has been a director since December 2005 and was elected Chairman of the Board in January 2007. Mr. Larkin has been President, Chief Executive Officer and a director of TherOx, a medical device company, since May 2001. From July 1998 until April 2001, Mr. Larkin was President and Chief Executive Officer of CardioVasc, a medical device company. Mr. Larkin also has held senior sales and marketing management positions with Ventritex, Medtronic and Cordis.

Richard P. Powers has been a director and chairman of our Audit Committee since October 2005. From June 2008 to August 2009, Mr. Powers was President and CEO of Aspire Medical Inc., a privately held medical device company developing products for the treatment of obstructive sleep apnea. From October 2001 to March 2008, Mr. Powers was Vice President and Chief Financial Officer of Anesiva, Inc. (formerly Corgentech Inc.), a biotechnology company. From February 1996 to August 2000, Mr. Powers served as Executive Vice President and Chief Financial Officer of CardioGenesis Corporation, a medical device company. From January 1981 to August 1995, Mr. Powers held a number of senior management positions at Syntex Corporation, a biopharmaceutical company, including Senior Vice President and Chief Financial Officer. Mr. Powers holds a B.S. degree in Accounting from Canisius College and an M.B.A. degree from the University of Rochester, New York.

Jeffrey Purvin has been a director since August 2006. Since November 2006, Mr. Purvin has been chairman, president and chief executive officer of Calibra Medical, Inc. (formerly Seattle Medical Technologies, Inc.), a privately held medical company developing therapies for the treatment of diabetes. Mr. Purvin was the chairman and chief executive officer of Metrika, Inc., a privately held manufacturer and marketer of multi-use disposable diabetes monitoring products, from November 2004 until July 2006, when the company was sold to the Bayer Group. Prior to Metrika, Mr. Purvin was president of the Interventional Products Division of Datascope Corporation, a diversified medical device company, from April 2001 until October 2004. Before Datascope, Mr. Purvin spent more than 20 years at GlaxoSmithKline, where he concluded his service as vice president, general manager. Mr. Purvin earned his M.B.A. in marketing at The Wharton School, University of Pennsylvania and his BA in psychology from Brown University.

John Simon, Ph.D. has been a director since June 2001. Mr. Simon is a Managing Director of the investment banking firm, Allen & Company LLC, where he has been employed for over 25 years. He currently serves on the board of directors for Neurogen Corporation, as well as on the boards of several privately held companies. Mr. Simon holds a B.S. degree in Chemistry from The College of William & Mary, a Ph.D. degree in Chemical Engineering from Rice University, and both an M.B.A. degree in finance and a J.D. degree from Columbia University.

William H. Younger, Jr. has been a director since August 2000. Mr. Younger is a managing director of the general partner of Sutter Hill Ventures, a venture capital firm, where he has been employed since 1981. Mr. Younger holds a B.S. degree in Electrical Engineering from the University of Michigan and an M.B.A. degree from Stanford University. Mr. Younger is also a director of Omnicell, Inc., as well as of several privately held companies.

Item 1A. ***Risk Factors***

We have identified the following risks and uncertainties that may have a material adverse effect on our business, financial condition or results of operations. The risks described below are not the only ones we face. Additional risks not presently known to us or that we currently believe are immaterial may also significantly impair our business operations.

Risks Related to Our Finances and Capital Requirements

We need to generate higher product sales to become and remain profitable.

Our ability to become and remain profitable depends upon our ability to generate higher product sales. Our ability to generate significantly higher revenue depends upon a number of factors, including:

- achievement of broad acceptance for our products;
- achievement of U.S. regulatory clearance or approval for additional products;
- successful completion of ongoing clinical trials for our products; and
- successful sales, manufacturing, marketing and distribution of our products.

Sales of our products and development activities generated only $9.9 million, $7.6 million and $3.5 million of revenue for fiscal years 2009, 2008, and 2007, respectively. We do not anticipate that we will generate significantly higher product sales for the foreseeable future. Sales of our C-Port and PAS-Port systems have not met the levels that we had anticipated, and to date our systems have had limited commercial adoption. Our sales capability may be further impaired by our reductions in force effected in January, April and May 2009. Failure to obtain broader commercial adoption of our systems will continue to negatively impact our financial results and financial position and may require us to delay, further reduce the scope of or eliminate our commercialization efforts with respect to one or more of our products or one or more of our research and development programs.

We need substantial additional funding and may be unable to raise capital, which would force us to delay, reduce or eliminate our research and development programs or commercialization efforts and could cause us to cease operations.

Our development efforts have consumed substantial capital to date. We believe that our existing cash, cash equivalents and short-term investments, along with the cash that we expect to generate from operations, will be sufficient to meet our anticipated cash needs to enable us to conduct our business substantially as currently conducted through December 31, 2009. Accordingly, our financial statements for the fiscal year ended June 30, 2009, included in this annual report on Form 10-K contain a going concern qualification from our independent registered public accounting firm. Our estimates and our future capital requirements depend upon numerous factors. These factors include, but are not limited to, the following:

- market acceptance and adoption of our products;
- maintaining our revenue growth;
- costs of maintaining sales, marketing and distribution capabilities;
- costs associated with our sales and marketing initiatives and manufacturing activities;
- the extent of our ongoing research and development programs;
- costs of obtaining and maintaining FDA and other regulatory clearances and approvals for our products;
- securing, maintaining and enforcing intellectual property rights and the costs thereof;
- effects of competing technological and market developments.

Because we do not anticipate that we will generate sufficient product sales to achieve profitability for the foreseeable future, if at all, we need to raise substantial additional capital to finance our operations in the future. We are currently seeking a range of financing and strategic alternatives and have engaged Allen & Company LLC to

help us evaluate our strategic alternatives. To raise capital, we may seek to sell additional equity or debt securities, obtain a credit facility or enter into product development, license or distribution agreements with third parties or divest one or more of our commercialized products or products in development. The sale of additional equity or convertible debt securities could result in significant dilution to our stockholders, particularly in light of the prices at which our common stock has been recently trading. If additional funds are raised through the issuance of debt securities, these securities could have rights senior to those associated with our common stock and could contain covenants that would restrict our operations. Any product development, licensing, distribution or sale agreements that we enter into may require us to relinquish valuable rights, including with respect to commercialized products or products in development that we would otherwise seek to commercialize or develop ourselves. We believe the general economic and credit market crisis have created a more difficult environment for obtaining equity and debt financing or entering into strategic transactions, and we may not be able to obtain sufficient additional funding or enter into a strategic transaction in a timely manner. Our need to raise capital soon may require us to accept terms that may harm our business or be disadvantageous to our current stockholders, particularly in light of the current illiquidity and instability in the global financial markets. If adequate funds are not available or revenues from product sales do not increase, we may be required to further reduce our workforce, delay, reduce the scope of or eliminate our commercialization efforts with respect to one or more of our products or one or more of our research and development programs in advance of December 31, 2009, to ensure that we have sufficient capital to meet our obligations and continue on a path designed to create and preserve stockholder value. Failure to raise additional capital may result in our ceasing to be publicly traded or ceasing operations.

We have a history of net losses, which we expect to continue for the foreseeable future, and we are unable to predict the extent of future losses or when we will become profitable, if at all.

We have incurred net losses since our inception in October 1997. As of June 30, 2009, our accumulated deficit was approximately $109.4 million. We expect to incur substantial additional losses until we can achieve significant commercial sales of our products, which depend upon a number of factors, including increased commercial sales of our C-Port and PAS-Port systems in the United States and receipt of regulatory clearance or approval and market adoption of our additional products in the United States. We commenced commercial sales of the C-Port system in Europe in 2004 and in the United States in 2006 and of the PAS-Port system in Europe in 2003, in Japan in 2004 and in the United States in September 2008.

Our cost of product sales was 79% and 97% of our net product sales for fiscal years 2009 and 2008, respectively. We expect high cost of product sales to continue for the foreseeable future. If, over the long term, we are unable to reduce our cost of producing goods and expenses relative to our net revenue, we may not achieve profitability even if we are able to generate significant sales of the C-Port and PAS-Port systems. Our failure to achieve and sustain profitability would negatively impact the market price of our common stock.

If we do not generate sufficient cash flow through increased revenue or raising additional capital, then we may not be able to meet our debt obligation that becomes due in 2010.

As of June 30, 2009, we had an aggregate principal amount of approximately $2.0 million in notes payable to Century Medical, Inc. that are due in June 2010. This indebtedness has and may continue to impact us by:

- making it more difficult to obtain additional financing; and
- constraining our ability to react quickly in an unfavorable economic climate.

Adverse occurrences related to our product commercialization, development and regulatory efforts would adversely impact our ability to meet our obligations to repay the principal amounts on our notes when due in 2010. If we are unable to satisfy our debt service requirements, we may not be able to continue our operations. Even if we are able to raise sufficient capital to meet our near-term requirements, we may not generate sufficient cash from operations to repay our notes or satisfy any additional debt obligations when they become due and may have to raise additional financing from the sale of equity or debt securities, enter into commercial transactions or otherwise restructure our debt obligations. There can be no assurance that any such financing, commercial transaction or restructuring will be available to us on commercially acceptable terms, if at all. If we are unable to repay the debt or

restructure the obligation, we may be forced to seek protection under applicable bankruptcy laws. Any restructuring or bankruptcy could materially impair the value of our common stock.

Existing creditors have rights to our assets that are senior to our stockholders.

An existing arrangement with our current lender Century Medical, as well as future arrangements with other creditors, allow or may allow these creditors to liquidate our assets, which may include our intellectual property rights, if we are in default or breach of our debt obligations for a continued period of time. The proceeds of any sale or liquidation of our assets under these circumstances would be applied first to any of our debt obligations that would have priority over any of our capital stock. After satisfaction of our debt obligations, we may have little or no proceeds left under these circumstances to distribute to the holders of our capital stock.

Our quarterly operating results and stock price may fluctuate significantly.

We expect our operating results to be subject to quarterly fluctuations. The revenue we generate, if any, and our operating results will be affected by numerous factors, many of which are beyond our control, including:

- market acceptance and adoption of our products;
- our revenue growth;
- costs of maintaining sales, marketing and distribution capabilities;
- costs associated with our sales and marketing initiatives and manufacturing activities;
- the extent of our ongoing research and development programs;
- costs of obtaining and maintaining FDA and other regulatory clearances and approvals of our products;
- securing, maintaining and enforcing intellectual property rights and costs thereof; and
- effects of competing technology and market developments.

Quarterly fluctuations in our operating results may, in turn, cause the price of our stock to fluctuate substantially.

Risks Related to Our Business

We are dependent upon the success of our current products, and we have U.S. regulatory clearance for our C-Port and PAS-Port systems only. We cannot be certain that the C-Port and PAS-Port systems will be successfully commercialized in the United States. If we are unable to successfully commercialize our products in the United States, our ability to generate higher revenue will be significantly delayed or halted, and our business will be harmed.

We have expended significant time, money and effort in the development of our current commercial products, the C-Port systems and the PAS-Port system. If we are not successful in commercializing our C-Port and PAS-Port systems, we may never generate substantial revenue, our business, financial condition and results of operations would be materially and adversely affected, and we may be forced to cease operations. We commenced sales of our C-Port xA system in December 2006 (after introduction of our original C-Port system in January 2006), our C-Port Flex A in April 2007 and our C-Port X-CHANGE in December 2007. We commenced U.S. sales of our PAS-Port system in September 2008. We anticipate that our ability to increase our revenue significantly will depend on the successful commercialization of the PAS-Port system in the United States and elsewhere and the continued adoption of our current C-Port systems and later generations of the C-Port systems in the United States.

A prior automated proximal anastomosis device was introduced by another manufacturer in the United States in 2001. The FDA received reports of apparently device-related adverse events, and in 2004, the device was voluntarily withdrawn from the market by the manufacturer. Moreover, physicians who have experience with or knowledge of prior anastomosis devices may be predisposed against using our C-Port or PAS-Port systems, which could limit market acceptance. If we fail to achieve significant market adoption, our business, financial condition and results of operations would be materially harmed.

Our products may never gain any significant degree of market acceptance, and a lack of market acceptance would have a material adverse effect on our business.

To date, our products have not gained, and we cannot assure you that our products will gain, any significant degree of market acceptance among physicians or patients. We believe that recommendations by physicians will be essential for market acceptance of our products; however, we cannot assure you that significant recommendations will be obtained. Physicians will not recommend our products unless they conclude, based on clinical data and other factors, that the products represent a safe and acceptable alternative to other available options. In particular, physicians may elect not to recommend using our products in surgical procedures until such time, if ever, as we successfully demonstrate with long-term data that our products result in patency rates comparable to or better than those achieved with hand-sewn anastomoses, and we resolve any technical limitations that may arise.

We believe graft patency is a significant factor for physician recommendation of our products. Although we have not experienced low patency rates in our clinical trials, graft patency determined during the clinical trials conducted by us or other investigators may not be representative of the graft patency actually encountered during commercial use of our products. The surgical skill sets of investigators in our clinical trials and early adopters of our products may not be representative of the skills of future product users, which could negatively affect graft patency. In addition there may have been a selection bias in the patients, grafts and target vessels used during the clinical trials that positively affected graft patency. The patients included in the clinical trials may not be representative of the general patient population in the United States, which may have resulted in improved graft patency in patients enrolled in the clinical trials. Finally, patient compliance in terms of use of prescribed anticlotting medicines may have been higher in clinical trials than may occur during commercial use, thereby negatively affecting graft patency during commercial use.

Market acceptance of our products also depends on our ability to demonstrate consistent quality and safety of our products. Any future recalls may impact physicians' and hospitals' perception of our products.

Widespread use of our products will require the training of numerous physicians, and the time required to complete training could result in a delay or dampening of market acceptance. Even if the safety and efficacy of our products is established, physicians may elect not to use our products for a number of reasons beyond our control, including inadequate or no reimbursement from health care payors, physicians' reluctance to perform anastomoses with an automated device, the introduction of competing devices by our competitors and pricing for our products. Failure of our products to achieve any significant market acceptance would have a material adverse effect on our business, financial condition and results of operations.

Our PAS-Port and C-Port systems, as well as our other and future products, may still face future development and regulatory difficulties.

Even though the current generations of the C-Port and PAS-Port systems have received U.S. regulatory clearance, the FDA may still impose significant restrictions on the indicated uses or marketing of these products or ongoing requirements for potentially costly post-clearance studies. Any of our other products, including future generations of the C-Port systems, may either not obtain regulatory approvals required for marketing or may face these types of restrictions or requirements. In addition, regulatory agencies subject a product, its manufacturer and the manufacturer's facilities to continual review, regulation and periodic inspections. If a regulatory agency discovers previously unknown problems with a product, including adverse events of unanticipated severity or frequency, or problems with the facility where the product is manufactured, a regulatory agency may impose restrictions on that product, our collaborators or us, including requiring withdrawal of the product from the market. Our products will also be subject to ongoing FDA requirements for the labeling, packaging, storage, advertising, promotion, record-keeping and submission of safety and other post-market information on the product. If our products fail to comply with applicable regulatory requirements, a regulatory agency may impose any of the following sanctions:

- warning letters, fines, injunctions, consent decrees and civil penalties;
- customer notifications, repair, replacement, refunds, recall or seizure of our products;
- operating restrictions, partial suspension or total shutdown of production;

- delay in processing marketing applications for new products or modifications to existing products;
- withdrawing approvals that have already been granted; and
- criminal prosecution.

To market any products internationally, we must establish and comply with numerous and varying regulatory requirements of other countries regarding safety and efficacy. Approval procedures vary among countries and can involve additional product testing and additional administrative review periods. The time required to obtain approval in other countries might differ from that required to obtain FDA clearance or approval. The regulatory approval process in other countries may include all of the risks detailed above regarding FDA clearance or approval in the United States. Regulatory approval in one country does not ensure regulatory approval in another, but a failure or delay in obtaining regulatory approval in one country may negatively impact the regulatory process in others. Failure to obtain regulatory approval in other countries or any delay or setback in obtaining such approval could have the same adverse effects detailed above regarding FDA clearance or approval in the United States, including the risk that our products may not be approved for use under all of the circumstances requested, which could limit the uses of our products and adversely impact potential product sales, and that such clearance or approval may require costly, post-marketing follow-up studies. If we fail to comply with applicable foreign regulatory requirements, we may be subject to fines, suspension or withdrawal of regulatory approvals, product recalls, seizure of products, operating restrictions and criminal prosecution.

If we do not achieve our projected development goals in the time frames we announce and expect, the commercialization of our product candidates may be delayed and, as a result, our stock price may decline.

From time to time, we may estimate and publicly announce the timing anticipated for the accomplishment of various clinical, regulatory and other product development goals, which we sometimes refer to as milestones. These milestones may include an Investigational Device Exemption application to commence our enrollment of patients in our clinical trials, the release of data from our clinical trials, receipt of clearances or approvals from regulatory authorities or other clinical and regulatory events. These estimates are based on a variety of assumptions. The actual timing of these milestones can vary dramatically compared to our estimates, in some cases for reasons beyond our control. If we do not meet these milestones as publicly announced, the commercialization of our products may be delayed and, as a result, our stock price may decline.

Our manufacturing facilities, and those of our suppliers, must comply with applicable regulatory requirements. Failure to obtain or maintain regulatory approval of our manufacturing facilities would harm our business and our results of operations.

Our manufacturing facilities and processes are subject to periodic inspections and audits by various U.S. federal, U.S. state and foreign regulatory agencies. For example, our facilities have been inspected by State of California regulatory authorities pursuant to granting a California Device Manufacturing License and by the FDA. Additionally, to market products in Europe, we are required to maintain ISO 13485:2003 certification and are subject to periodic surveillance audits. We are currently ISO 13485:2003 certified; however, our failure to maintain necessary regulatory approvals for our manufacturing facilities could prevent us from manufacturing and selling our products.

Additionally, our manufacturing processes and, in some cases, those of our suppliers are required to comply with FDA's Quality System Regulation, or QSR, which covers the procedures and documentation of the design, testing, production, control, quality assurance, labeling, packaging, storage and shipping of our products, including the PAS-Port and C-Port systems. We are also subject to similar state requirements and licenses. In addition, we must engage in extensive record keeping and reporting and must make available our manufacturing facilities and records for periodic inspections by governmental agencies, including FDA, state authorities and comparable agencies in other countries. If we fail a QSR inspection, our operations could be disrupted and our manufacturing interrupted. Failure to take adequate corrective action in response to an adverse QSR inspection could result in, among other things, a shut-down of our manufacturing operations, significant fines, suspension of product distribution or other operating restrictions, seizures or recalls of our devices and criminal prosecutions, any of

which would cause our business to suffer. Furthermore, our key component suppliers may not currently be or may not continue to be in compliance with applicable regulatory requirements, which may result in manufacturing delays for our products and cause our revenue to decline.

We may also be required to recall our products due to manufacturing supply defects. If we issue recalls of our products in the future, our revenue and business could be harmed.

If we are unable to establish sales and marketing capabilities or enter into and maintain arrangements with third parties to market and sell our products, our business may be harmed.

We are in the beginning stages changing our U.S. sales and marketing organization to one based primarily on manufacturers' representatives and distributors and we have limited experience as a company in the sales, marketing and distribution of our products. Century is responsible for marketing and commercialization of the PAS-Port system in Japan. To promote our current and future products in the United States and Europe, we must develop our sales, marketing and distribution capabilities and make arrangements with third parties to perform these services. Competition for qualified sales personnel is intense. In January, April and May 2009, we made reductions in force to reduce our expenses, which we expect will impair our sales capabilities. We may be unable to establish and manage an effective sales force in a timely or cost-effective manner, if at all, and any sales force we do establish may not be capable of generating sufficient demand for our products. To the extent that we enter into arrangements with third parties to perform sales and marketing services, our product sales may be lower than if we directly marketed and sold our products. We expect to rely on third-party distributors for substantially all of our international sales. If we are unable to establish adequate sales and marketing capabilities, independently or with others, we may not be able to generate significantly higher revenue and may not become profitable.

Lack of third-party coverage and reimbursement for our products could delay or limit their adoption.

We may experience limited sales growth resulting from limitations on reimbursements made to purchasers of our products by third-party payors, and we cannot assure you that our sales will not be impeded and our business harmed if third-party payors fail to provide reimbursement that hospitals view as adequate.

In the United States, our products will be purchased primarily by medical institutions, which then bill various third-party payors, such as the Centers for Medicare & Medicaid Services, or CMS, which administer the Medicare program, and other government programs and private insurance plans, for the health care services provided to their patients. The process involved in applying for coverage and incremental reimbursement from CMS is lengthy and expensive. Under current CMS reimbursement policies, CMS offers a process to obtain add-on payment for a new medical technology when the existing Diagnosis-Related Group, or DRG, prospective payment rate is inadequate. To obtain add-on payment, a technology must be considered "new," demonstrate substantial improvement in care and exceed certain payment thresholds. Add-on payments are made for no less than two years and no more than three years. We must demonstrate the safety and effectiveness of our technology to the FDA in addition to CMS requirements before add-on payments can be made. Further, Medicare coverage is based on our ability to demonstrate the treatment is "reasonable and necessary" for Medicare beneficiaries. In November 2006, CMS denied our request for an add-on payment with respect to our C-Port systems. According to CMS, we met the "new" criteria and exceeded the payment threshold but did not in their view demonstrate substantial improvement in care. Even if our products receive FDA and other regulatory clearance or approval, they may not be granted coverage and reimbursement in the foreseeable future, if at all. Moreover, many private payors look to CMS in setting their reimbursement policies and amounts. If CMS or other agencies limit coverage or decrease or limit reimbursement payments for doctors and hospitals, this may affect coverage and reimbursement determinations by many private payors.

