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

FORM 10-Q

☒ **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended September 30, 2014

☐ **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the transition period from _____ to _____

COMMISSION FILE NUMBER: 001-34256

HEARTWARE INTERNATIONAL, INC.
(Exact name of registrant as specified in its charter)

Delaware	**26-3636023**
(State of Incorporation)	**(I.R.S. Employer Identification No.)**

500 Old Connecticut Path
Framingham, Massachusetts 01701
+1 508 739 0950
(Address of principal executive offices)
(Registrant's telephone number, including area code)

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 whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer or a smaller reporting company. *See* the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Shares Outstanding as of October 24, 2014
Common Stock, $0.001 Par Value Per Share	17,018,237

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References

Unless the context requires otherwise, references in this Quarterly Report on Form 10-Q to "HeartWare," "the Company," "HeartWare Group," "we," "us" and "our" refer to HeartWare International, Inc. and its consolidated direct and indirect subsidiaries.

Currency

Unless indicated otherwise in this Quarterly Report on Form 10-Q, all references to "$", "U.S.$" or "dollars" refer to United States dollars, the lawful currency of the United States of America. References to "AU$" refer to Australian dollars, the lawful currency of the Commonwealth of Australia. References to "€" or "Euros" means Euros, the single currency of Participating Member States of the European Union. References to "£" or "British Pounds" refer to British pound sterling, the lawful currency of the United Kingdom.

Trademarks

HEARTWARE®, HVAD®, MVAD®, Pal™, CIRCULITE®, SYNERGY® and various company logos are the trademarks of the Company. All other trademarks and trade names mentioned in this Quarterly Report on Form 10-Q are the property of their respective owners.

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements are based on our management's beliefs, assumptions and expectations and on information currently available to our management. Generally, you can identify forward-looking statements by terms such as "may," "will," "should," "could," "would," "expects," "plans," "anticipates," "believes," "estimates," "projects," "predicts," "potential" and similar expressions intended to identify forward-looking statements, which generally are not historical in nature. All statements that address operating or financial performance, events or developments that we expect or anticipate will occur in the future are forward-looking statements, including without limitation:

- our ability to implement systemic improvements necessary to satisfactorily address the observations cited in the June 2, 2014 warning letter we received from the United States Food and Drug Administration ("FDA");
- our expectations with respect to submissions to and approvals from regulatory bodies, such as the FDA;
- our ability to operate our business in compliance with regulatory requirements and to implement appropriate corrective and preventive actions;
- our expectations with respect to our clinical trials, including enrollment in, completion of, or outcomes of our clinical trials as well as approval of new clinical trials and continued access or supplemental protocols with respect to our existing clinical trials;
- our expectations with respect to the integrity or capabilities of our intellectual property position;
- our ability and plans to commercialize our existing products;
- our ability and plans to develop and commercialize new products and the expected features, functionalities and benefits of these products;
- our estimates regarding our capital requirements and financial performance, including earnings fluctuation and cash availability; and
- our ability to manage the costs and achieve the benefits of our strategic initiatives including acquired companies and technologies.

Our management believes that these forward-looking statements are reasonable as and when made. However, you should not place undue reliance on our forward-looking statements because they speak only as of the date when made. We do not assume any obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by federal securities laws and the rules and regulations of the Securities and Exchange Commission (the "SEC"). We may not actually achieve the plans, projections or expectations disclosed in our forward-looking statements, and actual results, developments or events could differ materially from those disclosed in the forward-looking statements. Forward-looking statements are subject to a number of risks and uncertainties, including without limitation those described in Part I, Item 1A. "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013 filed with the SEC on March 3, 2014, and those described from time to time in our other filings with the SEC. Investors should read this

entire Quarterly Report on Form 10-Q and consult their respective financial, legal or other professional adviser in relation to the subject matter therein, especially as it pertains to our risks and uncertainties outlined in Part I, Item 1A. “Risk Factors” of our Annual Report on Form 10-K, together with the information provided in our other public filings with the SEC.

PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

HEARTWARE INTERNATIONAL, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)
(in thousands, except per share data)

	September 30, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$ 113,648	$ 162,880
Short-term investments	66,617	37,596
Accounts receivable, net	37,428	28,052
Inventories	51,835	40,876
Prepaid expenses and other current assets	8,125	11,205
Total current assets	277,653	280,609
Property, plant and equipment, net	19,777	18,562
Goodwill	61,458	61,596
In-process research and development	35,500	35,500
Other intangible assets, net	17,958	15,975
Deferred financing costs, net	1,660	1,964
Long-term investments and other assets	14,856	15,621
Total assets	$ 428,862	$ 429,827
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 15,458	$ 17,914
Other accrued liabilities	38,004	35,276
Total current liabilities	53,462	53,190
Convertible senior notes, net	112,796	107,125
Contingent liabilities – *See* Note 4	52,820	67,000
Other long-term liabilities	6,616	3,905
Commitments and contingencies – *See* Note 12		
Stockholders' equity:		
Preferred stock – $.001 par value; 5,000 shares authorized; no shares issued and outstanding at September 30, 2014 and December 31, 2013	—	—
Common stock – $.001 par value; 25,000 shares authorized; 17,018 and 16,878 shares issued and outstanding at September 30, 2014 and December 31, 2013, respectively	17	17
Additional paid-in capital	559,273	535,817
Accumulated deficit	(347,803)	(329,353)
Accumulated other comprehensive loss:		
Cumulative translation adjustments	(8,177)	(7,859)
Unrealized loss on investments	(142)	(15)
Total accumulated other comprehensive loss	(8,319)	(7,874)
Total stockholders' equity	203,168	198,607
Total liabilities and stockholders' equity	$ 428,862	$ 429,827

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

HEARTWARE INTERNATIONAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)
(in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenue, net	$68,608	$ 54,800	$205,211	$154,875
Cost of revenue	22,977	19,529	68,846	57,175
Gross profit	45,631	35,271	136,365	97,700
Operating expenses:				
Selling, general and administrative	20,584	19,844	65,765	53,548
Research and development	29,477	25,930	88,981	72,201
Change in fair value of contingent consideration	(3,620)	—	(14,180)	—
Total operating expenses	46,441	45,774	140,566	125,749
Loss from operations	(810)	(10,503)	(4,201)	(28,049)
Other income (expense):				
Foreign exchange (loss) gain	(3,298)	2,082	(3,109)	(416)
Interest expense	(3,312)	(3,082)	(9,759)	(9,088)
Investment income, net	138	53	543	162
Other, net	—	79	(1,261)	128
Loss before income taxes	(7,282)	(11,371)	(17,787)	(37,263)
Provision for income taxes	88	—	663	—
Net loss	$ (7,370)	$(11,371)	$ (18,450)	$ (37,263)
Net loss per common share — basic and diluted	$ (0.43)	$ (0.69)	$ (1.09)	$ (2.34)
Weighted average shares outstanding — basic and diluted	17,007	16,439	16,977	15,895

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

HEARTWARE INTERNATIONAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(unaudited)
(in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net loss	$(7,370)	$(11,371)	$(18,450)	$(37,263)
Other comprehensive income (loss)				
Foreign currency translation adjustments	250	(186)	(318)	204
Unrealized (loss) gain on investments	(101)	39	(127)	(5)
Comprehensive loss	$(7,221)	$(11,518)	$(18,895)	$(37,064)

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

HEARTWARE INTERNATIONAL, INC.
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(unaudited)
(in thousands, except per share data)

	Common Shares, $0.001 Par Value Per Share		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
	Shares Issued	Amount				
Balance, December 31, 2013	16,878	$ 17	$535,817	$ (329,353)	$ (7,874)	$198,607
Issuance of common stock in connection with an intellectual property agreement	50	—	5,000	—	—	5,000
Issuance of common stock in connection with acquisition of CircuLite	3	—	329	—	—	329
Issuance of common stock pursuant to share-based awards	87	—	836	—	—	836
Share-based compensation	—	—	17,291	—	—	17,291
Net loss	—	—	—	(18,450)	—	(18,450)
Other comprehensive loss	—	—	—	—	(445)	(445)
Balance, September 30, 2014	17,018	$ 17	$559,273	$ (347,803)	$ (8,319)	$203,168

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

HEARTWARE INTERNATIONAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)
(In thousands)

	Nine Months Ended September 30,	
	2014	**2013**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (18,450)	$ (37,263)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation of property, plant and equipment	4,929	4,823
Amortization of intangible assets	1,222	375
Impairment of fixed assets	607	—
Share-based compensation expense	17,291	16,442
Amortization of premium on investments	516	437
Amortization of discount on convertible senior notes	5,671	5,030
Amortization of deferred financing costs	304	270
Change in fair value of contingent consideration	(14,180)	—
Other	1,321	711
Change in operating assets and liabilities:		
Accounts receivable	(10,426)	(4,806)
Inventories	(13,083)	(768)
Prepaid expenses and other current assets	2,416	(5,554)
Accounts payable	(2,262)	(2,741)
Accrued interest on convertible senior notes	1,262	1,262
Other accrued liabilities	7,106	2,396
Other long-term liabilities	710	(238)
Net cash used in operating activities	(15,046)	(19,624)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(44,290)	(23,191)
Maturities of investments	14,625	2,226
Additions to property, plant and equipment, net	(5,990)	(2,107)
Proceeds from sale of equipment	—	743
Additions to patents	(1,205)	(584)
Net cash used in investing activities	(36,860)	(22,913)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of common stock	—	149,126
Payment of common stock issuance costs	—	(8,148)
Proceeds from exercise of stock options	837	3,378
Net cash provided by financing activities	837	144,356
Effect of exchange rate changes on cash and cash equivalents	1,837	166
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(49,232)	101,985
CASH AND CASH EQUIVALENTS — BEGINNING OF PERIOD	162,880	85,921
CASH AND CASH EQUIVALENTS — END OF PERIOD	$ 113,648	$ 187,906