We cannot assure you that CMS will provide coverage and reimbursement for our products. If a medical device does not receive incremental reimbursement from CMS, then a medical institution would have to absorb the cost of our products as part of the cost of the procedure in which the products are used. Acute care hospitals are now generally reimbursed by CMS for inpatient operating costs under a Medicare hospital inpatient prospective payment system. Under the Medicare hospital inpatient prospective payment system, acute care hospitals receive a fixed payment amount for each covered hospitalized patient based upon the DRG to which the inpatient stay is

assigned, regardless of the actual cost of the services provided. At this time, we do not know the extent to which medical institutions would consider insurers' payment levels adequate to cover the cost of our products. Failure by hospitals and physicians to receive an amount that they consider to be adequate reimbursement for procedures in which our products are used could deter them from purchasing our products and limit our revenue growth. In addition, pre-determined DRG payments may decline over time, which could deter medical institutions from purchasing our products. If medical institutions are unable to justify the costs of our products, they may refuse to purchase them, which would significantly harm our business.

We have limited data regarding the safety and efficacy of the PAS-Port and C-Port systems, and have only recently commenced U.S. commercialization of our C-Port and PAS-Port systems. Any data that is generated in the future may not be positive or consistent with our existing data, which would affect market acceptance and the rate at which our devices are adopted.

The C-Port and PAS-Port systems are innovative products, and our success depends upon their acceptance by the medical community as safe and effective. An important factor upon which the efficacy of the C-Port and PAS-Port systems will be measured is long-term data regarding the duration of patency, or openness, of the artery or the graft vessel. Equally important will be physicians' perceptions of the safety of our products. Our technology is relatively new in cardiac bypass surgery, and the results of short-term clinical experience of the C-Port and PAS-Port systems do not necessarily predict long-term clinical benefit. We believe that physicians will compare long-term patency for the C-Port and PAS-Port devices against alternative procedures, such as hand-sewn anastomoses. If the long-term rates of patency do not meet physicians' expectations, or if physicians find our devices unsafe, the C-Port and PAS-Port systems may not become widely adopted and physicians may recommend alternative treatments for their patients. In addition, we have recently commenced U.S. commercialization of our C-Port and PAS-Port systems. Any adverse experiences of physicians using the C-Port and PAS-Port systems, or adverse outcomes to patients, may deter physicians from using our products and negatively impact product adoption.

Our C-Port and PAS-Port systems were designed for use with venous grafts. Additionally, while our indications for use of the C-Port system cleared by the FDA refer broadly to grafts, we have studied the use of the C-Port systems only with venous grafts and not with arterial grafts. Using the C-Port systems with arterial grafts may not yield patency rates or material adverse cardiac event rates comparable to those found in our clinical trials using venous grafts, which could negatively affect market acceptance of our C-Port systems. In addition, the clips and staples deployed by our products are made of 316L medical-grade stainless steel, to which some patients are allergic. These allergies may result in adverse reactions that negatively affect the patency of the anastomoses or the healing of the implants and may therefore adversely affect outcomes, particularly when compared to anastomoses performed with other materials, such as sutures. Additionally, in the event a surgeon, during the course of surgery, determines that it is necessary to convert to a hand-sewn anastomosis and to remove an anastomosis created by one of our products, the removal of the implants may result in more damage to the target vessel (such as the aorta or coronary artery) than would typically be encountered during removal of a hand-sewn anastomosis. Moreover, the removal may damage the target vessel to an extent that could further complicate construction of a replacement hand- sewn or automated anastomosis, which could be detrimental to patient outcome. These or other issues, if experienced, could limit physician adoption of our products.

Even if the data collected from future clinical studies or clinical experience indicates positive results, each physician's actual experience with our devices outside the clinical study setting may vary. Clinical studies conducted with the C-Port and PAS-Port systems have involved procedures performed by physicians who are technically proficient, high-volume users of the C-Port and PAS-Port systems. Consequently, both short- and long- term results reported in these studies may be significantly more favorable than typical results of practicing physicians, which could negatively impact rates of adoption of the C-Port and PAS-Port systems.

Our current and planned clinical trials may not begin on time, or at all, and may not be completed on schedule, or at all.

The commencement or completion of any of our clinical trials may be delayed or halted for numerous reasons, including, but not limited to, the following:

- the FDA or other regulatory authorities suspend or place on hold a clinical trial, or do not approve a clinical trial protocol or a clinical trial;
- the data and safety monitoring committee of a clinical trial recommends that a trial be placed on hold or suspended;
- patients do not enroll in clinical trials at the rate we expect;
- patients are not followed-up at the rate we expect;
- clinical trial sites decide not to participate or cease participation in a clinical trial;
- patients experience adverse side effects or events related to our products;
- patients die or suffer adverse medical effects during a clinical trial for a variety of reasons, which may not be related to our product candidates, including the advanced stage of their disease and other medical problems;
- third-party clinical investigators do not perform our clinical trials on our anticipated schedule or consistent with the clinical trial protocol and good clinical practices, or other third-party organizations do not perform data collection and analysis in a timely or accurate manner;
- regulatory inspections of our clinical trials or manufacturing facilities may, among other things, require us to undertake corrective action or suspend or terminate our clinical trials if investigators find us not to be in compliance with regulatory requirements;
- third-party suppliers fail to provide us with critical components that conform to design and performance specifications;
- the failure of our manufacturing processes to produce finished products that conform to design and performance specifications;
- changes in governmental regulations or administrative actions;
- the interim results of the clinical trial are inconclusive or negative;
- pre-clinical or clinical data is interpreted by third parties in different ways; or
- our trial design, although approved, is inadequate to demonstrate safety and/or efficacy.

Clinical trials sometimes experience delays related to outcomes experienced during the course of the trials. For example, in our PAS-Port pivotal trial, we had an administrative hold of the trial related to an adverse event, which lasted approximately 72 hours while the adverse event was investigated. The data safety monitoring board subsequently concluded that there was no clear evidence that our device had caused the adverse event, and enrollment continued. While this event was resolved in a timely manner and did not result in any material delay in the trial, future similar or other types of events could lead to more significant delays or other effects in future trials.

Clinical trials may require the enrollment of large numbers of patients, and suitable patients may be difficult to identify and recruit. Patient enrollment in clinical trials and completion of patient follow-up in clinical trials depend on many factors, including the size of the patient population, the nature of the trial protocol, the proximity of patients to clinical sites and the eligibility criteria for the study and patient compliance. For example, patients may be discouraged from enrolling in our clinical trials if the trial protocol requires them to undergo extensive post-treatment procedures to assess the safety and effectiveness of our product candidates, or they may be persuaded to participate in contemporaneous trials of competitive products. Delays in patient enrollment or failure of patients to continue to participate in a study may cause an increase in costs and delays or result in the failure of the trial.

Our clinical trial costs will increase if we have material delays in our clinical trials or if we need to perform more or larger clinical trials than planned. Adverse events during a clinical trial could cause us to repeat a trial, terminate a trial or cancel an entire program.

If the third parties on whom we rely to conduct our clinical trials do not perform as contractually required or expected, we may not be able to obtain regulatory approval for or commercialize our product candidates.

We do not have the ability to independently conduct clinical trials for our product candidates, and we must rely on third parties, such as contract research organizations, medical institutions, clinical investigators and contract laboratories, to conduct our clinical trials. In addition, we rely on third parties to assist with our pre-clinical development of product candidates. Furthermore, our third-party clinical trial investigators may be delayed in conducting our clinical trials for reasons outside of their control, such as changes in regulations, delays in enrollment, and the like. If these third parties do not successfully carry out their contractual duties or regulatory obligations or meet expected deadlines, if these third parties need to be replaced or if the quality or accuracy of the data they obtain is compromised due to the failure to adhere to our clinical protocols or regulatory requirements or for other reasons, our clinical trials may be extended, delayed, suspended or terminated, and we may not be able to obtain regulatory approval for or successfully commercialize our product candidates on a timely basis, if at all.

Because one customer accounts for a substantial portion of our product sales, the loss of this significant customer would cause a substantial decline in our revenue.

We derive a substantial portion of our revenue from sales to Century Medical, our distributor in Japan. The loss of Century Medical as a customer would cause a decrease in revenue and, consequently, an increase in net loss. For fiscal years 2009 and 2008, sales to Century Medical accounted for approximately 15% and 20%, respectively, of our total product sales. We expect that Century Medical will continue to account for a substantial portion of our sales in the near term. As a result, if we lose Century Medical as a customer, our revenue and net loss would be adversely affected. In addition, customers that have accounted for significant revenue in the past may not generate revenue in any future period. The failure to obtain new significant customers or additional orders from existing customers will materially affect our operating results.

If our competitors have products that are approved in advance of ours, marketed more effectively or demonstrated to be more effective than ours, our commercial opportunity will be reduced or eliminated and our business will be harmed.

The market for anastomotic solutions and cardiac bypass products is competitive. Competitors include a variety of public and private companies that currently offer or are developing cardiac surgery products generally and automated anastomotic systems specifically that would compete directly with ours.

We believe that the primary competitive factors in the market for medical devices used in the treatment of coronary artery disease include:

- improved patient outcomes;
- access to and acceptance by leading physicians;
- product quality and reliability;
- ease of use;
- device cost-effectiveness;
- training and support;
- novelty;
- physician relationships; and
- sales and marketing capabilities.

We may be unable to compete successfully on the basis of any one or more of these factors, which could have a material adverse affect on our business, financial condition and results of operations.

A number of different technologies exist or are under development for performing anastomoses, including sutures, mechanical anastomotic devices, suture-based anastomotic devices and shunting devices. Currently, substantially all anastomoses are performed with sutures and, for the foreseeable future we believe that sutures will continue to be the principal alternative to our anastomotic products. Sutures are far less expensive than our automated anastomotic products, and other anastomotic devices may be less expensive than our own. Surgeons, who have been using sutures for their entire careers, may be reluctant to consider alternative technologies, despite potential advantages. Any resistance to change among practitioners could delay or hinder market acceptance of our products, which would have a material adverse effect on our business.

Cardiovascular diseases may also be treated by other methods that do not require anastomoses, including, interventional techniques such as balloon angioplasty with or without the use of stents, pharmaceuticals, atherectomy catheters and lasers. Several of these alternative treatments are widely accepted in the medical community and have a long history of use. In addition, technological advances with other therapies for cardiovascular disease, such as drugs, or future innovations in cardiac surgery techniques could make other methods of treating these diseases more effective or lower cost than bypass procedures. For example, the number of bypass procedures in the United States and other major markets has declined in recent years and is expected to decline in the years ahead because competing treatments are, in many cases, far less invasive and provide acceptable clinical outcomes. Many companies working on treatments that do not require anastomoses may have significantly greater financial, manufacturing, marketing, distribution and technical resources and experience than we have. Many of our competitors have significantly greater financial resources and expertise in research and development, manufacturing, pre-clinical testing, clinical trials, obtaining regulatory clearance or approval and marketing approved products than we do. Smaller or early-stage companies may also prove to be significant competitors, particularly through collaborative arrangements with large and established companies. Our competitors may succeed in developing technologies and therapies that are more effective, better tolerated or less costly than any that we are developing or that would render our product candidates obsolete and noncompetitive. Our competitors may succeed in obtaining clearance or approval from the FDA and foreign regulatory authorities for their products sooner than we do for ours. We will also face competition from these third parties in recruiting and retaining qualified scientific and management personnel, establishing clinical trial sites and patient enrollment for clinical trials and in acquiring and in-licensing technologies and products complementary to our programs or advantageous to our business.

We are dependent upon a number of key suppliers, including single source suppliers, the loss of which would materially harm our business.

We use or rely upon sole source suppliers for certain components and services used in manufacturing our products, and we utilize materials and components supplied by third parties with which we do not have any long-term contracts. In recent years, many suppliers have ceased supplying materials for use in implantable medical devices. We cannot assure you that materials required by us will not be restricted or that we will be able to obtain sufficient quantities of such materials or services in the future. Moreover, the continued use by us of materials manufactured by third parties could subject us to liability exposure. Because we do not have long-term contracts, none of our suppliers is required to provide us with any guaranteed minimum production levels.

We cannot quickly replace suppliers or establish additional new suppliers for some of our components, particularly due to both the complex nature of the manufacturing process used by our suppliers and the time and effort that may be required to obtain FDA clearance or approval or other regulatory approval to use materials from alternative suppliers. Any significant supply interruption or capacity constraints affecting our facilities or those of our suppliers would have a material adverse effect on our ability to manufacture our products and, therefore, a material adverse effect on our business, financial condition and results of operations.

We have limited manufacturing experience and may encounter difficulties in increasing production to provide an adequate supply to customers.

To date, our manufacturing activities have consisted primarily of producing moderate quantities of our products for use in clinical studies and for commercial sales in Japan, Europe and the United States. Production in increased commercial quantities will require us to expand our manufacturing capabilities and to hire and train additional personnel. We may encounter difficulties in increasing our manufacturing capacity and in manufacturing larger commercial quantities, including:

- maintaining product yields;
- maintaining quality control and assurance;
- providing component and service availability;
- maintaining adequate control policies and procedures; and
- hiring and retaining qualified personnel.

Difficulties encountered in increasing our manufacturing could have a material adverse effect on our business, financial condition and results of operations.

The manufacture of our products is a complex and costly operation involving a number of separate processes and components. In March 2008, we had a brief delay in the shipment of C-Port systems to allow for minor modifications to our manufacturing of the systems to improve their performance. The modifications were implemented and shipping resumed in April 2008. The shipment delay may impact physicians' and hospitals' perception of our products, and any future delays could similarly harm perception of our products and have a material adverse impact on our results of operations.

In addition, the current unit costs for our products, based on limited manufacturing volumes, are very high, and it will be necessary to achieve economies of scale to become profitable. Certain of our manufacturing processes are labor intensive, and achieving significant cost reductions will depend in part upon reducing the time required to complete these processes. We cannot assure you that we will be able to achieve cost reductions in the manufacture of our products and, without these cost reductions, our business may never achieve profitability.

We have considered, and will continue to consider as appropriate, manufacturing in-house certain components currently provided by third parties, as well as implementing new production processes. Manufacturing yields or costs may be adversely affected by the transition to in-house production or to new production processes, when and if these efforts are undertaken, which would materially and adversely affect our business, financial condition and results of operations.

If we fail to retain key personnel, or to retain our executive management team, we may be unable to successfully develop or commercialize our products.

As of June 30, 2009, we had 42 employees. We will need to maintain an appropriate level of managerial, operational, financial and other resources to manage and fund our operations and clinical trials, continue our research and development activities and commercialize our products, and we expect our recent reductions in force will impair our ability to maintain or increase our product sales. It is possible that our management and scientific personnel, systems and facilities currently in place may not be adequate to maintain future operating activities, and we may be required to effect additional reductions in force. Our need to effectively manage our operations and programs requires that we continue to maintain our operational, financial and management controls, reporting systems and procedures and to attract and retain sufficient numbers of talented employees. We may be unable to successfully implement these tasks on a larger scale as and when needed and, accordingly, may not achieve our research, development and commercialization goals.

We may in the future be a party to patent litigation and administrative proceedings that could be costly and could interfere with our ability to sell our products.

The medical device industry has been characterized by extensive litigation regarding patents and other intellectual property rights, and companies in the industry have used intellectual property litigation to gain a competitive advantage. We may become a party to patent infringement claims and litigation or interference proceedings declared by the U.S. Patent and Trademark Office to determine the priority of inventions. The defense and prosecution of these matters are both costly and time consuming. Additionally, we may need to commence proceedings against others to enforce our patents, to protect our trade secrets or know-how or to determine the enforceability, scope and validity of the proprietary rights of others. These proceedings would result in substantial expense to us and significant diversion of effort by our technical and management personnel.

We are aware of patents issued to third parties that contain subject matter related to our technology. We cannot assure you that these or other third parties will not assert that our products and systems infringe the claims in their patents or seek to expand their patent claims to cover aspects of our products and systems. An adverse determination in litigation or interference proceedings to which we may become a party could subject us to significant liabilities or require us to seek licenses. In addition, if we are found to willfully infringe third-party patents, we could be required to pay treble damages in addition to other penalties. Although patent and intellectual property disputes in the medical device area have often been settled through licensing or similar arrangements, costs associated with these arrangements may be substantial and could include ongoing royalties. We may be unable to obtain necessary licenses on satisfactory terms, if at all. If we do not obtain necessary licenses, we may be required to redesign our products to avoid infringement, and it may not be possible to do so effectively. Adverse determinations in a judicial or administrative proceeding or failure to obtain necessary licenses could prevent us from manufacturing and selling the C-Port or PAS-Port systems or any other product we may develop, which would have a significant adverse impact on our business.

Intellectual property rights may not provide adequate protection, which may permit third parties to compete against us more effectively.

We rely upon patents, trade secret laws and confidentiality agreements to protect our technology and products. Our pending patent applications may not issue as patents or, if issued, may not issue in a form that will be advantageous to us. Any patents we have obtained or will obtain in the future might be invalidated or circumvented by third parties. If any challenges are successful, competitors might be able to market products and use manufacturing processes that are substantially similar to ours. We may not be able to prevent the unauthorized disclosure or use of our technical knowledge or other trade secrets by consultants, vendors or former or current employees, despite the existence generally of confidentiality agreements and other contractual restrictions. Monitoring unauthorized use and disclosure of our intellectual property is difficult, and we do not know whether the steps we have taken to protect our intellectual property will be adequate. In addition, the laws of many foreign countries may not protect our intellectual property rights to the same extent as the laws of the United States. To the extent that our intellectual property protection is inadequate, we are exposed to a greater risk of direct competition. In addition, competitors could purchase any of our products and attempt to replicate some or all of the competitive advantages we derive from our development efforts or design around our protected technology. If our intellectual property is not adequately protected against competitors' products and methods, our competitive position could be adversely affected, as could our business.

We also rely upon trade secrets, technical know-how and continuing technological innovation to develop and maintain our competitive position. We require our employees, consultants and advisors to execute appropriate confidentiality and assignment-of-inventions agreements with us. These agreements typically provide that all materials and confidential information developed or made known to the individual during the course of the individual's relationship with us be kept confidential and not disclosed to third parties except in specific circumstances and that all inventions arising out of the individual's relationship with us shall be our exclusive property. These agreements may be breached, and in some instances, we may not have an appropriate remedy available for breach of the agreements. Furthermore, our competitors may independently develop substantially equivalent proprietary information and techniques, reverse engineer our information and techniques, or otherwise gain access to our proprietary technology.

Our products face the risk of technological obsolescence, which, if realized, could have a material adverse effect on our business.

The medical device industry is characterized by rapid and significant technological change. There can be no assurance that third parties will not succeed in developing or marketing technologies and products that are more effective than ours or that would render our technology and products obsolete or noncompetitive. Additionally, new, less invasive surgical procedures and medications could be developed that replace or reduce the importance of current procedures that use our products. Accordingly, our success will depend in part upon our ability to respond quickly to medical and technological changes through the development and introduction of new products. The relative speed with which we can develop products, complete clinical testing and regulatory clearance or approval processes, train physicians in the use of our products, gain reimbursement acceptance, and supply commercial quantities of products to the market are expected to be important competitive factors. Product development involves a high degree of risk, and we cannot assure you that our new product development efforts will result in any commercially successful products. We have experienced delays in completing the development and commercialization of our planned products, and there can be no assurance that these delays will not continue or recur in the future. Any delays could result in a loss of market acceptance and market share.

We may not be successful in our efforts to expand our product portfolio, and our failure to do so could cause our business and prospects to suffer.

We intend to use our knowledge and expertise in anastomotic technologies to discover, develop and commercialize new applications in endoscopic surgery, general vascular surgery or other markets. We are at an early stage of development of the endoscopic microcutter, and we cannot assure you that these development efforts will be successful. The process of researching and developing anastomotic devices is expensive, time-consuming and unpredictable. Our efforts to create products, such as the microcutter, for these new markets are at a very early stage, and we may never be successful in developing viable products for these markets. Even if our development efforts are successful and we obtain the necessary regulatory and reimbursement approvals, we cannot assure you that these or our other products will gain any significant degree of market acceptance among physicians, patients or health care payors. Accordingly, we anticipate that, for the foreseeable future, we will be substantially dependent upon the successful development and commercialization of anastomotic systems and instruments for cardiac surgery, mainly the PAS-Port and C-Port systems. Failure by us to successfully develop and commercialize these systems for any reason, including failure to overcome regulatory hurdles or inability to gain any significant degree of market acceptance, would have a material adverse effect on our business, financial condition and results of operations.

We may be subject, directly or indirectly, to federal and state healthcare fraud and abuse laws and regulations and, if we are unable to fully comply with such laws, could face substantial penalties.

Our operations may be directly or indirectly affected by various broad state and federal healthcare fraud and abuse laws, including the federal healthcare program Anti-Kickback Statute, which prohibits any person from knowingly and willfully offering, paying, soliciting or receiving remuneration, directly or indirectly, to induce or reward either the referral of an individual, or the furnishing or arranging for an item or service, for which payment may be made under federal healthcare programs, such as the Medicare and Medicaid programs. Foreign sales of our products are also subject to similar fraud and abuse laws, including application of the U.S. Foreign Corrupt Practices Act. If our operations, including any consulting arrangements we may enter into with physicians who use our products, are found to be in violation of these laws, we or our officers may be subject to civil or criminal penalties, including large monetary penalties, damages, fines, imprisonment and exclusion from Medicare and Medicaid program participation. If enforcement action were to occur, our business and financial condition would be harmed.

We could be exposed to significant product liability claims, which could be time consuming and costly to defend, divert management attention, and adversely impact our ability to obtain and maintain insurance coverage. The expense and potential unavailability of insurance coverage for our company or our customers could adversely affect our ability to sell our products, which would adversely affect our business.

The testing, manufacture, marketing, and sale of our products involve an inherent risk that product liability claims will be asserted against us. Additionally, we are currently training physicians in the United States on the use of our C-Port and PAS-Port systems. During training, patients may be harmed, which could also lead to product liability claims. Product liability claims or other claims related to our products, or their off-label use, regardless of their merits or outcomes, could harm our reputation in the industry, reduce our product sales, lead to significant legal fees, and result in the diversion of management's attention from managing our business. As of August 31, 2009, we were not aware of any existing product liability claims.

Although we maintain product liability insurance in the amount of $5,000,000, we may not have sufficient insurance coverage to fully cover the costs of any claim or any ultimate damages we might be required to pay. We may not be able to obtain insurance in amounts or scope sufficient to provide us with adequate coverage against all potential liabilities. Any product liability claims brought against us, with or without merit, could increase our product liability insurance rates or prevent us from securing continuing coverage. Product liability claims in excess of our insurance coverage would be paid out of cash reserves, harming our financial condition and adversely affecting our operating results.

Some of our customers and prospective customers may have difficulty in procuring or maintaining liability insurance to cover their operations and use of the C-Port or PAS-Port systems. Medical malpractice carriers are withdrawing coverage in certain states or substantially increasing premiums. If this trend continues or worsens, our customers may discontinue using the C-Port or PAS-Port systems and potential customers may opt against purchasing the C-Port or PAS-Port systems due to the cost or inability to procure insurance coverage.

We sell our systems internationally and are subject to various risks relating to these international activities, which could adversely affect our revenue.

To date, a substantial portion of our product sales has been attributable to sales in international markets. By doing business in international markets, we are exposed to risks separate and distinct from those we face in our domestic operations. Our international business may be adversely affected by changing economic conditions in foreign countries. Because most of our sales are currently denominated in U.S. dollars, if the value of the U.S. dollar increases relative to foreign currencies, our products could become more costly to the international customer and, therefore, less competitive in international markets, which could affect our results of operations. Engaging in international business inherently involves a number of other difficulties and risks, including:

- export restrictions and controls relating to technology;
- the availability and level of reimbursement within prevailing foreign healthcare payment systems;
- pricing pressure that we may experience internationally;
- required compliance with existing and changing foreign regulatory requirements and laws;
- laws and business practices favoring local companies;
- longer payment cycles;
- difficulties in enforcing agreements and collecting receivables through certain foreign legal systems;
- political and economic instability;
- potentially adverse tax consequences, tariffs and other trade barriers;
- international terrorism and anti-American sentiment;
- difficulties and costs of staffing and managing foreign operations; and
- difficulties in enforcing intellectual property rights.

Our exposure to each of these risks may increase our costs, impair our ability to market and sell our products and require significant management attention. We cannot assure you that one or more of these factors will not harm our business.

We are dependent upon key personnel, the loss of any of which could have a material adverse affect on our business.

Our business and future operating results depend significantly on the continued contributions of our key technical personnel and senior management, including those of our co-founder, CEO and President, Bernard Hausen, M.D., Ph.D. These services and individuals would be difficult or impossible to replace and none of these individuals is subject to a post-employment non-competition agreement. While we are subject to certain severance obligations to Dr. Hausen, either he or we may terminate his employment at any time and for any lawful reason or for no reason. Our business and future operating results also depend significantly on our ability to attract and retain qualified management, manufacturing, technical, marketing, sales and support personnel for our operations. Competition for such personnel is intense, and there can be no assurance that we will be successful in attracting or retaining such personnel. Additionally, although we have key-person life insurance in the amount of $3.0 million on the life of Dr. Hausen, we cannot assure you that this amount would fully compensate us for the loss of Dr. Hausen's services. The loss of key employees, the failure of any key employee to perform or our inability to attract and retain skilled employees, as needed, could materially adversely affect our business, financial condition and results of operations.

Our operations are currently conducted at a single location that may be at risk from earthquakes, terror attacks or other disasters.

We currently conduct all of our manufacturing, development and management activities at a single location in Redwood City, California, near known earthquake fault zones. We have taken precautions to safeguard our facilities, including insurance, health and safety protocols, and off-site storage of computer data. However, any future natural disaster, such as an earthquake, or a terrorist attack, could cause substantial delays in our operations, damage or destroy our equipment or inventory and cause us to incur additional expenses. A disaster could seriously harm our business and results of operations. Our insurance does not cover earthquakes and floods and may not be adequate to cover our losses in any particular case.

If we use hazardous materials in a manner that causes injury, we may be liable for damages.

Our research and development and manufacturing activities involve the use of hazardous materials. Although we believe that our safety procedures for handling and disposing of these materials comply with federal, state and local laws and regulations, we cannot entirely eliminate the risk of accidental injury or contamination from the use, storage, handling or disposal of these materials. We do not carry specific hazardous waste insurance coverage, and our property and casualty and general liability insurance policies specifically exclude coverage for damages and fines arising from hazardous waste exposure or contamination. Accordingly, in the event of contamination or injury, we could be held liable for damages or penalized with fines in an amount exceeding our resources, and our clinical trials or regulatory clearances or approvals could be suspended or terminated.

We may be subject to fines, penalties or injunctions if we are determined to be promoting the use of our products for unapproved or "off-label" uses.

In relation to our products that have received FDA clearance or approval, our promotional materials and training methods regarding physicians will need to comply with FDA and other applicable laws and regulations. If the FDA determines that our promotional materials or training constitutes promotion of an unapproved use, it could request that we modify our training or promotional materials or subject us to regulatory enforcement actions, including the issuance of a warning letter, injunction, seizure, civil fine and/or criminal penalties. It is also possible that other federal, state or foreign enforcement authorities might take action if they consider our promotional or training materials to constitute promotion of an unapproved use, which could result in significant fines or penalties under other statutory authorities, such as laws prohibiting false claims for reimbursement. In that event, our reputation could be damaged and adoption of our products would be impaired.

Risks Related to Our Common Stock

We may not be able to maintain our listing on The NASDAQ Global Market, which would adversely affect the price and liquidity of our common stock.

On May 22, 2009, we announced that we received a letter, dated May 19, 2009, from the Listing Qualifications Department of The NASDAQ Stock Market notifying us that we did not comply with the $10.0 million minimum stockholders' equity requirement for continued listing on The NASDAQ Global Market set forth in NASDAQ Marketplace Rule 5450(b)(1)(A). NASDAQ's determination was based on a review of our Quarterly Report on Form 10-Q for the period ended March 31, 2009. As provided in the NASDAQ rules, we timely submitted to the NASDAQ Staff a plan to continue listing on The NASDAQ Global Market. NASDAQ granted us an extension until September 1, 2009, to regain compliance with the listing standards.

On September 2, 2009, we received a second letter from the Listing Qualifications Department of The NASDAQ Stock Market notifying us of its determination that we had failed to meet the terms of the extension because we failed to publicly disclose a compliant stockholders' equity balance by September 1, 2009. Pursuant to the NASDAQ rules we appealed the decision to a NASDAQ Listing Qualifications Panel and requested a hearing. The hearing is scheduled for October 15, 2009. Our common stock will remain listed on The NASDAQ Global Market pending a decision by the Panel following the hearing.

In the event we are unable to otherwise satisfy the continued listing criteria of The NASDAQ Global Market and our appeal is denied we may apply for listing on The NASDAQ Capital Market. We believe that we currently meet the listing requirements of that market, including the requirement to have a minimum of $1.0 million in stockholders' equity. Even if we are able to regain compliance with the listing requirements of The NASDAQ Global Market, there is no assurance that in the future we will continue to satisfy such listing requirements, with the result that our common stock may be delisted from that market and we may not meet the listing requirements of The NASDAQ Capital Market at such time.

If our stock is delisted from The NASDAQ Global Market and we are unable to list on The NASDAQ Capital Market, it would likely be more difficult to trade in or obtain accurate quotations as to the market price of our common stock. Delisting of our common stock would materially and adversely affect the market price and market liquidity of our common stock and our ability to raise necessary capital.

The price of our common stock may continue to be volatile, and the value of an investment in our common stock may decline.

An active and liquid trading market for our common stock may not develop or be sustained. Factors that could cause volatility in the market price of our common stock include, but are not limited to:

- market acceptance and adoption of our products;
- regulatory clearance or approvals of our products;
- volume and timing of orders for our products;
- changes in earnings estimates, investors' perceptions, recommendations by securities analysts or our failure to achieve analysts' earning estimates;
- quarterly variations in our or our competitors' results of operations;
- general market conditions and other factors unrelated to our operating performance or the operating performance of our competitors;
- the announcement of new products or product enhancements by us or our competitors;
- announcements related to patents issued to us or our competitors and to litigation; and
- developments in our industry.

In addition, the stock prices of many companies in the medical device industry have experienced wide fluctuations that have often been unrelated to the operating performance of those companies. These factors may materially and adversely affect the market price of our common stock.

The ownership of our common stock is highly concentrated, and your interests may conflict with the interests of our existing stockholders.

Our executive officers and directors and their affiliates, together with our current significant stockholders, beneficially owned approximately 24% of our outstanding common stock as of June 30, 2009. Accordingly, these stockholders have significant influence over the outcome of corporate actions requiring stockholder approval and continue to have significant influence over our operations. The interests of these stockholders may be different than the interests of other stockholders on these matters. This concentration of ownership could also have the effect of delaying or preventing a change in our control or otherwise discouraging a potential acquirer from attempting to obtain control of us, which in turn could reduce the price of our common stock.

Evolving regulation of corporate governance and public disclosure will result in additional expenses and continuing uncertainty.

Changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002, new SEC regulations and The Nasdaq Stock Market rules are creating uncertainty for public companies. We are presently evaluating and monitoring developments with respect to new and proposed rules and cannot predict or estimate the amount of the additional compliance costs we may incur or the timing of such costs. These new or changed laws, regulations and standards are subject to varying interpretations, in many cases due to their lack of specificity, and as a result, their application in practice may evolve over time as new guidance is provided by courts and regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. Maintaining appropriate standards of corporate governance and public disclosure will result in increased general and administrative expenses and a diversion of management time and attention from product-generating and revenue-generating activities to compliance activities. For example, in fiscal year 2008, we incurred increased accounting and consultant expenses to comply with the internal control requirements of Section 404 of the Sarbanes-Oxley Act. In addition, if we fail to comply with new or changed laws, regulations and standards, regulatory authorities may initiate legal proceedings against us and our business and reputation may be harmed.

Our future operating results may be below securities analysts' or investors' expectations, which could cause our stock price to decline.

The revenue and income potential of our products and our business model are unproven, and we may be unable to generate significant revenue or grow at the rate expected by securities analysts or investors. In addition, our costs may be higher than we, securities analysts or investors expect. If we fail to generate sufficient revenue or our costs are higher than we expect, our results of operations will suffer, which in turn could cause our stock price to decline. Our results of operations will depend upon numerous factors, including:

- FDA or other regulatory clearance or approval of future generations of our C-Port system or other products;
- demand for our products;
- the performance of third-party contract manufacturers and component suppliers;
- our ability to develop sales and marketing capabilities;
- our ability to develop, introduce and market new or enhanced versions of our products on a timely basis; and
- our ability to obtain and protect proprietary rights.

Our operating results in any particular period may not be a reliable indication of our future performance. In some future quarters, our operating results may be below the expectations of securities analysts or investors. If this occurs, the price of our common stock will likely decline.

Anti-takeover defenses that we have in place could prevent or frustrate attempts to change our direction or management.

Provisions of our certificate of incorporation and bylaws and applicable provisions of Delaware law may make it more difficult for or prevent a third party from acquiring control of us without the approval of our board of directors. These provisions:

- limit who may call a special meeting of stockholders;
- establish advance notice requirements for nominations for election to our board of directors or for proposing matters that can be acted upon at stockholder meetings;
- prohibit cumulative voting in the election of our directors, which would otherwise permit less than a majority of stockholders to elect directors;
- prohibit stockholder action by written consent, thereby requiring all stockholder actions to be taken at a meeting of our stockholders; and
- provide our board of directors with the ability to designate the terms of and issue a new series of preferred stock without stockholder approval.

In addition, Section 203 of the Delaware General Corporation Law generally prohibits us from engaging in any business combination with certain persons who own 15% or more of our outstanding voting stock or any of our associates or affiliates who at any time in the past three years have owned 15% or more of our outstanding voting stock. These provisions may have the effect of entrenching our management team and may deprive you of the opportunity to sell your shares to potential acquirors at a premium over prevailing prices. This potential inability to obtain a control premium could reduce the price of our common stock.

We may become involved in securities class action litigation that could divert management's attention and harm our business.

The stock market in general, the Nasdaq Global Market and the market for medical device companies in particular, has experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies. Further, the market prices of securities of medical device companies have been particularly volatile. These broad market and industry factors may materially harm the market price of our common stock, regardless of our operating performance. In the past, following periods of volatility in the market price of a particular company's securities, securities class action litigation has often been brought against that company. We may become involved in this type of litigation in the future. Litigation often is expensive and diverts management's attention and resources, which could materially harm our financial condition and results of operations.

We have never paid dividends on our capital stock, and we do not anticipate paying any cash dividends in the foreseeable future.

We have paid no cash dividends on any of our classes of capital stock to date, and we currently intend to retain our future earnings to fund the development and growth of our business. As a result, capital appreciation, if any, of our common stock will be the sole source of gain to our stockholders for the foreseeable future.

Item 2. *Properties*

We currently lease approximately 30,000 square feet of office, manufacturing and laboratory space in Redwood City, California. We believe that our existing facility should meet our needs for at least the next 24 months. Our facility is subject to periodic inspections by state and federal regulatory authorities.

Item 3. *Legal Proceedings*

None.

Item 4. ***Submission of Matters to a Vote of Security Holders***

No matters were submitted to a vote of Cardica's stockholders, through the solicitation of proxies or otherwise, during the fiscal quarter ended June 30, 2009.

PART II

Item 5. *Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities*

Market for Common Equity

Our common stock began trading on the NASDAQ Global Market on February 3, 2006 under the symbol "CRDC". The table below sets forth the high and low sales prices for our common stock for the periods indicated:

	High	Low
Fiscal year 2009		
First Quarter ended September 30, 2008	$ 11.13	$ 7.14
Second Quarter ended December 31, 2008	$ 8.28	$ 2.50
Third Quarter ended March 31, 2009	$ 4.27	$ 2.25
Fourth Quarter ended June 30, 2009	$ 3.24	$ 1.03
Fiscal year 2008		
First Quarter ended September 30, 2007	$ 12.04	$ 5.08
Second Quarter ended December 31, 2007	$ 15.15	$ 6.50
Third Quarter ended March 31, 2008	$ 11.15	$ 5.60
Fourth Quarter ended June 30, 2008	$ 10.10	$ 6.27

As of September 9, 2009, there were 75 holders of record of common stock. This number does not include the number of persons whose shares are held by a nominee or in "street name" accounts through brokers.

Dividend Policy

We have never declared or paid any dividends on our capital stock. We currently intend to retain all of our future earnings, if any, to finance our operations and do not anticipate paying any cash dividends on our capital stock in the foreseeable future.

Equity Compensation Plan Information

The information required by this Item 5 concerning our equity compensation plans will be contained in our definitive Proxy Statement with respect to our Annual Meeting of Stockholders, to be held on November 11, 2009, under the caption "Equity Compensation Plan Information" and is incorporated herein by reference.

Recent Sales of Unregistered Securities

None.

Issuer Purchases of Equity Securities

During the quarter ended June 30, 2009 we did not repurchase any equity securities.

Item 6. *Selected Financial Data*

The following selected financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our financial statements and notes to those statements included elsewhere in this report.

The following selected balance sheet data as of June 30, 2009 and 2008 and the statements of operations data for each of the three fiscal years in the period ended June 30, 2009 have been derived from our audited financial statements, which are included elsewhere in this annual report. The selected balance sheet data as of June 30, 2007, 2006 and 2005 and the selected statements of operations data for the fiscal years ended June 30, 2006 and 2005 have

been derived from our audited financial statements not included in this annual report. Historical results are not necessarily indicative of the results to be expected in future periods.

	Fiscal Year Ended June 30,				
	2009	2008	2007	2006	2005
	(In thousands, except per share data)				
Statements of Operation Data:					
Net revenue:					
Product sales, net	$ 6,798	$ 4,934	$ 2,103	$ 1,028	$ 719
Development revenue	2,995	2,564	1,370	1,000	—
Royalty revenue (including amounts from related party: 2008 — $67; 2007 — $56; 2006 — $31; 2005 — $1,027)	85	67	56	31	1,027
Development revenue from related-party	—	—	—	—	310
Total net revenue	9,878	7,565	3,529	2,059	2,056
Operating costs and expenses:					
Cost of product sales (includes related-party costs of $1,180 in fiscal year 2005)	5,341	4,808	2,880	2,102	2,478
Research and development	8,217	8,609	7,014	6,459	6,289
Selling, general and administrative	13,632	13,175	9,057	5,645	3,753
Total operating costs and expenses	27,190	26,592	18,951	14,206	12,520
Loss from operations	(17,312)	(19,027)	(15,422)	(12,147)	(10,464)
Interest income	177	926	1,113	782	305
Interest expense (includes related-party interest expense of $320, $897 and $897 in fiscal years 2007, 2006 and 2005, respectively)	(120)	(101)	(458)	(1,047)	(1,048)
Other income (expense), net (includes $250 income from related-party in fiscal year 2005)	(22)	6	2	(4)	257
Gain on early retirement of notes payable to related-party	—	—	1,183	—	—
Net loss before income tax benefit	(17,277)	(18,196)	(13,582)	(12,416)	(10,950)
Tax benefit	72	—	—	—	—
Net loss	$ (17,205)	$ (18,196)	$ (13,582)	$ (12,416)	$ (10,950)
Basic and diluted net loss per common share	$ (1.09)	$ (1.23)	$ (1.25)	$ (2.58)	$ (7.82)
Shares used in computing basic and diluted net loss per common share	15,776	14,844	10,878	4,817	1,401

	As of June 30,				
	2009	2008	2007	2006	2005
Balance Sheet Data:					
Cash, cash equivalents and short-term investments	$ 5,328	$ 23,265	$ 23,434	$ 32,080	$ 8,951
Working capital	4,134	20,959	22,049	31,602	9,032
Total assets	10,340	28,250	27,324	35,158	12,146
Short-term note payable	2,000	—	—	—	—
Long-term liabilities	44	2,000	2,020	15,836	15,156
Convertible preferred stock	—	—	—	—	39,683
Total stockholders' equity (deficit)	6,262	21,417	21,989	17,677	(43,685)

Item 7. ***Management's Discussion and Analysis of Financial Condition and Results of Operations***

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our financial statements and the related notes to those statements included elsewhere in this report. In addition to historical financial information, the following discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results and timing of selected events may differ materially from those anticipated in these forward-looking statements as a result of many factors, including those discussed under "Risk Factors" and elsewhere in this Report.

Overview

Historically, our business focused on the design, manufacture and marketing of proprietary automated anastomotic systems used by cardiac surgeons to perform coronary bypass surgery. Recently, we have expanded our business to include the development of an endoscopic microcutter intended for use by general, thoracic, gynecologic, bariatric and urologic surgeons. Unless and until this product is developed and cleared for marketing in the United States or elsewhere, or we enter into an arrangement with a development and commercialization partner that provides us with development revenue, we will have ongoing costs related thereto without related revenue. We are also developing a PFO device in collaboration with Cook Incorporated, or Cook, as described below. Our agreement with Cook related to the development of this device, described below, provides us with opportunities for potential milestone and royalty revenue.

We currently sell our C-Port® Distal Anastomosis Systems, or C-Port systems, in the United States and Europe. We also currently sell our PAS-Port ® Proximal Anastomosis System, or PAS-Port system, in the United States and in Europe and Japan through distributors. The PAS-Port system is used to perform a proximal anastomosis, which is the connection of a bypass graft vessel to the aorta or other source of blood. We received 510(k) clearance to market our PAS-Port system in the United States in September 2008. As of June 30, 2009, more than 14,000 PAS-Port systems had been sold in the United States, Europe and Japan. In addition to our commercialized cardiac surgery products, we have commenced development of the Cardica Microcutter, a multi-fire endolinear microcutter device based on our proprietary "staple-on-a-strip" technology, which would expand our commercial opportunity into additional surgical markets. We are in discussions with multiple potential development and commercialization partners to advance further development of the Cardica Microcutter and other potential products in this product line, and we may enter into an arrangement to pursue further development of this product with a partner.

We are in the process of adding independent distributors and manufacturers' representatives to support a core direct sales team for our C-Port systems and PAS-Port system in the United States to contain sales costs while continuing to serve our customers and potential customers for our automated anastomosis product line. We are shifting our development efforts to focus on our endoscopic microcutter.

We manufacture our cardiac products, our C-Port systems and PAS-Port systems with parts we manufacture and components supplied by vendors, which we then assemble, test and package. For fiscal year 2009, we generated net revenue of $9.9 million, including $3.0 million of development revenue, and incurred a net loss of $17.2 million.

Since our inception, we have incurred significant net losses, and we expect to continue to incur net losses for the foreseeable future. To date, our C-Port and PAS-Port systems have had limited commercial adoption, and sales have not met the levels that we had anticipated. Revenues from product sales and milestone payments were not sufficient to support the operation of our business as we had planned. As a result, in order to reduce our operating expenses, in January, April and May 2009, we reduced our costs by eliminating 13, 22 and 15 positions, respectively, which impacted all functional areas, including research and development, sales and marketing, clinical, regulatory and quality, operations and general and administrative. We expect these reductions in force to impair our ability to continue sales at current or increased levels. We are continuing to evaluate potential additional steps to reduce our operating expenses. We are also seeking to raise additional funds. If adequate funds are not available or revenues from product sales do not increase, we may be required to delay, further reduce the scope of or eliminate our commercialization efforts with respect to one or more of our products or one or more of our research and development programs.

As of June 30, 2009, we had cash and cash equivalents of $5.3 million and total short-term debt of $2.0 million. We believe that our existing cash and cash equivalents, along with the cash that we expect to generate from operations, will be sufficient to meet our anticipated cash needs to enable us to conduct our business substantially as currently conducted through December 31, 2009. Accordingly, our financial statements for the fiscal year ended June 30, 2009, included in this Annual Report on Form 10-K contain a going concern qualification from our independent registered public accounting firm. Our estimates and our future capital requirements depend upon numerous factors. In addition, we have based our estimates on assumptions that may prove to be wrong, including assumptions with respect to the level of revenues from product sales, and we could exhaust our available financial resources sooner than we currently expect. While our cash resources would permit us to continue through December 31, 2009, we would need to further reduce expenses in advance of that date in the event that we are unable to complete a financing, strategic or commercial transaction in the near term to ensure that we have sufficient capital to meet our obligations and continue on a path designed to create and preserve stockholder value. The sufficiency of our current cash resources and our need for additional capital, and the timing thereof, will depend on many factors, including primarily the extent of our sales and marketing efforts related to our commercialized products and the amount of revenues that we receive from product sales, as well as other factors described in the "Liquidity and Capital Resources" section below.

We are currently seeking a range of financing and strategic alternatives and have engaged Allen & Company LLC to help us evaluate our strategic alternatives. A member of our Board of Directors, John Simon, is a Managing Director at Allen & Company LLC. We may seek to sell additional equity or debt securities, obtain a credit facility, enter into product development, license or distribution agreements with third parties or divest one or more of our commercialized products or products in development. The sale of additional equity or convertible debt securities could result in significant dilution to our stockholders, particularly in light of the prices at which our common stock has been recently trading. In addition, if we raise additional funds through the sale of equity securities, new investors could have rights superior to our existing stockholders. If additional funds are raised through the issuance of debt securities, these securities could have rights senior to those associated with our common stock and could contain covenants that would restrict our operations. Any product development, licensing, distribution or sale agreements that we enter into may require us to relinquish valuable rights, including with respect to commercialized products or products in development that we would otherwise seek to commercialize or develop ourselves. We believe that the general economic and credit market crisis have created a more difficult environment for obtaining equity and debt financing or strategic transactions, and we may not be able to obtain sufficient additional financing or enter into a strategic transaction in a timely manner. Our need to raise capital soon may require us to accept terms that may harm our business or be disadvantageous to our current stockholders, particularly in light of the current illiquidity and instability in the global financial markets.

Agreements with Cook Incorporated

In June 2007, we entered into, and in September 2007 and in June 2009 amended, a license, development and commercialization agreement with Cook Incorporated, or Cook, to develop and commercialize a specialized device, referred to as the PFO device, designed to close holes in the heart from genetic heart defects known as patent foramen ovales, or PFOs. Under the agreement, Cook funds certain development activities and we and Cook jointly develop the device. Once developed, Cook receives an exclusive, worldwide, royalty-bearing license, with the right to grant sublicenses, to make, have made, use, sell, offer for sale and import the PFO device. Under this agreement, we have received payments totaling $1.0 million, $1.7 million and $500,000 in fiscal years 2009, 2008 and 2007, respectively. We recorded as development revenue under the agreement a total of $1.4 million and $1.2 million in fiscal years 2009 and 2008, respectively, and none in fiscal year 2007. A total of $527,000 under this agreement has been recorded as deferred development revenue on the balance sheet as of June 30, 2009. We are also entitled to receive from Cook up to a total of an additional $275,000 in future payments if development milestones under the agreement are achieved. We are also entitled to receive a royalty based on Cook's annual worldwide sales of the PFO device, if any.

On December 9, 2005, we entered into, and in September 2007 amended and in July 2009 amended and partially terminated, an agreement with Cook to develop the Cook Vascular Closure Device. Under the agreement, Cook funded certain development activities, and we and Cook jointly developed the device, under the direction of a

Development Committee that included representatives from each party. Under the original agreement and the first amendment in September 2007, Cook received an exclusive, worldwide, royalty-bearing license, with the right to grant sublicenses, to make, have made, use, sell, offer for sale and import the Cook Vascular Closure Device for medical procedures in any part of the body. Under this agreement, we received payments totaling approximately $5.3 million, including $1.0 million, $1.5 million, $1.8 million and $1.0 million in fiscal years 2009, 2008, 2007 and 2006, respectively. We recorded as development revenue under the agreement a total of $1.6 million, $1.4 million and $1.4 million for fiscal years 2009, 2008 and 2007, respectively. In July 2009, we entered into a partial termination and second amendment of this agreement to terminate Cook's participation in the project and to provide to Cook a royalty on net sales of the Cook Vascular Closure Device if Cardica successfully commercializes the product. The remaining deferred revenue balance was recognized as revenue in the fourth quarter of fiscal 2009 as we had completed all of our activities under the agreement and no amounts are refundable to Cook under the partial termination agreement. In addition, during fiscal year 2009, we recognized a total of $251,000 of product sales to Cook of the Cook Vascular Closure Device.

Deficiency letter from The NASDAQ Global Market

On May 22, 2009, we announced that we received a letter, dated May 19, 2009, from the Listing Qualifications Department of The NASDAQ Stock Market notifying us that we did not comply with the $10.0 million minimum stockholders' equity requirement for continued listing on The NASDAQ Global Market set forth in NASDAQ Marketplace Rule 5450(b)(1)(A). NASDAQ's determination was based on a review of our Quarterly Report on Form 10-Q for the period ended March 31, 2009. As provided in the NASDAQ rules, we timely submitted to the NASDAQ Staff a plan to continue listing on The NASDAQ Global Market. NASDAQ granted us an extension until September 1, 2009, to regain compliance with the listing standards.

On September 2, 2009, we received a second letter from the Listing Qualifications Department of The NASDAQ Stock Market notifying us of its determination that we had failed to meet the terms of the extension because we failed to publicly disclose a compliant stockholders' equity balance by September 1, 2009. Pursuant to the NASDAQ rules we appealed the decision to a NASDAQ Listing Qualifications Panel and requested a hearing. The hearing is scheduled for October 15, 2009. Our common stock will remain listed on The NASDAQ Global Market pending a decision by the Panel following the hearing.

In the event we are unable to otherwise satisfy the continued listing criteria of The NASDAQ Global Market and our appeal is denied we may apply for listing on The NASDAQ Capital Market. We believe that we currently meet the listing requirements of that market, including the requirement to have a minimum of $1.0 million in stockholders' equity. Even if we are able to regain compliance with the listing requirements of The NASDAQ Global Market, there is no assurance that in the future we will continue to satisfy such listing requirements, with the result that our common stock may be delisted from that market and we may not meet the listing requirements of The NASDAQ Capital Market at such time.

Critical Accounting Policies and Significant Judgments and Estimates

Our management's discussion and analysis of our financial condition and results of operations are based on our financial statements which have been prepared in accordance with accounting principles generally accepted in the United States, or GAAP. The preparation of our financial statements requires management to make estimates and assumptions that affect the amounts reported in our financial statements and accompanying notes. Actual results could differ materially from those estimates.

We believe that the following critical accounting policies to be the most critical to an understanding of our financial statements because they require us to make significant judgments and estimates that are used in the preparation of our financial statements.

Revenue Recognition. We recognize revenue in accordance with SEC Staff Accounting Bulletin, or SAB, No. 104, *"Revenue Recognition."* SAB No. 104 requires that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) title has transferred; (3) the fee is fixed or determinable; and (4) collectibility is reasonably assured. We generally use contracts and customer purchase orders to determine the existence of an arrangement. We use shipping documents and third-party proof of delivery to verify

that title has transferred. We assess whether the fee is fixed or determinable based upon the terms of the agreement associated with the transaction. To determine whether collection is probable, we assess a number of factors, including past transaction history with the customer and the creditworthiness of the customer. If we determine that collection is not reasonably assured, then the recognition of revenue is deferred until collection becomes reasonably assured, which is generally upon receipt of payment.

We record product sales net of estimated product returns and discounts from the list prices for our products. The amounts of product returns and the discount amounts have not been material to date. We include shipping and handling costs in cost of product sales.

Revenue generated from development contracts is recognized when it is earned and non-refundable upon receipt of milestone payments or upon incurrence of the related development expenses in accordance with contractual terms, based on the actual costs incurred to date plus overhead costs for certain project activities. Amounts paid but not yet earned on the project are refundable and are recorded as deferred revenue until such time as the related development expenses are incurred.

Inventory. We state our inventories at the lower of cost (computed on a standard cost basis, which approximates actual cost on a first-in, first-out basis) or market. Standard costs are monitored on a quarterly basis and updated as necessary to reflect changes in raw material costs and labor and overhead rates. Inventory write-downs are established when conditions indicate that the selling price could be less than cost due to physical deterioration, usage, obsolescence, reductions in estimated future demand or reductions in selling prices. Inventory write-downs are measured as the difference between the cost of inventory and estimated market value. Inventory write-downs are charged to cost of product sales and establish a lower cost basis for the inventory. We balance the need to maintain strategic inventory levels with the risk of obsolescence due to changing technology and the risk of lower customer demand levels. While we believe the current value of inventories represents all known and estimated changes in demand, we have recently experienced reduced demand for our C-Port systems and further unfavorable changes in market conditions may result in a need for additional inventory write-downs that could adversely impact our financial results.

Clinical Trial Accounting. Clinical trial costs are a component of research and development expenses and include fees paid to participating hospitals and other service providers that conduct clinical trial activities with patients on our behalf and the cost of clinical trial insurance. The various costs of the trial are contractually based on the nature of the services, and we accrue the costs as the services are provided. Accrued costs are based on estimates of the work completed under the service agreements, patient enrollment and past experience with similar contracts. Our estimate of the work completed and associated costs to be accrued, includes our assessment of information received from our third-party service providers and the overall status of our clinical trial activities. If we have incomplete or inaccurate information, we may underestimate costs associated with various trials at a given point in time. Although our experience in estimating these costs is limited, the difference between accrued expenses based on our estimates and actual expenses have not been material to date.

Stock-Based Compensation. During fiscal year 2006, we adopted Statement of Financial Accounting Standards, or SFAS, No. 123R, *"Share-Based Payment"*, which revises SFAS No. 123. Under SFAS No. 123R stock-based compensation cost is measured on the grant date, based on the fair value of the award, and is recognized as an expense over the employee requisite service period. Prior to the adoption of SFAS No. 123R, we accounted for stock-based employee compensation arrangements using the intrinsic value method in accordance with the provisions of Accounting Principles Board, or APB, Opinion No. 25, *"Accounting for Stock Issued to Employees"* and its interpretations. We adopted SFAS No. 123R applying the "prospective method" under which we will continue to account for nonvested equity awards outstanding at the date of adoption of SFAS No. 123R in the same manner as they had been accounted for prior to adoption, that is, we will continue to apply APB No. 25 in future periods to equity awards outstanding at the date we adopted SFAS No. 123R.

The expected term of options granted under SFAS No. 123R is determined using the "simplified" method allowed by SAB No. 107, as extended by SAB No. 110. Under this approach, the expected term is presumed to be the mid-point between the vesting date and the end of the contractual term. Since the Company has limited historical data on volatility of its stock, the expected volatility is based on volatility of similar entities (referred to as "guideline" companies). In evaluating similarity, the Company considered factors such as industry, stage of life

cycle, size, and financial leverage. The risk-free interest rate for periods within the contractual life of the option is based on a risk-free zero-coupon spot interest rate at the time of grant. We have never declared or paid any cash dividends and do not presently plan to pay cash dividends in the foreseeable future. SFAS No. 123R requires us to estimate forfeitures in calculating the expense related to stock-based compensation. We recognize stock-based compensation expense for options and restricted stock awards using the accelerated method over the requisite service period of the award, which generally equals the vesting period of each grant. We recorded stock-based compensation expense under SFAS 123R of $1.6 million, or $0.10 per share, $1.4 million, or $0.09 per share, and $561,000, or $0.05 per share for fiscal years 2009, 2008 and 2007, respectively. Total compensation expense related to unvested awards not yet recognized is approximately $1.4 million at June 30, 2009 and is expected to be recognized over a weighted average period of 2.5 years.

Prior to the adoption of SFAS No. 123R, certain stock options were granted with exercise prices that were below the estimated fair value of the common stock at the date of grant. We recorded deferred stock-based compensation, net of cancellations due to terminated employees, of $1.0 million in fiscal year 2006, in accordance with APB No. 25, and will amortize this amount on a straight-line basis over the related vesting period of the options. We recorded employee stock-based compensation expense associated with the amortization of deferred stock compensation of $254,000, $307,000 and $353,000 for fiscal years 2009, 2008 and 2007, respectively. The total unamortized deferred stock compensation recorded for all option grants as of June 30, 2009 of $22,000 is expected to be fully amortized in fiscal year 2010.

Results of Operations

Comparison of Fiscal Years ended June 30, 2009 and 2008

Net revenue. Net revenue increased $2.3 million, or 31%, to $9.9 million in fiscal year 2009 compared to $7.6 million in fiscal year 2008.

Net product sales increased $1.9 million, or 38%, to $6.8 million in fiscal year 2009 from $4.9 million in fiscal year 2008. The increase in product sales for the fiscal year ended June 30, 2009 was primarily the result of the introduction of our PAS-Port system in the United States. Product sales for the fiscal year ended June 30, 2008 did not include any PAS-Port system sales in the United States as the system was not cleared by the FDA until September 2008. In the fourth quarter of fiscal year 2009, total revenue was $2.0 million compared to $2.8 million in the fourth quarter of fiscal year 2008. The lower sales for the fourth quarter of fiscal year 2009 were due primarily to lower product sales caused by the reductions in force in April and May which included a significant number of our direct sales force as well as our Vice President of Sales and Marketing. In addition, in the third quarter of fiscal year 2009 we received low orders from our distributor in Japan and did not receive a significant order in the fourth quarter for Japan. We are transitioning to a sales force made up primarily of independent manufacturers' representatives and distributors. The new sales representatives need to be recruited and trained and future quarterly product sales may be lower than comparable quarters until we complete this transition period.

For fiscal years 2009 and 2008, sales to Century Medical, Inc., our distributor in Japan, accounted for approximately 15% and 20%, respectively, of our total product sales.

Development revenue was $3.0 million and $2.6 million in fiscal years 2009 and 2008, respectively. The 2009 total was comprised of $1.4 million for development activities for the PFO device under a development agreement with Cook that we entered into in June 2007, and $1.6 million for development activities for the Cook Vascular Closure Device under a separate development agreement with Cook.

Cost of product sales. Cost of product sales consists primarily of material, labor and overhead costs. Cost of product sales increased $533,000, or 11%, to $5.3 million in fiscal year 2009 from $4.8 million in fiscal year 2008.

The increase in cost of product sales in fiscal year 2009 compared to fiscal year 2008 was primarily attributable to increased unit sales of all of our products worldwide, due primarily to increased adoption of PAS-Port systems in the United States, of $513,000, an excess reserve on C-Port raw materials of $248,000, and higher production scrap expense of $112,000 for the PAS-Port system; offset in part by lower warranty charges of $144,000, and decreased lower of cost or market reserves of $162,000.

Our cost of product sales was 79% and 97% of our net product sales in fiscal years 2009 and 2008, respectively due to lower overhead and higher volumes mix. We expect high cost of product sales to continue for the foreseeable future.

Research and development expense. Research and development expense consists primarily of personnel costs within our product development, regulatory and clinical groups and the costs of clinical trials. Research and development expense decreased $392,000, or 5%, to $8.2 million in fiscal year 2009 from $8.6 million in fiscal year 2008.

The net decrease in research and development expense in fiscal year 2009 compared to fiscal year 2008 was attributable to a decrease in salaries and benefits of $232,000 due primarily to a net decrease in the number of personnel, decreased prototype project materials for the C-Port xV and Cook projects of $414,000, lower non-cash stock-based compensation expenses of $84,000 and lower clinical trial expense of $223,000 as a result of completing the PAS-Port trials, offset by higher molds and tooling expenses of $475,000 related to retirement of certain assets for the C-Port xV System, which is no longer under development since the C-Port X-CHANGE II System performs a comparable function while offering additional features and has nearly caught up to the C-Port xV System in development, and higher facilities costs of $71,000 .

We anticipate that research and development expenses will decrease in absolute terms in fiscal year 2010 due to the restructuring and reductions in headcount completed in January to May 2009.

Selling, general and administrative expense. Selling, general and administrative expense consists primarily of costs for administrative and sales and marketing personnel, intellectual property and marketing expenses. Selling, general and administrative expense increased $457,000, or 3%, to $13.6 million in fiscal year 2009 from $13.2 million in fiscal year 2008.

The net increase in selling, general and administrative expense in fiscal year 2009 compared to fiscal year 2008 was attributable to higher sales and marketing expenses to support field sales activities in the United States to sell C-Port systems and PAS-Port systems, including increased salaries and benefits of $861,000, higher non-cash stock-based compensation expenses of $156,000, higher recruiting fees of $111,000 due to the expansion of the sales force and higher product demonstration and trade show expense of $129,000, offset in part by lower accounting and auditing fees of $119,000 primarily related to our change in filing status to be a non-accelerated filer, and lower legal expense of $658,000 due to lower litigation expense in fiscal 2009 based on the settlement reached in fiscal year 2008.

We expect selling, general and administrative expense to decrease in absolute terms in fiscal year 2010 due to the restructuring and reductions in headcount completed in January to May 2009.

Interest income. Interest income decreased $749,000, or 81%, to $177,000 for fiscal year 2009 from $926,000 for fiscal year 2008. The decrease in interest income in fiscal year 2009 was primarily attributable to lower average investment balances available for investing during the period and lower overall market interest rates for the fiscal year.

Interest expense. Interest expense increased $19,000, or 19%, to $120,000 for fiscal year 2009 from $101,000 in fiscal year 2008. The increase in interest expense in fiscal year 2009 reflects a higher contractual interest rate of 6% per annum payable on our $2.0 million debt to Century Medical.

Income Tax Benefit. Under the Housing and Economic Recovery Act of 2008 and the American Recovery and Reinvestment Act of 2009, or the Acts, signed into law in July 2008 and February 2009, respectively, taxpayers can claim a refundable alternative minimum tax or research and development credit if they forego bonus depreciation on certain qualified fixed assets placed in service between April 2008 and December 2009. We computed and recognized a credit based on fixed assets placed into service through June 30, 2009. We recorded an income tax benefit of $72,000 in fiscal year 2009 for the U.S. federal refundable credit as provided by the Acts.

Comparison of Fiscal Years ended June 30, 2008 and 2007

Net revenue. Net revenue increased $4.1 million, or 114%, to $7.6 million in fiscal year 2008 compared to $3.5 million in fiscal year 2007.

Net product sales increased $2.8 million, or 135%, to $4.9 million in fiscal year 2008 from $2.1 million in fiscal year 2007. The net increase in product sales in fiscal year 2008 compared to fiscal year 2007 was primarily attributable to increased unit sales in the United States of C-Port Flex A and C-Port xA systems and initial sales of the C-Port X-CHANGE system as well as increased unit sales to Japan of the PAS-Port system. Also contributing to the increase of product sales in fiscal year 2008 were the higher average selling prices of the C-Port Flex A and C-Port X-CHANGE systems sold during the period when compared to the average selling price of the C-Port xA system. Net product sales in fiscal year 2007 included only 3 months of C-Port Flex A system sales as this product received FDA clearance in March 2007 and no sales of the C-Port X-CHANGE system as this system was introduced in the third fiscal quarter of fiscal year 2008.

Development revenue for fiscal year 2008 totaling $2.6 million was comprised of $1.2 million for development activities for the PFO device under a development agreement with Cook that we entered into in June 2007, and $1.4 million for development activities for the Cook Vascular Closure Device under a separate development agreement with Cook. Development revenue of $1.4 million in fiscal year 2007 was for development activities related to the Cook Vascular Closure Device.

Cost of product sales. Cost of product sales consists primarily of material, labor and overhead costs. Cost of product sales increased $1.9 million, or 67%, to $4.8 million in fiscal year 2008 from $2.9 million in fiscal year 2007.

The increase in cost of product sales in fiscal year 2008 compared to fiscal year 2007 was primarily attributable to increased unit sales of all of our products worldwide, due primarily to increased adoption of C-Port systems in the United States and lower production scrap and write offs of obsolete C-Port systems of $381,000, offset in part by higher warranty expenses of $137,000.

Our cost of product sales was 97% and 137% of our net product sales in fiscal years 2008 and 2007, respectively.

Research and development expense. Research and development expense consists primarily of personnel costs within our product development, regulatory and clinical groups and the costs of clinical trials. Research and development expense increased $1.6 million, or 23%, to $8.6 million in fiscal year 2008 from $7.0 million in fiscal year 2007.

The net increase in research and development expense in fiscal year 2008 compared to fiscal year 2007 was attributable to an increase in salaries and benefits of $954,000 due primarily to a net increase in the number of personnel, increased prototype project materials for the C-Port xV and Cook projects of $531,000, higher non-cash stock-based compensation expenses of $476,000 and higher molds and tooling expenses in development of the Cook projects of $243,000, offset in part by decreased net facility related charges as a result of increased manufacturing activities for the C-Port systems of $163,000 and lower travel expenses of $178,000 as the PAS-Port clinical trial was completed during the period.

Selling, general and administrative expense. Selling, general and administrative expense consists primarily of costs for administrative and sales and marketing personnel, intellectual property and marketing expenses. Selling, general and administrative expense increased $4.1 million, or 45%, to $13.2 million in fiscal year 2008 from $9.1 million in fiscal year 2007.

The net increase in selling, general and administrative expense in fiscal year 2008 compared to fiscal year 2007 was attributable to increased salaries and benefits of $1.6 million and travel expenses of $604,000 primarily the result of expanding our field sales force in the United States to sell the C-Port systems, a charge of $425,000 upon the issuance of our common stock to settle a patent infringement lawsuit, higher accounting and auditing fees of $301,000 primarily related to compliance with Sarbanes-Oxley internal control reporting requirements, higher non-cash stock-based compensation expenses of $262,000 and increased demonstration unit expense of $243,000 for the training of physicians.

Interest income. Interest income decreased $187,000, or 17%, to $926,000 for fiscal year 2008 from $1.1 million for fiscal year 2007. The decrease in interest income in fiscal year 2008 was primarily attributable to lower average investment balances and lower overall market interest rates for the fiscal year.

Interest expense. Interest expense decreased $357,000, or 78%, to $101,000 for fiscal year 2008 from $458,000 in fiscal year 2007. The decrease in interest expense in fiscal year 2008 was the result of lower average debt balances during the period as a result of the early retirement of $10.3 million of related party debt in November 2006.

Gain on early retirement of notes payable to related party. Gain on early retirement of notes payable to related-party of $1.2 million in fiscal year 2007 resulted from the difference between our common stock price of $4.00 per share on the delivery date of the 1,432,550 shares of common stock issued to Guidant Investment and the conversion price of $5.00 per share used in connection with the conversion of outstanding notes in the aggregate principal amount of $7.2 million offset in part by $250,000 of advisory expense paid in connection with the transaction.

Income Taxes

Due to uncertainty surrounding the realization of our deferred tax assets through future taxable income, we have provided a full valuation allowance and no benefit has been recognized for the net operating loss and other deferred tax assets. Accordingly, deferred tax asset valuation allowances have been established as of June 30, 2009 and 2008 to reflect these uncertainties.

We adopted the provisions of Financial Accounting Standards Board, or FASB, Interpretation No. 48, or FIN No. 48, "*Accounting for Uncertainty in Income Taxes"* on July 1, 2007. As a result, upon the implementation of FIN No. 48, we recognized no liabilities for unrecognized income tax benefits. In addition, we recognized no material adjustment for the cumulative effect of adoption. At June 30, 2009, we had unrecognized tax benefits of $737,000, all of which would not currently affect our effective tax rate if recognized due to our deferred tax assets being fully offset by a valuation allowance.

As of June 30, 2009, we had net operating loss carry-forwards to reduce future taxable income, if any, of approximately $95.0 million for federal income tax purposes and $72.1 million available to reduce future taxable income, if any, for state income taxes. The net operating loss carry-forwards begin to expire in 2013. We also had federal and state research and development credit carry-forwards of approximately $1.4 million and $1.5 million, respectively, at June 30, 2009. The federal credits will expire starting in 2019 if not utilized. The state credit carry-forwards have an unlimited carry-forward period. We completed a study of our tax attributes under Section 382 of the Internal Revenue Code of 1986 which resulted in significant limitations of net operating loss and credit carry-forwards prior to utilization. The reductions are reflected in the carry-forward amounts discussed above.

Liquidity and Capital Resources

As of June 30, 2009, our accumulated deficit was $109.4 million and we had cash and cash equivalents of $5.3 million and total short-term debt of $2.0 million. We currently invest our cash and cash equivalents in money market funds. Since inception, we have financed our operations primarily through private sales of convertible preferred stock, long-term notes payable and public and private sales of common stock. We believe that our existing cash and cash equivalents, along with the cash that we expect to generate from operations, will be sufficient to meet our anticipated cash needs for working capital and capital expenditures through December 31, 2009. Until we can generate significant continuing revenue, if ever, we expect to satisfy our future cash needs through public or private equity offerings, debt financings or corporate collaboration and licensing arrangements, as well as through interest income earned on cash balances. We cannot be certain that additional funding of any kind will be available on acceptable terms, or at all. The sale of additional equity or convertible debt securities could result in dilution to our stockholders. If additional funds are raised through the issuance of securities, these securities could have rights senior to those associated with our common stock and could contain covenants that would restrict our operations. Any licensing or strategic agreements we enter into may require us to relinquish valuable rights. If adequate funds are not available, we may be required to delay, reduce the scope of or eliminate our commercialization efforts or one or more of our research and development programs, cease operations, or cease to be publicly traded.

In November 2007, we received $11.5 million in net proceeds from the sale of 1,500,000 shares of our common stock in a public offering. In December 2007, we received $3.8 million in net proceeds from the sale of an additional 481,170 shares of our common stock upon exercise of the over-allotment option.

We have notes payable that were originally issued in connection with our Japan Distribution Agreement with Century Medical, in June 2003. We extended the distribution agreement and restructured the $3.0 million note payable in March 2007, whereby $1.0 million of the note payable was paid in April 2007 and the remaining $2.0 million is due in June 2010. The notes bore interest at 5% per annum through June 2008 then increased to 6% per annum until maturity in June 2010. All interest due is payable quarterly. The holder of the notes has a continuing security interest in all of our personal property and assets, including intellectual property. There are no covenants associated with this debt.

Under the operating lease for our facility in Redwood City, California, we are required to maintain a letter of credit with a restricted cash balance at our bank. A certificate of deposit of $300,000 and $500,000 has been recorded as restricted cash in the accompanying balance sheets at June 30, 2009 and 2008, respectively, related to the letter of credit

Summary cash flow data is as follows:

	Fiscal Year Ended June 30,		
	2009	2008	2007
		(In thousands)	
Net cash used in operating activities	$ (16,703)	$ (14,222)	$ (14,952)
Net cash (used in) provided by investing activities	12,664	(6,613)	18,291
Net cash provided by financing activities	146	15,517	7,098

Guidant Investment was our largest investor until November 2007, having invested an aggregate of approximately $14.0 million in our preferred stock in June 2002 and August 2003. Additionally, in August 2003, Guidant extended to us a line of credit for $10.3 million. We have drawn down this line of credit, and as of June 30, 2006, we had long-term notes payable, or Notes, of $10.3 million and accrued interest payable of $2.3 million outstanding to Guidant Investment. The Notes bore interest at 8.75% per annum and would have matured in August 2008. In November 2006, we entered into a note conversion agreement with Guidant Investment pursuant to which Guidant Investment converted $7.2 million of the outstanding principal amount under the Notes into an aggregate of 1,432,550 shares of our common stock at a conversion price of $5.00 per share. The remaining principal balance of $3.1 million along with accrued interest of approximately $2.7 million was paid in cash to Guidant Investment in full satisfaction of all amounts owing under the Notes, and the Notes were cancelled. The closing market price of the common stock on the delivery date was $4.00 per share, resulting in a gain on early retirement of the notes payable of $1.2 million which has been recorded in the statement of operations for fiscal year 2007.

Net cash used in operating activities for fiscal years 2009, 2008 and 2007 was $16.7 million, $14.2 million, and $15.0 million, respectively. Our net use of cash for fiscal year 2009 was primarily attributable to our net loss, adjusted for non-cash stock-based compensation charges of $1.9 million, approximately $614,000 for C-Port xV-related fixed assets that were retired and $917,000 of depreciation and amortization plus increased inventories of $555,000, decreases in accounts payable, other accrued liabilities and accrued compensation totaling $1.8 million and a decrease in deferred development revenue of $958,000 mainly due to Cook's partial termination of the Cook Vascular Closure Device development and commercialization agreement. Our net use of cash for fiscal year 2008 was primarily attributable to our net loss, adjusted for non-cash stock-based compensation charges of $1.7 million, approximately $425,000 of our common stock issued for settlement of a patent litigation and $944,000 of depreciation and amortization, plus higher accounts receivable of $433,000 as a result of increased sales of our products in the United States offset in part by increases in accounts payable, other accrued liabilities and accrued compensation totaling $1.1 million and an increase in deferred development revenue of $603,000 due to cash received from Cook. Our net use of cash for fiscal year 2007 was primarily attributable to our net loss, adjusted for non-cash stock-based compensation charges of $954,000 and $763,000 of depreciation and amortization, a payment made to Guidant Investment (a related-party) of interest payable of $2.3 million, a $1.4 million gain on early retirement of notes payable to Guidant Investment and an increase in inventories of $797,000 to support increased product sales, offset in part by $882,000 of deferred development revenue from Cook.

Net cash provided in investing activities was $12.7 million for fiscal year 2009, resulting from net sales and maturities of short-term investments of $14.1 million required to fund our operating loss in fiscal year 2009 offset in part by $1.4 million used to purchase property and equipment. Net cash used in investing activities was $6.6 million

for fiscal year 2008, resulting from net purchases of available-for-sale investments of $5.2 million due to excess cash resources received from the sale of our common stock in November and December 2007, and $1.5 million used to purchase property and equipment. Net cash used by investing activities was $18.3 million for fiscal year 2007, resulting from net sales and maturities of short-term investments of $19.1 million required to fund our operating loss in fiscal year 2007 offset in part by $837,000 used to purchase property and equipment.

Net cash provided by financing activities of $146,000 for fiscal 2009 was due to net proceeds received from exercises of options to purchase our common stock. Net cash provided by financing activities of $15.5 million for fiscal 2008 was primarily due to net proceeds received from sales of our common stock in November and December 2007. Net cash provided by financing activities of $7.1 million for fiscal year 2007 was primarily due to net proceeds of $10.9 million received from the sale of common stock in June 2007 offset in part by debt payments made to Guidant Investment of $3.1 million and Century Medical of $1.0 million during the period.

Our future capital requirements depend upon numerous factors. These factors include but are not limited to the following:

- market acceptance and adoption of our products;
- our revenue growth;
- costs associated with our sales and marketing initiatives and manufacturing activities;
- costs of obtaining and maintaining FDA and other regulatory clearances and approvals for our products;
- securing, maintaining and enforcing intellectual property rights;
- costs of developing marketing and distribution capabilities;
- the extent of our ongoing research and development programs;
- the progress of clinical trials; and
- the effects of competing technological and market developments.

Recent Accounting Pronouncements

Effective April 1, 2009, we adopted SFAS No. 165, *"Subsequent Events."* The standard modifies the names of the two types of subsequent events either as recognized subsequent events (previously referred to in practice as Type I subsequent events) or non-recognized subsequent events (previously referred to in practice as Type II subsequent events). In addition, the standard modifies the definition of subsequent events to refer to events or transactions that occur after the balance sheet date, but before the financial statements are issued. It also requires the disclosure of the date through which subsequent events have been evaluated. The standard did not result in significant changes in the practice of subsequent event disclosures or the related accounting thereof, and therefore the adoption did not have any impact on our consolidated financial position, results of operations and cash flows.

In June 2009, the Financial Accounting Standards Board issued SFAS No. 168, *"The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162"* SFAS No. 168 establishes the FASB Accounting Standards Codification as the single source of authoritative U.S. accounting and reporting standards, other than guidance issued by the SEC, SFAS No. 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. We do not expect the adoption of SFAS No. 168 to have a material impact on our financial condition or results of operations.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements, including structured finance, special purpose or variable interest entities.

Item 8. ***Financial Statements and Supplementary Data***

The following tables set forth selected unaudited quarterly statement of operations data for the eight most recent quarters. The information for each of these quarters has been prepared on the same basis as the audited financial statements included in this report and, in the opinion of management, includes all adjustments necessary for the fair presentation of the results of operations for such periods. This data should be read in conjunction with the audited financial statements and the related notes included in this report. These quarterly operating results are not necessarily indicative of our operating results for any future period.

Quarterly Financial Data

Fiscal year 2009:

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
	(Unaudited, in thousands, except per share data)			
Total net revenue	$ 2,106	$ 2,944	$ 2,838	$ 1,989
Gross profit (loss) on product sales	450	532	551	(77)
Net loss	(5,154)	(4,697)	(3,902)	(3,452)
Basic and diluted net loss per common share	(0.33)	(0.30)	(0.25)	(0.22)
Shares used in computing basic and diluted net loss per common share	15,741	15,781	15,785	15,796

Fiscal year 2008:

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
	(Unaudited, in thousands, except per share data)			
Total net revenue	$ 1,349	$ 1,694	$ 1,707	$ 2,815
Gross profit (loss) on product sales	13	84	(183)	212
Net loss	(3,659)	(4,167)	(5,543)	(4,827)
Basic and diluted net loss per common share	(0.27)	(0.29)	(0.35)	(0.31)
Shares used in computing basic and diluted net loss per common share	13,604	14,471	15,620	15,682

See Item 15, below, for our audited financial statements.

Item 9. ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

None.

Item 9A(T). ***Controls and Procedures***

Disclosure Controls and Procedures

Based on their evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended) were effective as of June 30, 2009.

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) of the Securities Exchange Act of 1934). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of June 30, 2009, based on the criteria set forth in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring

Organizations of the Treadway Commission. Based on our evaluation under the criteria set forth in *Internal Control — Integrated Framework*, our management concluded that our internal control over financial reporting was effective as of June 30, 2009.

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit us to provide only management's report in this annual report.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended June 30, 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, if any, within an organization have been detected. Accordingly, our disclosure controls and procedures are designed to provide reasonable, not absolute, assurance that the objectives of our disclosure control system are met and, as set forth above, our principal executive officer and principal financial officer have concluded, based on their evaluation as of the end of the period covered by this report, that our disclosure controls and procedures were effective to provide reasonable assurance that the objectives of our disclosure control system were met.

Item 9B. ***Other Information***

None.

PART III

Item 10. *Directors, Executive Officers and Corporate Governance*

Identification of Executive Officers and Directors

Reference is made to the information regarding executive officers and directors appearing under the heading "Management — Executive Officers and Directors" in Part I of this Annual Report on Form 10-K, which information is hereby incorporated by reference.

Identification of Audit Committee and Financial Expert

Reference is made to the information regarding directors appearing under the headings "Information about the Board of Directors and Corporate Governance — Information Regarding Committees of the Board of Directors" and "Information about the Board of Directors and Corporate Governance — Information Regarding Committees of the Board of Directors — Audit Committee" in our 2009 Proxy Statement, which information is hereby incorporated by reference.

Material Changes to Procedures for Recommending Directors

Reference is made to the information regarding directors appearing under the heading "Information about the Board of Directors and Corporate Governance" in our 2009 Proxy Statement, which information is hereby incorporated by reference.

Compliance with Section 16(a) of the Exchange Act

Reference is made to the information appearing under the heading "Section 16(a) Beneficial Ownership Reporting Compliance" in our 2009 Proxy Statement, which information is hereby incorporated by reference.

Code of Conduct

Reference is made to the information appearing under the heading "Information about the Board of Directors and Corporate Governance — Code of Business Conduct and Ethics" in our 2009 Proxy Statement, which information is hereby incorporated by reference. A copy of our code of business conduct and ethics can be found on our website, www.cardica.com in the section titled "Investor Relations" under the subsection titled "Corporate Governance". The contents of our website are not a part of this Annual Report on Form 10-K.

Item 11. *Executive Compensation*

The information required by this item will be set forth in the Proxy Statement under the caption "Executive Compensation", "Compensation Committee Interlocks and Insider Participation" and "Compensation Committee Report" and is incorporated herein by reference.

Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*

Security Ownership

The information required by this item will be set forth in the Proxy Statement under the caption "Security Ownership of Certain Beneficial Owners and Management" and is incorporated herein by reference.

Equity Compensation Plan Information

Information concerning our equity compensation plans will be set forth in the Proxy Statement under the caption "Equity Compensation Plan Information" and is incorporated herein by reference.

Item 13. ***Certain Relationships and Related Transactions, and Director Independence***

The information required by this item will be set forth in the Proxy Statement under the captions "Transactions with Related Persons" and "Independence of the Board of Directors" and is incorporated herein by reference.

Item 14. ***Principal Accountant Fees and Services***

The information required by this item will be set forth in the Proxy Statement under the caption "Principal Accountant Fees and Services" and is incorporated herein by reference.

PART IV

Item 15. ***Exhibits and Financial Statement Schedules***

(a) Documents filed as part of this report

1. Financial Statements

Cardica, Inc.

Index to Financial Statements

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Cardica, Inc.

We have audited the accompanying balance sheets of Cardica, Inc. as of June 30, 2009 and 2008, and the related statements of operations, stockholders' equity and cash flows for each of the three years in the period ended June 30, 2009. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cardica, Inc. at June 30, 2009 and 2008, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 2009, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the financial statements, Cardica, Inc.'s recurring losses from operations raise substantial doubt about its ability to continue as a going concern. Management's plans as to these matters also are described in Note 1. The financial statements for the year ended June 30, 2009 do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Ernst & Young LLP

Palo Alto, California
September 18, 2009

Cardica, Inc.

BALANCE SHEETS

	June 30, 2009	June 30, 2008
	(In thousands, except share and per share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 5,328	$ 9,221
Short-term investments	—	14,044
Accounts receivable	624	716
Inventories	1,895	1,393
Prepaid expenses and other current assets	321	418
Total current assets	8,168	25,792
Property and equipment, net	1,862	1,948
Restricted cash	310	510
Total assets	$ 10,340	$ 28,250
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 551	$ 1,200
Accrued compensation	319	1,011
Other accrued liabilities	637	1,117
Current portion of leasehold improvement obligation	—	11
Deferred development revenue	527	1,485
Deferred rent	—	9
Note payable	2,000	—
Total current liabilities	4,034	4,833
Note payable	—	2,000
Other non-current liabilities	44	—
Total liabilities	4,078	6,833
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Preferred stock, $0.001 par value: 5,000,000 shares authorized, no shares issued and outstanding at June 30, 2009 and 2008	—	—
Common stock, $0.001 par value: 45,000,000 shares authorized, 15,825,549 and 15,784,655 shares issued and outstanding at June 30, 2009 and 2008, respectively	16	16
Additional paid-in capital	116,272	114,494
Treasury stock at cost (66,227 shares at June 30, 2009 and 2008)	(596)	(596)
Deferred stock-based compensation	(22)	(282)
Accumulated other comprehensive loss	—	(12)
Accumulated deficit	(109,408)	(92,203)
Total stockholders' equity	6,262	21,417
Total liabilities and stockholders' equity	$ 10,340	$ 28,250

See accompanying notes to financial statements.

Cardica, Inc.

STATEMENTS OF OPERATIONS

	Fiscal Year Ended June 30,		
	2009	2008	2007
	(In thousands, except per share data)		
Net revenue:			
Product sales, net	$ 6,798	$ 4,934	$ 2,103
Development revenue	2,995	2,564	1,370
Royalty revenue (including amounts from related party: 2008 — $67; 2007 — $56)	85	67	56
Total net revenue	9,878	7,565	3,529
Operating costs and expenses:			
Cost of product sales	5,341	4,808	2,880
Research and development	8,217	8,609	7,014
Selling, general and administrative	13,632	13,175	9,057
Total operating costs and expenses	27,190	26,592	18,951
Loss from operations	(17,312)	(19,027)	(15,422)
Interest income	177	926	1,113
Interest expense (includes related-party interest expense of $320 in fiscal year 2007)	(120)	(101)	(458)
Other income (expense), net	(22)	6	2
Gain on early retirement of notes payable to related-party	—	—	1,183
Net loss before income tax benefit	(17,277)	(18,196)	(13,582)
Income tax benefit	72	—	—
Net loss	$ (17,205)	$ (18,196)	$ (13,582)
Basic and diluted net loss per common share	$ (1.09)	$ (1.23)	$ (1.25)
Shares used in computing basic and diluted net loss per common share	15,776	14,844	10,878

See accompanying notes to financial statements.

Cardica, Inc.

STATEMENTS of STOCKHOLDERS' EQUITY

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Treasury Stock	Deferred Stock-Based Compensation	Receivable from Stock Option Exercises	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity
					(In thousands, except share data)				
Balance at June 30, 2006	9,795,833	$ 10	$ 79,843	$ (596)	$ (1,029)	$ (79)	$ (47)	$ (60,425)	$ 17,677
Issuance of common stock upon exercise of employee stock options for cash	76,613	—	161	—	—	—	—	—	161
Discount received on initial public offering expenses	—	—	(38)	—	—	—	—	—	(38)
Issuance of common stock upon exercise of stock options for promissory note	—	—	18	—	—	—	—	—	18
Payment of receivable from stockholder	—	—	—	—	—	79	—	—	79
Common stock issued to related- party for cancellation of note payable	1,432,550	2	5,727	—	—	—	—	—	5,729
Sale of common stock, net of financing costs of $932	2,301,337	2	10,942	—	—	—	—	—	10,944
Issuance of stock options to non- employees for services	—	—	3	—	—	—	—	—	3
Issuance of stock options to employees for services	—	—	38	—	—	—	—	—	38
Stock-based compensation expense accounted for under FAS123(R)	—	—	561	—	—	—	—	—	561
Early exercise of stock options no longer subject to repurchase	—	—	1	—	—	—	—	—	1
Reversal of deferred stock-based compensation for terminated employees	—	—	(85)	—	85	—	—	—	—
Amortization of deferred stock- based compensation	—	—	—	—	353	—	—	—	353
Comprehensive loss:									
Net loss	—	—	—	—	—	—	—	(13,582)	(13,582)
Net change in unrealized loss on marketable securities	—	—	—	—	—	—	45	—	45
Comprehensive loss	—	—	—	—	—	—	—	—	(13,537)
Balance at June 30, 2007	13,606,333	14	97,171	(596)	(591)	—	(2)	(74,007)	21,989
Issuance of common stock upon exercise of employee stock options for cash	77,036	—	167	—	—	—	—	—	167
Sale of common stock, net of financing costs of $1,481	1,981,170	2	15,348	—	—	—	—	—	15,350
Issuance of stock options to non- employees for services	—	—	10	—	—	—	—	—	10
Issuance of common stock for settlement of patent litigation	60,000	—	425	—	—	—	—	—	425
Issuance of shares pursuant to net exercise of warrants	7,666	—	—	—	—	—	—	—	—
Issuance of restricted stock awards	52,450	—	—	—	—	—	—	—	—
Stock-based compensation expense accounted for under FAS123(R)	—	—	1,365	—	—	—	—	—	1,365
Early exercise of stock options no longer subject to repurchase	—	—	10	—	—	—	—	—	10
Reversal of deferred stock-based compensation for terminated employees	—	—	(2)	—	2	—	—	—	—
Amortization of deferred stock- based compensation	—	—	—	—	307	—	—	—	307
Comprehensive loss:									
Net loss	—	—	—	—	—	—	—	(18,196)	(18,196)
Net change in unrealized loss on marketable securities	—	—	—	—	—	—	(10)	—	(10)
Comprehensive loss	—	—	—	—	—	—	—	—	(18,206)
Balance at June 30, 2008	15,784,655	16	114,494	(596)	(282)	—	(12)	(92,203)	21,417
Issuance of common stock upon exercise of employee stock options for cash	44,144	—	146	—	—	—	—	—	146
Issuance of stock options to non- employees for services	—	—	10	—	—	—	—	—	10
Cancellation of restricted stock awards, net of issuance of shares	(3,250)		(2)	—	2	—	—	—	—

Stock-based compensation expense accounted for under FAS123(R)	—	—	1 ,629	—	—	—	—	—	1,629
Reversal of deferred stock-based compensation for terminated employees	—	—	(5)	—	5	—	—	—	
Amortization of deferred stock- based compensation	—	—	—	—	253	—	—	—	253
Comprehensive loss:									
Net loss	—	—	—	—	—	—	—	(17,205)	(17,205)
Net change in unrealized loss on marketable securities	—	—	—	—	—	—	12	—	12
Comprehensive loss	—	—	—	—	—	—	—	—	(17,193)
Balance at June 30, 2009	15,825,549	16	116,272	(596)	(22)	—	—	(109,408)	6,262

See accompanying notes to financial statements.

Cardica, Inc.

STATEMENTS OF CASH FLOWS

	Fiscal Year Ended June 30,		
	2009	2008	2007
		(In thousands)	
Operating activities:			
Net loss	$ (17,205)	$ (18,196)	$ (13,582)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	917	944	763
Loss on disposal or retirement of property and equipment	614	12	25
Amortization of deferred stock-based compensation expense	253	307	353
Issuance of common stock to settle intellectual property litigation	—	425	—
Gain on early retirement of notes payable to related party	—	—	(1,433)
Stock-based compensation on grants of stock options to non-employees	10	10	2
Stock-based compensation on grants of stock options to employees	1,629	1,365	599
Changes in assets and liabilities:			
Accounts receivable	92	(433)	(119)
Prepaid expenses and other current assets	115	—	153
Inventories	(555)	(164)	(797)
Restricted cash	200	—	—
Accounts payable and other accrued liabilities	(1,129)	643	470
Accrued compensation	(692)	495	280
Deferred rent	17	(111)	(93)
Deferred development revenue	(958)	603	882
Leasehold improvement obligation	(11)	(122)	(122)
Interest payable to related party	—	—	(2,333)
Net cash used in operating activities	(16,703)	(14,222)	(14,952)
Investing activities:			
Purchases of property and equipment	(1,392)	(1,454)	(837)
Purchases of short-term investments	(4,974)	(45,981)	(17,172)
Proceeds from maturities of short-term investments	19,030	40,822	36,300
Net cash (used in) provided by investing activities	12,664	(6,613)	18,291
Financing activities:			
Proceeds from sales of common stock, net of issuance costs	—	15,350	10,945
Payment of notes payable to related-party	—	—	(3,087)
Payment of note payable	—	—	(1,000)
Proceeds from issuance of common stock pursuant to the exercise of stock options	146	167	161
Proceeds from payment of receivable from stock option exercises	—	—	79
Net cash provided by financing activities	146	15,517	7,098
Net increase (decrease) in cash and cash equivalents	(3,893)	(5,318)	10,437
Cash and cash equivalents at beginning of period	9,221	14,539	4,102
Cash and cash equivalents at end of period	$ 5,328	$ 9,221	$ 14,539
Supplemental disclosure of cash flow information:			
Cash paid for interest (related party of $2,652 in fiscal year 2007)	$ 117	$ 101	$ 2,799
Supplemental disclosure of non-cash activities:			
Issuance of common stock to related-party for early retirement of notes payable	$ —	$ —	$ 7,163
Deferred stock-based compensation, (reversal) net of forfeitures	$ (5)	$ (2)	$ (85)
Vesting of shares issued upon early exercise of stock options	$ —	$ 10	$ 18

See accompanying notes to financial statements.

Cardica, Inc.

Notes to Financial Statements

Note 1. Organization and Summary of Significant Accounting Policies

Organization

Cardica, Inc. (the "Company") was incorporated in the state of Delaware on October 15, 1997, as Vascular Innovations, Inc. On November 26, 2001, the Company changed its name to Cardica, Inc. The Company designs, manufactures and markets proprietary automated anastomotic systems used in surgical procedures. The Company's first product, the PAS-Port system, received the CE Mark for sales in Europe in March 2003, regulatory approval for sales in Japan in January 2004 and 510(k) clearance from the FDA on September 5, 2008. The Company's second product, the C-Port system, received the CE Mark for sales in Europe in April 2004 and 510(k) clearance in the United States in November 2005. The C-Port xA system, a next generation C-Port system, received the CE Mark for sales in Europe in July 2006 and 510(k) clearance in the U.S. in November 2006. The C-Port Flex A system was cleared by the FDA in March 2007 and the C-Port X-CHANGE was cleared by the FDA in December 2007.

Since its inception, the Company has incurred significant net losses and expects to continue to incur net losses for the foreseeable future. To date, its C-Port and PAS-Port systems have had limited commercial adoption, and sales have not met the levels that the Company had anticipated. Revenues from product sales and milestone payments were not sufficient to support the operation of the business as the Company had planned. As a result, to reduce its operating expenses, in January, April and May 2009, the Company reduced its costs by eliminating 13, 22 and 15 positions, respectively, which impacted all functional areas, including research and development, sales and marketing, clinical, regulatory and quality, operations and general and administrative. The Company expects these reductions in force to impair its ability to continue sales at current or increased levels. The Company is continuing to evaluate potential additional steps to reduce its operating expenses. The Company is also seeking to raise additional funds. The Company is currently seeking a range of financing and strategic alternatives and has engaged Allen & Company LLC to help us evaluate our strategic alternatives. A member of our Board of Directors, John Simon, is a Managing Director at Allen & Company LLC. The Company may seek to sell additional equity or debt securities, obtain a credit facility, enter into product development, license or distribution agreements with third parties or divest one or more of our commercialized products or products in development. If adequate funds are not available or revenues from product sales do not increase, the Company may be required to delay, further reduce the scope of or eliminate its commercialization efforts with respect to one or more of its products or one or more of its research and development programs or may have to discontinue operations.

As of June 30, 2009, the Company had cash and cash equivalents of $5.3 million and total short-term debt of $2.0 million. The Company believes that its existing cash and cash equivalents along with the cash that expect to generate from operations, will be sufficient to meet our anticipated cash needs to enable it to conduct the business substantially as currently conducted through December 31, 2009. This estimate and our future capital requirements depend upon numerous factors. In addition, the Company has based this estimate on assumptions that may prove to be wrong, including assumptions with respect to the level of revenues from product sales, and the Company could exhaust its available financial resources sooner than currently expected. While the Company's cash resources estimated to permit it to continue through December 31, 2009, the Company would need to take additional expense reduction actions in advance of that date in the event that the Company is unable to complete a financing, strategic or commercial transaction in the near term to ensure that the Company has sufficient capital to meet its obligations and continue on a path designed to create and preserve stockholder value.

The sale of additional equity or convertible debt securities could result in significant dilution to the Company's stockholders, particularly in light of the prices at which the Company's common stock has been recently trading. In addition, if the Company raises additional funds through the sale of equity securities, new investors could have rights superior to our existing stockholders. If the Company raises additional funds through the issuance of debt securities, these securities could have rights senior to those associated with the Company's common stock and could contain covenants that would restrict its operations. Any product development, licensing, distribution or sale agreements that the Company enters into may require it to relinquish valuable rights, including with respect to commercialized products or products in development that the Company would otherwise seek to commercialize or

develop itself. The Company believes that the general economic and credit market crisis have created a more difficult environment for obtaining equity and debt financing or strategic transactions, and it may not be able to obtain sufficient additional financing or enter into a strategic transaction in a timely manner.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. These financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from uncertainty related to the Company's ability to continue as a going concern.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles ("GAAP") generally requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results could differ from these estimates.

Cash and Cash Equivalents

The Company's cash and cash equivalents are maintained in checking, money market and mutual fund investment accounts and corporate debt securities. The Company considers all highly liquid investments with maturities remaining on the date of purchase of three months or less to be cash equivalents.

Available-for-Sale Securities

The Company held no investments in marketable securities as of June 30, 2009. The Company classifies its investments in marketable securities as available-for-sale. The cost of securities sold is based on the specific-identification method. Interest on securities classified as available-for-sale is included in interest income.

Unrealized gains or losses on available-for-sale securities at June 30, 2009 and 2008, if any, are classified as other comprehensive income or loss on the accompanying balance sheets.

Available-for-sale securities consist primarily of corporate debt securities and debt instruments of the U.S. Government and its agencies, and, by the Company's investment policy, restrict exposure to any single corporate issuer by imposing concentration limits. Although maturities may extend beyond one year, it is management's intent that these securities will be used for current operations, and therefore, they are classified as short-term.

Restricted Cash

Under an operating lease for its facility in Redwood City, California, the Company is required to maintain a letter of credit with a restricted cash balance at the Company's bank. A certificate of deposit for the amount of $300,000 and $500,000 at June 30, 2009 and 2008, respectively has been recorded as restricted cash in the accompanying balance sheets, related to the letter of credit (see Note 6).

A certificate of deposit of $10,000 at June 30, 2009 and 2008 has been recorded as restricted cash in the accompanying balance sheets related to the deposit on the Company's credit card.

Concentrations of Credit Risk and Certain Other Risks

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, and accounts receivable. The Company places its cash and cash equivalents with high-credit quality financial institutions. The Company is exposed to credit risk in the event of default by the institutions holding the cash and cash equivalents securities to the extent of the amounts recorded on the balance sheet.

The Company sells its products to hospitals in the U.S. and Europe and to distributors in Japan and Saudi Arabia that resell the products to hospitals. The Company does not require collateral to support credit sales. The Company has had no credit losses to date.

The following table illustrates total net revenue from the geographic location in which our customers are located.

	Fiscal Year Ended June 30,		
	2009	2008	2007
United States	84%	82%	71%
Japan	10%	13%	25%
Europe	4%	4%	4%
Rest of world	2%	1%	—

The following table illustrates the concentration of greater than 10% with any individual customer.

	Percent of Total Net Revenue for Fiscal Year Ended June 30,			Percent of Total Accounts Receivable as of June 30,	
	2009	2008	2007	2009	2008
Century Medical	10%	13%	25%	10%	—
Cook Incorporated	30%	34%	39%	—	—

The Company depends upon a number of key suppliers, including single source suppliers, the loss of which would materially harm the Company's business. Single source suppliers are relied upon for certain components and services used in manufacturing the Company's products. The Company does not have long-term contracts with any of the suppliers; rather, purchase orders are submitted for each order. Because long-term contracts do not exist, none of the suppliers are required to provide the Company any guaranteed minimum quantities.

Inventories

Inventories are recorded at the lower of standard cost (which approximates actual cost on a first-in, first-out basis) or market. The Company periodically assesses the recoverability of all inventories, including materials, work-in-process and finished goods, to determine whether adjustments for impairment are required. Inventory that is obsolete or in excess of forecasted usage is written down to its estimated net realizable value based on assumptions about future demand and market conditions. Inventory write-downs are charged to cost of product sales and establish a lower cost basis for the inventory. Due to recently experienced reduced demand for the Company's C-Port systems, in the year ended June 30, 2009 the Company recorded a $248,000 write-down for excess and obsolete C-Port system inventory. It is at least reasonably possible that further unfavorable market conditions may result in the need for additional inventory write-downs in the near term.

Property and Equipment

Property and equipment are stated at cost and depreciated on a straight-line basis over the estimated useful lives of the related assets, which are generally three to five years. Amortization of leasehold improvements is computed using the straight-line method over the shorter of the remaining lease term or the estimated useful life of the related assets. Upon sale or retirement of assets, the costs and related accumulated depreciation and amortization are removed from the balance sheet and the resulting gain or loss is reflected in the statement of operations.

Impairment of Long-Lived Assets

The Company reviews long-lived assets, including property and equipment, for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable. An impairment loss would be recognized when estimated undiscounted future cash flows expected to result from the use of the asset and its eventual disposition are less than its carrying amount. Impairment, if any, would be assessed using discounted cash flows. Through June 30, 2009, there have been no indications of impairment; therefore, the Company has recorded no such losses.

Revenue Recognition

The Company recognizes revenue in accordance with SEC Staff Accounting Bulletin ("SAB") No. 104, *"Revenue Recognition."* ("SAB No. 104"). SAB No. 104 requires that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) title has transferred; (3) the fee is fixed or determinable; and (4) collectibility is reasonably assured. The Company uses contracts and customer purchase orders to determine the existence of an arrangement. The Company uses shipping documents and third-party proof of delivery to verify that title has transferred. The Company assesses whether the fee is fixed or determinable based upon the terms of the agreement associated with the transaction. To determine whether collection is probable, the Company assesses a number of factors, including past transaction history with the customer and the creditworthiness of the customer. If the Company determines that collection is not reasonably assured, then the recognition of revenue is deferred until collection becomes reasonably assured, which is generally upon receipt of payment.

The Company records product sales net of estimated product returns and discounts from the list prices for its products. The amounts of product returns and the discount amounts have not been material to date. The Company includes shipping and handling costs in cost of product sales.

Each of the Company's development contracts with Cook Incorporated is accounted for as a separate arrangement. Revenue generated from development contracts is recognized when it is earned and non-refundable upon receipt of milestone payments or upon incurrence of the related development expenses in accordance with contractual terms, based on the actual costs incurred to date plus overhead costs for certain project activities. Amounts paid but not yet earned on the project are refundable and are recorded as deferred revenue until such time as the related development expenses plus overhead costs for certain project activities are incurred.

Research and Development

Research and development expenses consist of costs incurred for internally sponsored research and development, direct expenses, research-related overhead expenses, and cost incurred on development contracts. Research and development costs are charged to research and development expense as incurred.

Clinical Trials

The Company accrues and expenses costs for clinical trial activities performed by third parties based upon estimates of the percentage of work completed over the life of the individual study in accordance with agreements established with contract research organizations and clinical trial sites. The Company determines the estimates through discussion with internal clinical personnel and outside service providers as to progress or stage of completion of trials or services and the agreed upon fee to be paid for such services. If the Company has incomplete or inaccurate information, the Company may underestimate costs associated with various trials at a given point in time. Costs of setting up clinical trial sites for participation in the trials are expensed immediately as research and development expenses. Clinical trial site costs related to patient enrollment are accrued as patients are entered into the trial.

Income Taxes

The Company utilizes the liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax reporting bases of assets and liabilities and are measured using enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized.

The Company adopted the provisions of FASB Interpretation No. 48, "*Accounting for Uncertainty in Income Taxes"* ("FIN No. 48"), on July 1, 2007. As a result, the Company recognized no liabilities for unrecognized income tax benefits and no material adjustment for the cumulative effect of adoption.

The Company would classify interest and penalties related to uncertain tax positions in income tax expense, if applicable. There was no interest expense or penalties related to unrecognized tax benefits recorded through June 30, 2009.

Segments

The Company operates in one segment. Management uses one measurement of profitability and does not segregate its business for internal reporting. All of the Company's operations are in the United States and all of its long-lived assets are maintained in the United States.

Comprehensive Loss

Comprehensive loss is comprised of net loss and unrealized holding gains and losses on available-for-sale securities as follows (in thousands):

	Fiscal Year Ended June 30,		
	2009	2008	2007
Net loss	$ (17,205)	$ (18,196)	$ (13,582)
Change in unrealized gain (loss) on investments	12	(10)	45
Comprehensive loss	$ (17,193)	$ (18,206)	$ (13,537)

Accumulated other comprehensive loss consists solely of unrealized losses on investments.

Net Loss per Share

Basic net loss per share is calculated by dividing the net loss by the weighted-average number of common shares outstanding for the period less the weighted average unvested common shares subject to repurchase and without consideration of potential common shares. Diluted net loss per share is computed by dividing the net loss by the weighted-average number of common shares outstanding for the period less the weighted average unvested common shares subject to repurchase and dilutive potential common shares for the period determined using the treasury-stock method. For purposes of this calculation, options and warrants to purchase stock and unvested restricted stock awards are considered to be potential common shares and are only included in the calculation of diluted net loss per share when their effect is dilutive (in thousands, except per share data).

	Fiscal Year Ended June 30,		
	2009	2008	2007
Numerator:			
Net loss	$ (17,205)	$ (18,196)	$ (13,582)
Denominator:			
Weighted-average common shares outstanding	15,815	14,893	10,901
Less: Weighted-average non-vested common shares subject to repurchase	—	(1)	(6)
Less: Weighted — average non-vested restricted stock awards	(39)	(48)	(17)
Denominator for basic and diluted net loss per common share	15,776	14,844	10,878
Basic and diluted net loss per common share	$ (1.09)	$ (1.23)	$ (1.25)

Outstanding securities not included in diluted net loss per common share calculation: (in thousands)

	Fiscal Year Ended June 30,		
	2009	2008	2007
Options to purchase common stock	1,446	1,334	1,316
Non-vested restricted stock units and awards	229	59	13
Non-vested common shares subject to repurchase	—	—	11
Warrants	648	680	732
	2,323	2,073	2,072

Stock-Based Compensation

In fiscal year 2006, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 123R, "*Share-Based Payment*". Under SFAS No. 123R stock-based compensation cost is measured on the grant date, based on the fair value of the award, and is recognized as an expense over the employee requisite service period. Prior to the adoption of SFAS No. 123R, the Company accounted for stock-based employee compensation arrangements using the intrinsic value method in accordance with the provisions of Accounting Principles Board ("APB") Opinion No. 25, *"Accounting for Stock Issued to Employees"* and its interpretations. The Company adopted SFAS No. 123R applying the "prospective method" under which it will continue to account for non-vested equity awards outstanding at the date of adoption of SFAS No. 123R in the same manner as they had been accounted for prior to adoption, that is, it will continue to apply APB Opinion No. 25 in future periods to equity awards outstanding at the date it adopted SFAS No. 123R.

SFAS No. 123R applies to new awards and to awards modified, repurchased, or cancelled after the required effective date. The Company uses the Black-Scholes model to value its new or modified stock option grants under SFAS No. 123R, with the following assumptions:

	Fiscal Year Ended June 30,		
	2009	2008	2007
Risk-free interest rate	0.10% - 2.57%	2.39% - 3.70%	4.51% - 5.02%
Dividend yield	—	—	—
Weighted-average expected life	0.25 - 4.5 years	4.56 years	4.8 years
Volatility	53% - 136%	58%	70%

Since the Company has limited historical data on volatility of its stock, the expected volatility is based on the volatility of similar entities (referred to as "guideline" companies). In evaluating similarity, the Company considered factors such as industry, stage of life cycle, size, and financial leverage.

The expected term of options granted is determined using the "simplified" method allowed by SAB No. 107, as extended by SAB No. 110. Under this approach, the expected term is presumed to be the mid-point between the vesting date and the end of the contractual term. The risk-free rate for periods within the contractual life of the option is based on a risk-free zero-coupon spot interest rate at the time of grant. The Company recognizes stock-based compensation expense for option and restricted stock awards using the accelerated method over the requisite service period of the award, which generally equals the vesting period of each grant. The Company has never declared or paid any cash dividends and does not presently plan to pay cash dividends in the foreseeable future. SFAS No. 123R requires the Company to estimate forfeitures in calculating the expense related to stock-based compensation. The Company recorded stock-based compensation expense of $1.6 million, or $0.10 per share, $1.4 million, or $0.09 per share, and $561,000, or $0.05 per share for fiscal years 2009, 2008, and 2007, respectively. Total compensation expense related to unvested awards not yet recognized is approximately $1.4 million at June 30, 2009 and is expected to be recognized over a weighted average period of 2.5 years.

Included in the statement of operations are the following non-cash stock-based compensation amounts for the periods reported, including non-employee stock based compensation expense and the amortization of deferred compensation recorded prior to the adoption of SFAS No. 123R (in thousands).

	Fiscal Year Ended June 30,		
	2009	2008	2007
Cost of product sales	$ 187	$ 51	$ 61
Research and development	522	605	129
Selling, general and administrative	1,183	1,026	765
Total	$ 1,892	$ 1,682	$ 955

Prior to the adoption of SFAS No. 123R and during fiscal year 2006 certain stock options were granted with exercise prices that were below the estimated fair value of the common stock at the date of grant. In accordance with APB Opinion No. 25, deferred stock-based compensation of $1.0 million was recorded during fiscal year 2006. The deferred stock-based compensation will be amortized over the related vesting terms of the options. The Company also recorded deferred stock-based compensation resulting from variable accounting for option exercised with non-recourse promissory notes. Deferred stock-based compensation related to these notes, representing compensation related to non-vested options, was $47,000 as of June 30, 2007. There was no balance remaining as of June 30, 2008 related to these notes. The Company amortized deferred stock-based compensation expense of $253,000, $307,000, and $353,000 for fiscal years 2009, 2008, and 2007, respectively.

The total unamortized deferred stock compensation recorded for all option grants as of June 30, 2009 of $22,000 is expected to be fully amortized in fiscal year 2010.

Recent Accounting Pronouncements

Effective April 1, 2009, the Company adopted SFAS No. 165, "*Subsequent Events".* The standard modifies the names of the two types of subsequent events either as recognized subsequent events (previously referred to in practice as Type I subsequent events) or non-recognized subsequent events (previously referred to in practice as Type II subsequent events). In addition, the standard modifies the definition of subsequent events to refer to events or transactions that occur after the balance sheet date, but before the financial statements are issued. It also requires the disclosure of the date through which subsequent events have been evaluated. The standard did not result in significant changes in the practice of subsequent event disclosures or the related accounting thereof, and therefore the adoption did not have any impact on the Company's financial position, results of operations and cash flows. The Company adopted SFAS No. 165 during the period ended June 30, 2009 and evaluated subsequent events through September 18, 2009 upon the issuance of the financial statements. The adoption of SFAS No. 165 did not have a significant impact on the Company's financial statements.

In June 2009, the Financial Accounting Standards Board (the "FASB") issued SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162".* SFAS No. 168 establishes the FASB Accounting Standards Codification as the single source of authoritative U.S. accounting and reporting standards, other than guidance issued by the SEC. SFAS No. 168 is effective for the Company as of July 1, 2009. The Company does not expect the adoption of SFAS No. 168 to have a material impact on its financial condition or results of operations.

Note 2. Fair Value Measurements

Effective July 1, 2008, the Company adopted SFAS No. 157 *"Fair Value Measurements",* which defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. SFAS No. 157 establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. The three levels of inputs used to measure fair value are as follows:

Level 1 — Quoted prices in active markets for identical assets or liabilities.

Level 2 — Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

All assets that are measured at fair value on a recurring basis (at least annually) have been segregated into the most appropriate level within the fair value hierarchy based on the inputs used to determine the fair value at the measurement date. These assets measured at fair value are summarized below (in thousands):

	As of June 30, 2009			
	Level 1	Level 2	Level 3	Fair Value
Cash equivalents:				
Money market funds	$ 510	$ —	$ —	$ 510
Total assets at fair value	$ 510	$ —	$ —	$ 510

Cash equivalents, consisting of funds held in money market instruments, are reported at their current carrying value which approximates fair value due to the short-term nature of these instruments. Cash equivalents are included in Level 1 as their fair value is based on market prices/quotes for identical assets in active markets.

As of June 30, 2009, the Company's material financial assets and liabilities not carried at fair value, including its trade accounts receivable, accounts payable, deferred development revenue and note payable, are reported at their current carrying values.

Note 3. Short-Term Investments

Short-term investments are summarized as follows (in thousands):

	June 30, 2008			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale securities:				
Commercial paper	$ 4,786	$ —	$ (6)	$ 4,780
Federal agency bonds	9,268	2	(6)	9,264
Total	$ 14,054	$ 2	$ (12)	$ 14,044

The gross realized losses and gains on the sale of available-for-sale securities during fiscal years 2009, 2008 and 2007 were not material.

Note 4. Inventories

Inventories consisted of the following (in thousands):

	June 30,	
	2009	2008
Raw materials	$ 256	$ 634
Work in progress	404	209
Finished goods	1,235	550
	$ 1,895	$ 1,393

Note 5. Property and Equipment

Property and equipment consisted of the following (in thousands):

	June 30, 2009	June 30, 2008
Computer hardware and software	$ 485	$ 463
Office furniture and equipment	220	210
Machinery and equipment	5,122	5,149
Leasehold improvements	567	565
Construction in process	149	111
	6,543	6,498
Less: accumulated depreciation and amortization	(4,681)	(4,550)
	$ 1,862	$ 1,948

Depreciation and amortization expense for fiscal years 2009, 2008 and 2007 was $917,000, $944,000 and $763,000, respectively.

Note 6. Commitments and Contingencies

In April 2003, the Company entered into a non-cancelable operating lease for office space that was scheduled to expire in July 2008. In December 2007, the Company entered into a second amendment to its Office Lease Agreement extending the operating lease for its headquarters through August 2011. Pursuant to the initial terms of the Operating Lease Agreement, the Company obtained a letter of credit for $500,000 and, in order to obtain the letter of credit, the Company placed cash funds in the amount of $500,000 in a certificate of deposit account. The security deposit was reduced to $300,000 in the second amendment. The cash funds amount is restricted until the expiration of the lease agreement in August 2011 and is recorded as non-current restricted cash.

Future minimum lease payments under the non-cancelable operating leases having initial terms in excess of one year as of June 30, 2009, are as follows (in thousands):

	Operating Leases
Fiscal year ending June 30,	
2010	826
2011	858
2012	144
Total minimum lease payments	$ 1,828

Rent expense for fiscal years 2009, 2008 and 2007, was $753,000, $245,000 and $243,000, respectively. Deferred rent under the facility operating lease amounted to $26,000 and $9,000 at June 30, 2009 and 2008, respectively.

Note 7. License, Development and Commercialization Agreements

In June 2007, the Company entered into, and in September 2007 and in June 2009 amended, a license, development and commercialization agreement with Cook Incorporated, or Cook, to develop and commercialize a specialized device, referred to as the PFO device, designed to close holes in the heart from genetic heart defects known as patent foramen ovales, or PFOs. Under the agreement, Cook funds certain development activities and the Company and Cook jointly develop the device. Once developed, Cook receives an exclusive, worldwide, royalty-bearing license, with the right to grant sublicenses, to make, have made, use, sell, offer for sale and import the PFO device. Under this agreement, the Company has received payments totaling $1.0 million, $1.7 million and $500,000 in fiscal years 2009, 2008 and 2007, respectively. The Company recorded as development revenue under the agreement a total of $1.4 million and $1.2 million in fiscal years 2009 and 2008, respectively, and none in fiscal year

2007. A total of $527,000 under this agreement has been recorded as deferred development revenue on the balance sheet as of June 30, 2009. The Company is also entitled to receive from Cook up to a total of an additional $0.3 million in future payments if development milestones under the agreement are achieved. The Company is also entitled to receive a royalty based on Cook's annual worldwide sales of the PFO device, if any.

On December 9, 2005, the Company entered into, and in September 2007 amended and in July 2009 amended and partially terminated, an agreement with Cook to develop the Cook Vascular Closure Device. Under the agreement, Cook funded certain development activities, and the Company and Cook jointly developed the device, under the direction of a Development Committee that included representatives from each party. Under the original agreement and the first amendment in September 2007, Cook received an exclusive, worldwide, royalty-bearing license, with the right to grant sublicenses, to make, have made, use, sell, offer for sale and import the Cook Vascular Closure Device for medical procedures in any part of the body. Under this agreement, the Company received payments totaling approximately $5.3 million, including $1.0 million, $1.5 million, $1.8 million and $1.0 million in fiscal years 2009, 2008, 2007 and 2006, respectively. The Company recorded as development revenue under the agreement a total of $1.6 million, $1.4 million and $1.4 million for fiscal years 2009, 2008 and 2007, respectively. In July 2009, the Company entered into a partial termination and second amendment of this agreement to terminate Cook's participation in the project and to provide to Cook a royalty on net sales of the Cook Vascular Closure Device if Cardica successfully commercializes the product. The remaining deferred revenue balance was recognized as revenue in the fourth quarter of fiscal 2009 as all of the Company's activities under this agreement had been completed and no amounts are refundable to Cook under the partial termination agreement. In addition, during fiscal year 2009, the Company recognized a total of $251,000 of product sales to Cook of the Cook Vascular Closure Device.

Note 8. Related-Party Transactions

Financing Activities

In June 2007, the Company entered into a securities purchase agreement in connection with a private placement to a group of accredited investors that included Sutter Hill Ventures, Wasatch Advisors, Inc. and Allen & Company Incorporated. Sutter Hill Ventures and Allen & Company are related-parties of the Company. Pursuant to the terms of the securities purchase agreement, the Company received approximately $10.9 million in net proceeds from the issuance and sale of an aggregate of 2,301,337 shares of its common stock and warrants to purchase up to an aggregate of 575,347 additional shares of its common stock at an exercise price of $5.65 per share. The per unit purchase price of a share of the Company's common stock and a warrant to purchase 0.25 of a share of its common stock was $5.16. Allen & Company received $360,000 for advisory services in connection with this private placement.

In November 2007, the Company sold 1,500,000 shares of its common stock, and Guidant Investment Corporation ("Guidant Investment") sold 2,575,795 shares of the Company's common stock, in an underwritten public offering. The Company received net proceeds of approximately $11.5 million. In December 2007, the Company received approximately $3.8 million in net proceeds from the sale of an additional 481,170 shares of its common stock upon exercise of the over-allotment option. In connection with the sale of shares offered by the Company, Allen & Company acted as a co-manager on these transactions and received total fees of approximately $198,000. The Company did not receive any funds from the sale of its common stock by Guidant Investment. As of June 30, 2008, Guidant Investment was no longer a stockholder of the Company.

In March 2009, the Company engaged Allen & Company LLC to help evaluate strategic alternatives. A member of the Company's Board of Directors, John Simon, is a Managing Director at Allen & Company LLC. The Company may seek to sell additional equity or debt securities, obtain a credit facility, enter into product development, license or distribution agreements with third parties or divest one or more of its commercialized products or products in development. Allen & Company received an advance of $200,000 in connection with this engagement.

Loan Agreements

In November 2006, the Company entered into a note conversion agreement with Guidant Investment pursuant to which Guidant Investment converted a portion of the outstanding indebtedness to Guidant Investment into shares of the Company's common stock. The Company had previously issued to Guidant Investment 8.75% Notes (the "Notes"), dated August 19, 2003 and February 25, 2004 in the principal amounts of $5.0 million and $5.3 million, respectively, which would have matured in August 2008. Pursuant to the note conversion agreement, $7.2 million of the outstanding principal amount under the Notes was converted into an aggregate of 1,432,550 shares of the Company's common stock at a conversion price of $5.00 per share. The remaining principal balance of $3.1 million along with accrued interest of approximately $2.7 million was paid in cash to Guidant Investment in full satisfaction of all amounts owing under the Notes, and the Notes were cancelled. The closing market price of the common stock on the delivery date was $4.00 per share, resulting in a gain on early retirement of the notes payable of $1.4 million for fiscal year 2007. In addition, a total of $250,000 of expenses was paid to Allen & Company, LLC for advisement services. This expense has been recorded as an offset to the gain on early retirement of notes payable to related-party.

Development and Supply Agreement

In December 2003, the Company entered into a Development and Supply Agreement with Guidant for the development and commercialization of an aortic cutter for Guidant, the Heartstring product. The agreement called for the Company to develop and manufacture aortic cutters. Production of the aortic cutter has been outsourced by Guidant to a third-party manufacturer, and the Company will receive royalties quarterly for each unit sold in the future. During fiscal years 2009, 2008 and 2007, the Company received $85,000, $67,000 and $56,000, respectively, of royalty revenue under this agreement. As of June 30, 2008, Guidant is no longer a related party.

Note 9. Note Payable

In June 2003, the Company entered into, and in March 2007 amended, a distribution agreement with Century Medical, Inc. Also in June 2003, the Company issued a subordinated convertible note to Century Medical in the amount of $3.0 million due in June 2008 bearing 5% interest per annum. The subordinated convertible note was convertible at the option of Century Medical into the Company's common stock at $10.00 per share at any time prior to August 7, 2006. Century Medical did not convert the note, and the note is no longer convertible. In March 2007, Century Medical and the Company restructured the note payable such that the note is no longer subordinate, the Company paid $1.0 million in April 2007 and the remaining $2.0 million of the note payable is due in June 2010. The note bears an annual interest rate of 5% through June 2008 and then the rate increases to 6% per annum until maturity in June 2010. Century Medical has a continuing security interest in all of the Company's personal property and assets, including intellectual property. There are no covenants associated with this debt. Interest is payable quarterly in arrears on January 31, April 30, July 31, and October 31 of each year. The Company made interest payments of $117,000, $101,000, and $147,000 in fiscal years 2009, 2008, and 2007, respectively. The interest payable at June 30, 2009 and 2008 was $20,000 and $17,000, respectively, and is included in other accrued liabilities in the accompanying balance sheets.

Note 10. Stockholders' Equity

The total number of shares that the Company is authorized to issue is 50,000,000 shares, with 45,000,000 shares designated as common stock and 5,000,000 shares designated as preferred stock.

Private Placement Offering

During June 2007, the Company entered into a securities purchase agreement in connection with a private placement to a group of accredited investors. Pursuant to the terms of the securities purchase agreement, the Company received approximately $10.9 million in net proceeds from the sale of an aggregate of 2,301,337 shares of its common stock and warrants to purchase up to an aggregate of 575,347 additional shares of its common stock with an exercise price of $5.65 per share. The per unit purchase price of a share of the Company's common stock and a warrant to purchase 0.25 of a share of its common stock is $5.16.

Public Offering

In November 2007, the Company sold 1,500,000 shares of its common stock, and Guidant Investment sold 2,575,795 shares of the Company's common stock, in a public offering for aggregate gross proceeds to the Company of $12.7 million. After deducting the underwriters' commissions and discounts and other issuance costs, the Company received net proceeds of $11.5 million. The Company did not receive any proceeds from the sale of its common stock by Guidant Investment.

In December 2007, the Company sold an additional 481,170 shares of its common stock to the underwriters pursuant to the exercise of the over-allotment option. The Company received aggregate gross proceeds of $4.1 million from the exercise of the underwriters' over-allotment option. After deducting the underwriters' commission and related expenses, the Company received from the exercise of the underwriters' over-allotment option net proceeds of $3.8 million.

Common Stock

Holders of common stock are entitled to one vote per share on all matters to be voted upon by the stockholders of the Company. Subject to the preferences that may be applicable to any outstanding shares of preferred stock, the holders of common stock are entitled to receive ratably such dividends, if any, as may be declared by the Board of Directors. No dividends have been declared to date.

Preferred Stock

The Company has 5,000,000 shares of authorized preferred stock issuable in one or more series. Upon issuance the Company can determine the rights, preferences, privileges and restrictions thereof. These rights, preferences and privileges could include dividend rights, conversion rights, voting rights, terms of redemption, liquidation preferences, sinking fund terms and the number of shares constituting any series or the designation of such series, any or all of which may be greater than the rights of common stock. The issuance of the preferred stock could adversely affect the voting power of holders of common stock and the likelihood that such holders will receive dividend payment and payments upon liquidation. In addition, the issuance of preferred stock could have the effect of delaying, deferring or preventing a change in control of the Company or other corporate action. There was no preferred stock outstanding as of June 30, 2009 or 2008.

Shares Reserved

Shares of common stock reserved for future issuance are as follows:

	June 30, 2009
Stock options outstanding	1,446,149
Shares available for grant under stock option plan	618,594
Warrants for common stock	679,780
	2,744,523

Stock Options

In 1997, the Company adopted the 1997 Equity Incentive Plan, (the "1997 Plan"). The 1997 Plan provides for the granting of options to purchase common stock and the issuance of shares of common stock, subject to Company repurchase rights, to directors, employees and consultants. Certain options are immediately exercisable, at the discretion of the Board of Directors. Shares issued pursuant to the exercise of an unvested option are subject to the Company's right of repurchase which lapses over periods specified by the board of directors, generally four years from the date of grant. In February 2006, the Company terminated all remaining unissued shares under the 1997 Plan. Although the 1997 Plan terminated, all outstanding options thereunder will continue to be governed by their existing terms.

In October 2005, the Company's Board of Directors adopted, and in December 2005 the stockholders approved, the 2005 Equity Incentive Plan, (as amended the "2005 Plan"). A total of 1,650,000 shares of common stock have been reserved for issuance under the 2005 Plan.

Stock awards granted under the 2005 Plan may either be incentive stock options, nonstatutory stock options, stock bonuses or rights to acquire restricted stock. Incentive stock options may be granted to employees with exercise prices of no less than the fair value, and nonstatutory options may be granted to employees, directors or consultants at exercise prices of no less than the fair value of the common stock on the date of grant, as determined by the Board of Directors. If, at the time the Company grants an option, the optionee directly or by attribution owns stock possessing more than 10% of the total combined voting power of all classes of stock of the Company, the option price shall be at least 110% of the fair value and shall not be exercisable more than five years after the date of grant. Options may be granted with vesting terms as determined by the Board of Directors. Options expire no more than 10 years after the date of grant, or earlier if employment is terminated.

Common stock options may include a provision whereby the holder, while an employee, director or consultant, may elect at any time to exercise the option as to any part or all of the shares subject to the option prior to the full vesting of the option. Any unvested shares so purchased are subject to repurchase by the Company at its option and at a price equal to the original purchase price of the stock. In accordance with guidance in Issue 33b of EITF 00-23, the Company does not consider the stock issued upon exercise of an unvested stock option substantively exercised, and the cash paid for the exercise price is considered a deposit or a prepayment of the exercise price that is recognized by the Company as a liability. As the underlying shares vest, the deposit liability is reclassified as equity. As of June 30, 2009 and 2008, no shares are subject to the Company's right of repurchase and no shares are excluded from stockholders' equity. As of June 30, 2007, a total of 3,125 shares had been acquired through the early exercise of options, were subject to the Company's right of repurchase and were excluded from stockholders' equity. The Company's policy is to issue new shares upon the exercise of stock options.

Option activity under all Plans is as follows:

		Outstanding Options	
	Shares Available for Grant	Number of Shares	Weighted-Average Exercise Price per Share
Balance at June 30, 2006	242,847	1,017,739	$ 4.32
Shares reserved	250,000	—	—
Options granted	(498,783)	498,783	5.77
Options exercised	—	(76,613)	2.08
Options forfeited	123,903	(123,903)	7.87
Balance at June 30, 2007	117,967	1,316,006	4.67
Shares reserved	500,000	—	—
Options granted	(155,450)	155,450	7.61
Restricted stock awards	(52,450)	—	—
Options exercised	—	(77,036)	2.19
Options forfeited	60,288	(60,288)	5.98
Balance at June 30, 2008	470,355	1,334,132	5.10
Shares reserved	500,000	—	—
Options granted	(530,050)	530,050	8.03
Restricted stock awards	(250,850)	—	—
Options exercised	—	(44,144)	3.33
Options forfeited	373,889	(373,889)	7.09
Awards forfeited	55,250		
Balance at June 30, 2009	618,594	1,446,149	$ 5.65

The following table summarizes information about options outstanding, vested and exercisable at June 30, 2009:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number of Shares	Weighted-Average Remaining Contractual Life (Years)	Weighted Average Exercise Price per Share	Number Exercisable	Weighted Average Exercise Price per Share
$1.35 — $2.25	148,162	3.11	$ 2.08	148,162	$ 2.08
$2.85	359,506	3.84	2.85	354,987	2.85
$4.38 — $6.00	152,352	2.74	4.58	113,915	4.89
$6.03	205,452	3.61	6.03	112,872	6.03
$6.75 — $8.00	240,803	3.78	7.75	181,765	7.82
$8.30 — 9.75	339,874	5.12	9.22	104,077	9.30
Total outstanding	1,446,149	3.89	$ 5.65	1,015,778	$ 4.87
Options vested and Expected to vest	1,351,154	3.84	$ 5.55		

The weighted average remaining contractual life for all currently exercisable options as of June 30, 2009 was 3.4 years. The aggregate intrinsic value as of June 30, 2009 of all outstanding options was $2,000, options vested and expected to vest was $2,000 and options exercisable was $2,000. The aggregate intrinsic value as of June 30, 2008 of all outstanding options was $4.5 million, options vested and expected to vest was $4.3 million and options exercisable was $3.3 million.

The weighted-average estimated grant date fair value of options granted to employees and directors during fiscal years 2009, 2008, and 2007 was $3.69, $3.25, and $3.43, respectively. The intrinsic value of all options exercised during fiscal years 2009, 2008, and 2007 was $189,000, $447,000, and $299,000, respectively. The fair value of all stock awards actually vesting in fiscal years 2009, 2008, and 2007 was $740,000, $850,000, and $530,000, respectively.

Restricted Stock Units and Awards

The following table summarizes information about restricted stock activity .

	Shares	Weighted-Average Grant-Date Fair Value per Share
Non-vested restricted stock at June 30, 2006	20,000	
Awarded	—	
Vested	(7,083)	
Forfeited	—	
Non-vested restricted stock at June 30, 2007	12,917	
Awarded	52,450	$ 11.25
Vested	(5,950)	
Forfeited	—	
Non-vested restricted stock at June 30, 2008	59,417	—
Awarded	250,850	$ 3.62
Vested	(26,167)	—
Forfeited	(55,250)	—
Non-vested restricted stock at June 30, 2009	228,850	—

The fair value of each restricted stock unit and award is estimated based upon the closing price of the Company's common stock on the grant date. Share-based compensation expense related to restricted stock units and awards are recognized over the requisite service period adjusted for estimated forfeitures.

Warrants

The Company has outstanding warrants to purchase common stock at June 30, 2009:

Shares	Exercise Price per Share	Date Exercisable	Expiration
12,270	$ 4.89	July 2001	March 2010
575,347	5.65	Dec 2007	June 2012
60,017	11.58	July 2001	October 2010
647,634			

Note 11. Reductions in Force

In January 2009, the Company announced and completed the elimination of 13 positions. The total charge incurred during the three month period ending March 31, 2009 in connection with this reduction in workforce was $213,000, of which $194,000 was paid for severance payments and the balance was paid for outplacement services. The charges were included in research and development expense and selling, general and administrative expense.

In April 2009, the Company reduced its workforce by 22 employees, in an effort to further reduce the Company's operating expenses. The Company completed the reduction in force in April 2009. The total charge incurred during the three month period ending June 30, 2009 in connection with this reduction in workforce was approximately $280,000, of which approximately $250,000 was paid as severance payments and the balance was for outplacement services. The charges were included in research and development expense and selling, general and administrative expense.

In May 2009, the Company reduced its workforce by 16 employees, in an effort to further reduce the Company's operating expenses. The Company completed the reduction in force in May 2009. The total charge incurred during the three month period ending June 30, 2009 in connection with this reduction in workforce was approximately $354,000, all of which was paid as severance payments. The charges were included in research and development expense and selling, general and administrative expense.

Note 12. Income Taxes

Under the Housing and Economic Recovery Act of 2008 and the American Recovery and Reinvestment Act of 2009 (the "Acts"), signed into law in July 2008 and February 2009, respectively, taxpayers can claim refundable AMT or research and development credit if they forego bonus depreciation on certain qualified fixed assets placed in service between April 2008 and December 2009. The Company computed and recognized a credit based on fixed assets placed into service through June 30, 2009. The Company recorded an income tax benefit of $72,000 in the year ended June 30, 2009 for the U.S. federal refundable credit as provided by the Acts.

There is no provision for income taxes because the Company has incurred operating losses since its inception. Deferred income taxes reflect the net tax effects of net operating loss and tax credit carryovers and temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets are as follows (in thousands):

	June 30,	
	2009	2008
Net operating loss carry-forwards	$ 36,008	$ 30,412
Research credits	2,340	2,004
Capitalized research and development expenses	107	136
Fixed asset depreciation	291	—
Other	462	317
Total deferred tax assets	39,208	32,869
Valuation allowance	(39,208)	(32,869)
Net deferred tax assets	$ —	$ —

Realization of the deferred tax assets is dependent upon future taxable income, if any, the amount and timing of which are uncertain. Accordingly, the net deferred tax assets have been fully offset by a valuation allowance. The net valuation allowance increased by approximately $6.3 million, $3.8 million, and $5.5 million during fiscal years 2009, 2008, and 2007, respectively.

As of June 30, 2009, the Company had federal net operating loss carry-forwards and research credit carry-forwards of approximately $95.0 million and $1.4 million, respectively. The net operating loss carry-forwards begin to expire in the year 2013. The research credit carry-forwards begin to expire in the year 2019. Additionally, the Company has state net operating loss carry-forwards of approximately $72.1 million, which will expire beginning in the year 2013. The Company has state research credit carry-forwards of $1.5 million which have no expiration date.

The Company adopted the provisions of FIN No. 48 on July 1, 2007. As a result, the Company recognized no liabilities for unrecognized income tax benefits. Upon adoption of FIN 48, the Company recognized no material adjustment for the cumulative effect of adoption. At June 30, 2009, the Company had unrecognized tax benefit of $737,000, all of which would not currently affect the Company's effective tax rate if recognized due to the

Company's deferred tax assets being fully offset by a valuation allowance. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

	Amount
Balance at July 1, 2007	$ 574
Additions based on tax positions related to current year	72
Additions for tax positions of prior year	—
Reductions for tax positions of current year	—
Reductions for tax positions of prior year	(7)
Settlements	—
Balance at June 30, 2008	639
Additions based on tax positions related to current year	106
Additions for tax positions of prior year	10
Reductions for tax positions of current year	—
Reductions for tax positions of prior year	(18)
Settlements	—
Balance at June 30, 2009	$ 737

The Company would classify interest and penalties related to uncertain tax positions in income tax expense, if applicable. There was no interest expense or penalties related to unrecognized tax benefits recorded through June 30, 2009. The tax years 1998 through 2008 remain open to examination by one or more major taxing jurisdictions to which the Company is subject.

The Company does not anticipate that total unrecognized tax benefits will significantly change prior to June 30, 2010.

The reconciliation of income tax benefits attributable to the net loss computed at the U.S federal statutory rates to income tax benefit (expense) (in thousands):

	Fiscal Year Ended June 30,		
	2009	2008	2007
Tax benefit at U.S. statutory rate	$ (5,874)	$ (6,186)	$ (4,624)
Loss for which no tax benefit is currently recognizable	5,201	5,726	4,298
Refundable research credits	(72)	—	—
Stock based compensation	616	404	334
Other, net	57	56	(8)
	$ (72)	$ —	$ —

Utilization of the net operating loss carry-forwards and credit carry-forwards may be subject to a substantial annual limitation due to the limitations set forth in Sections 382 and 383 of the Internal Revenue Code of 1986, as amended, and similar state provisions. The Company concluded a detailed analysis to determine whether an ownership change under Section 382 of the Internal Revenue Code had occurred. The effect of an ownership change would be the imposition of an annual limitation on the use of the net operating loss-forwards and credit carry-forwards attributable to periods before the change. The Company concluded that approximately $4.9 million of federal net operating loss carry-forwards, $638,000 of federal credit carry-forwards and approximately $14.6 million of California state net operating loss carry-forwards are significantly limited to offset future income, if any. The reductions are reflected in the carry-forward amounts included above.

Note 13. Employee Benefit Plan

In January 2001, the Company adopted a 401(k) Profit Sharing Plan that allows voluntary contributions by eligible employees. Employees may elect to contribute up to the maximum allowed under the Internal Revenue

Service regulations. The Company may make discretionary contributions as determined by the Board of Directors. No amount was contributed by the Company to the plan during fiscal years 2009, 2008 or 2007.

Note 14. Indemnification

From time to time, the Company enters into contracts that require the Company, upon the occurrence of certain contingencies, to indemnify parties against third-party claims. These contingent obligations primarily relate to (i) claims against the Company's customers for violation of third-party intellectual property rights caused by the Company's products; (ii) claims resulting from personal injury or property damage resulting from the Company's activities or products; (iii) claims by the Company's office lessor arising out of the Company's use of the premises; and (iv) agreements with the Company's officers and directors under which the Company may be required to indemnify such persons for liabilities arising out of their activities on behalf of the Company. Because the obligated amounts for these types of agreements usually are not explicitly stated, the overall maximum amount of these obligations cannot be reasonably estimated. No liabilities have been recorded for these obligations on the Company's balance sheets as of June 30, 2009 or 2008.

2. Financial Statement Schedules

All financial statement schedules are omitted because the information is not applicable or is presented in the Financial Statements or Notes thereto.

3. The following exhibits are included herein or incorporated herein by reference:

ITEM 15. *Exhibits and Financial Statement Schedules.*

(a) Exhibits.

Exhibit Number	Description
3.1(1)	Amended and Restated Certificate of Incorporation of the Registrant as currently in effect.
3.2(8)	Bylaws of the Registrant as currently in effect.
3.3(1)	Specimen Common Stock certificate of the Registrant.
4.1(1)	Warrant dated March 17, 2000 exercisable for 36,810 shares of common stock (on a pre-split basis).
4.2(1)	Warrant dated October 31, 2002 exercisable for 180,052 shares of common stock (on a pre-split basis).
4.3(10)	Amendment of Registration Rights Agreement, dated October 15, 2007.
4.4(2)	Form of Warrant dated June 2007.
4.5(2)	Securities Purchase Agreement, dated June 27, 2007, by and among Cardica, Inc., and purchasers listed on the signature pages thereto.
10.1(1)	1997 Equity Incentive Plan and forms of related agreements and documents.
10.2(3)	2005 Equity Incentive Plan and forms of related agreements and documents.
10.3(1)	Amended and Restated Investor Rights Agreement, dated August 19, 2003, by and among the Registrant and certain stockholders.
10.4(1)	Benefit Agreement with Bernard Hausen, M.D., Ph.D.+
10.5(1)	Office Lease Agreement dated April 25, 2003, and First Amendment to Office Lease Agreement dated January 21, 2004.
10.6(11)	Second Amendment to Office Lease Agreement, executed and delivered on December effective November 19, 2007.
10.7(1)	Distribution Agreement by and between Cardica, Inc. and Century Medical, Inc. dated June 16, 2003.†
10.8(4)	First Amendment to Distribution Agreement, dated March 30, 2007, by and between Cardica, Inc. and Century Medical, Inc.†
10.9(1)	Subordinated Convertible Note Agreement with Century Medical, Inc. dated June 16, 2003, and Amendment No. 1 thereto, dated August 6, 2003.†
10.10.1(4)	Amendment No. 2 to Subordinated Convertible Note Agreement, dated March 30, 2007, by and between Cardica, Inc. and Century Medical, Inc.

Exhibit Number	Description
10.11(4)	Amended and Restated Note issued pursuant to Amendment No. 2 to Subordinated Convertible Note Agreement with Century Medical, Inc.
10.12(1)	Allen & Company LLC letter of intent dated September 12, 2005.
10.13(5)	Consent to Grant of Registration Rights and Amendment to Amended and Restated Investor Rights Agreement, dated November 7, 2006, by and between Cardica, Inc. and the investors set forth therein.
10.14(12)	Cardica, Inc. Non-Employee Director Compensation.+
10.15(6)	Registration Rights Agreement, dated June 7, 2007, by and among Cardica, Inc., and the purchasers listed on the signature pages thereto.
10.16(8)	Bonus arrangement for Vice President of Worldwide Sales and Marketing, effective August 13, 2008.+
10.17(8)	Additional Compensation Information for named executive officers.+
10.18(12)	Letter Agreement with Frederic M. Bauer+
10.19(13)	Cardica, Inc. Change in Control and Severance Benefit Plan.+
10.20(14)	Form of Restricted Stock Unit Grant Notice and Restricted Stock Unit Grant Agreement.
10.21(7)	License, Development and Commercialization Agreement by and between the Company and Cook Incorporated, dated June 12, 2007.
10.22(9)	Amendment to License, Development and Commercialization Agreement by and between Cardica, Inc. and Cook Incorporated, dated September 19, 2007.
10.23	Second Amendment to License, Development and Commercialization Agreement by and between Cardica, Inc. and Cook Incorporated, dated June 19, 2009
21.1(1)	Subsidiaries of Registrant.
23.1	Consent of Independent Registered Public Accounting Firm.
24.1	Power of Attorney (included on signature page).
31.1	Certification of chief executive officer.
31.2	Certification of chief financial officer.
32.1	Section 1350 Certification.

† Portions of this exhibit (indicated by asterisks) have been omitted pursuant to a request for confidential treatment and this exhibit has been filed separately with the SEC.

\+ Indicates management contract or compensatory plan.

(1) Filed as an exhibit to the Registrant's Registration Statement on Form S-1, file no. 333-129497, declared effective on February 2, 2006, as amended, and incorporated herein by reference.

(2) Filed as an exhibit to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on June 13, 2007, excluding Item 3.02 and incorporated herein by reference.

(3) Filed as an exhibit to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 14, 2006 and incorporated herein by reference.

(4) Filed as exhibits to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 5, 2007 and incorporated herein by reference.

(5) Filed as exhibits to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 8, 2006 and incorporated herein by reference.

(6) Filed as an exhibit to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on June 13, 2007 and incorporated herein by reference.

(7) Filed as exhibits to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on June 21, 2007, excluding Items 3.01 and incorporated herein by reference.

(8) Filed as an exhibit to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 19, 2008 and incorporated herein by reference.

(9) Filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2007.

(10) Filed as an exhibit to the Company's Registration Statement on Form S-3 filed with the Securities and Exchange Commission on October 15, 2007 and incorporated herein by reference.

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(14) Filed as an exhibit to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on February 20, 2009 and incorporated herein by reference.

(b) Financial Statement Schedules

None.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized

Cardica, Inc.
Registrant

/s/ Robert Y. Newell
Robert Y. Newell
Chief Financial Officer

Date September 18, 2009

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Robert Y. Newell, as his true and lawful attorney-in-fact and agent, with full power of substitution for him, and in his name in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent, full power and authority to do and perform each and every act and thing requisite and necessary to be done therewith, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, and any of them or his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1934, this report has been signed by the following persons on behalf of the Registrant in the capacities indicated on the date set forth below:

Name and Signature	Title	Date
/s/ Bernard A. Hausen Bernard A. Hausen, M.D., Ph.D.	President, Chief Executive Officer and Director *(Principal Executive Officer)*	September 17, 2009
/s/ Robert Y. Newell Robert Y. Newell	Chief Financial Officer *(Principal Financial and Accounting Officer)*	September 17, 2009
/s/ Kevin T. Larkin Kevin T. Larkin	Director	September 17, 2009
/s/ Richard P. Powers Richard P. Powers	Director	September 17, 2009
/s/ Jeffrey L. Purvin Jeffrey L. Purvin	Director	September 17, 2009
/s/ John Simon John Simon, Ph.D	Director	September 10, 2009
/s/ William H. Younger, Jr.	Director	September 17, 2009

Exhibit Number	Description
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23.1	Consent of Independent Registered Public Accounting Firm.

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(14) Filed as an exhibit to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on February 20, 2009 and incorporated herein by reference.

(b) Financial Statement Schedules

None.

SECOND AMENDMENT TO
LICENSE, DEVELOPMENT AND COMMERCIALIZATION AGREEMENT

THIS SECOND AMENDMENT ("***Second Amendment***") to the License, Development and Commercialization Agreement dated 12th of June, 2007 ("***Agreement***") by and between Cook Incorporated and its Affiliates ("***Cook***"), and Cardica, Inc., and its Affiliates ("***Cardica***") is made by and between the same two parties on this 19th day of June, 2009 ("***Second Amendment Effective Date***"). The parties agree as follows:

1.0 All capitalized terms used in this Second Amendment, but not defined herein, shall have the meanings ascribed to them in the Agreement.

2.0 Delete Section 7.1 and replace it with the following paragraphs:

"**7.1 Technology Transfer.** Upon determination by the Development Committee that a Product is ready for commercialization, or at Cook's option at any other time, Cook will have the option but not the obligation to manufacture such Product, or to have such Product manufactured by Cardica or a third party designated by Cook with the consent of Cardica, which consent shall not be unreasonably withheld, conditioned or delayed.

A. **Testing and Development.** Cardica will continue to supply to Cook, upon Cook's request and at a cost of $250.00 per unit, such additional units of the Product over the number of units described in Phase 4 of the Development Plan as Cook may reasonably request for the further testing and development of the Product.

B. **Commercialization.** Upon Cook's request, to enable Cook or a third party designated by Cook to manufacture such Product, or at Cook's option at any other time with respect to any Product, whether or not such Product is ready for commercialization or the stage of its development, Cardica will transfer to Cook or the designated third party, at no additional cost, all equipment, including all pre-production tooling, and Cardica Know-How, including but not limited to, all trade secret, manufacturing and supplier information included therein, related to the Products that is reasonably necessary for Cook or a third party to manufacture such Product ("***Transferred Product***"). Upon request from Cook at any time, Cardica will provide, at no additional cost, reasonable technical assistance to Cook for the Transferred Product based on the mutual availability of the parties, which assistance may include at Cook's request: i) training of Cook personnel or personnel of the designated third party in connection with the manufacture of Transferred Product, ii) advice concerning the manufacture of Transferred Product, and iii) testing of sample Transferred Product to verify that such Transferred Product complies with applicable specifications established by the Development Committee or, at Cook's option, specifications established by Cook to confirm successful transfer of technology to Cook or the designated third party hereunder. Additionally, on Cook's request, the parties will negotiate the terms under which Cardica may provide engineering services to assist Cook or the designated third party in the design and modification of Transferred Product to meet customer and regulatory requirements. Cardica agrees not to sue Cook, any of Cook's customers, or any third party acting on Cook's behalf under any intellectual property right of Cardica in connection with Cook's use of information provided by Cardica under this Section 7.1."

3.0 Add the following paragraph (E) to Section 8.3 **Rights upon Termination by Cook for Convenience or Termination by Cardica for Material Breach by Cook** as follows:

"(E) The parties agree that the Phase payments, as defined in Section 5.2, made on or before the Second Amendment Effective Date shall be nonrefundable and Cook shall have no right to reimbursement or recovery of those payments except pursuant to **Termination by Cook for Material Breach of Cardica** as further defined in Section 8.4."

All other terms and conditions of the Agreement remain the same.

4.0 The Agreement as modified by the Amendment made by and between the same two parties on August 22, 2007 and by this Second Amendment (collectively ***"Amended Agreement')*** embodies the entire understanding of the Parties concerning the subject matter of the Amended Agreement and supersedes all prior and collateral discussions and writings between the Parties concerning its subject matter. There are no other conditions with respect to the confidentiality of technical information exchanged during the term of the Amended Agreement other than those expressly provided therein. No amendment or modification of the understanding embodied in this Amended Agreement will be effective unless made in writing and signed by a duly authorized representative of the Party against which the amendment or modification is sought to be enforced.

Each of the parties has caused this Second Amendment to be executed below by its duly authorized representative to be effective as of the Second Amendment Effective Date.

COOK INCORPORATED

By: /s/ Brian Bates
Name: Brian Bates
Title: Sr. V.P. Business Development
Date: 6/29/09

CARDICA, INC.

By: /s/ R Y. Newell
Name: R Y. Newell
Title: CFO
Date: 6/29/09

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

(1) Registration Statements (Form S-8 Nos. 333-132155 and 333-139134) pertaining to the 1997 Equity Incentive Plan and the 2005 Equity Incentive Plan of Cardica, Inc.,

(2) Registration Statements (Form S-8 Nos. 333-148196 and 333-157387) pertaining to the 2005 Equity Incentive Plan of Cardica, Inc., and

(3) Registration Statements (Form S-3 Nos. 333-144443 and 333-146708) of Cardica, Inc. and in the related Prospectuses,

of our report dated September 18, 2009, with respect to the financial statements of Cardica,Inc. included in this Annual Report (Form 10-K) for the year ended June 30, 2009.

/s/ Ernst & Young LLP

Palo Alto, California
September 18, 2009

Exhibit 31.1

I, Bernard A. Hausen, M.D., Ph.D., certify that;

1. I have reviewed this annual report on Form 10-K of Cardica, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 18, 2009

/s/ Bernard A. Hausen
Bernard A. Hausen, M.D., Ph.D.
President, Chief Executive Officer, Chief Medical Officer and Director
(Principal Executive Officer)

Exhibit 31.2

I, Robert Y. Newell, certify that;

1. I have reviewed this annual report on Form 10-K of Cardica, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 18, 2009

/s/ Robert Y. Newell
Robert Y. Newell
Vice President, Finance, Chief Financial Officer and Secretary
(Principal Financial Officer)

Exhibit 32.1

Pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. §1350), Bernard A. Hausen, M.D., Ph.D., Chief Executive Officer of Cardica, Inc. (the "Company"), and Robert Y. Newell, Chief Financial Officer of the Company, each hereby certifies that, to the best of his or her knowledge:

1. The Company's Annual Report on Form 10-K for the period ended June 30, 2009, to which this Certification is attached as Exhibit 32.1 (the "Annual Report") fully complies with the requirements of Section 13(a) or Section 15(d) of the Exchange Act, and

2. The information contained in the Annual Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

In Witness Whereof, the undersigned have set their hands hereto as of the 18th day of September, 2009.

/s/ Bernard A. Hausen
Bernard A. Hausen, M.D., Ph.D
Chief Executive Officer

/s/ Robert Y. Newell
Robert Y. Newell
Chief Financial Officer

This certification accompanies the Form 10-K to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of Cardica, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-K), irrespective of any general incorporation language contained in such filing.