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Note 1. Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements for HeartWare International, Inc. ("we," "our," "us," "HeartWare," the "HeartWare Group" or the "Company") have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") for reporting of interim financial information. Pursuant to these rules and regulations, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") have been condensed or omitted. Accordingly, these statements do not include all the disclosures normally required by accounting principles generally accepted in the United States for annual financial statements and should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations contained in this report and the audited financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013. The accompanying condensed consolidated balance sheet as of December 31, 2013 has been derived from our audited financial statements. The unaudited condensed consolidated statements of operations for the three and nine months ended September 30, 2014 and cash flows for the nine months ended September 30, 2014 are not necessarily indicative of the results to be expected for any future period or for the year ending December 31, 2014.

The preparation of our unaudited interim condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

In the opinion of management, the accompanying unaudited interim condensed consolidated financial statements contain all adjustments (consisting of only normally recurring adjustments) necessary to present fairly the financial position and results of operations as of the dates and for the periods presented.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASU 2014-09"). The updated standard is a new comprehensive revenue recognition model that requires revenue to be recognized in a manner that depicts the transfer of goods or services to a customer at an amount that reflects the consideration expected to be received in exchange for those goods or services. ASU 2014-09 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, and early adoption is not permitted. The updated standard becomes effective for us in the first quarter of our fiscal year ending December 31, 2017. We have not yet selected a transition method, and we are currently evaluating the effect that the ASU 2014-09 will have on our consolidated financial statements and related disclosures.

With the exception of the standard discussed above, there have been no other recent accounting pronouncements or changes in accounting pronouncements during the nine months ended September 30, 2014, as compared to the recent accounting pronouncements described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013, that are of significance or potential significance to us.

Note 2. Liquidity

We have financed our operations primarily through the issuance of shares of our common stock and the issuance of convertible notes. At September 30, 2014, we had approximately $181.5 million of cash, cash equivalents and investments. Our cash, cash equivalents and investments are expected to be used primarily to fund our ongoing operations including expanding our sales and marketing capabilities on a global basis, research and development (including clinical trials) of new and existing products, components and accessories, regulatory and other compliance functions as well as for general working capital. We believe our cash, cash equivalents and investment balances are sufficient to support our planned operations for at least the next twelve months.

The accompanying unaudited interim condensed consolidated financial statements have been prepared in conformity with U.S. GAAP, which contemplate continuation of the Company as a going concern. We have incurred substantial losses from operations since our inception through September 30, 2014. At September 30, 2014, we had an accumulated deficit of approximately $347.8 million.

Note 3. Balance Sheet Information

Accounts Receivable

Accounts receivable consists of amounts due from the sale of our HeartWare® Ventricular Assist System (the "HVAD System") to our customers, which include hospitals, health research institutions and medical device distributors. We grant credit to customers in the normal course of business, but generally do not require collateral or any other security to support credit sales. Our receivables are geographically dispersed, with a significant portion from customers located in Europe and other foreign countries. One customer had an accounts receivable balance greater than 10% of total accounts receivable representing approximately 11% and 15% of our total accounts receivable at September 30, 2014 and December 31, 2013, respectively.

We maintain allowances for doubtful accounts for estimated losses that may result from an inability to collect payments owed to us for product sales. We regularly review the allowance by considering factors such as historical experience, the age of the accounts receivable balances and local economic conditions that may affect a customer's ability to pay. Account balances are charged off against the allowance after appropriate collection efforts have been exhausted and we feel it is probable that the receivable will not be recovered.

The following table summarizes the change in our allowance for doubtful accounts for the nine months ended September 30, 2014 and 2013:

	2014	2013
	(in thousands)	
Beginning balance	$495	$750
Charges (reversals) to expense	5	—
Charge-offs	(5)	—
Ending balance	$495	$750

As of September 30, 2014 and December 31, 2013, we did not have an allowance for returns.

Inventories

Components of inventories are as follows:

	September 30, 2014	December 31, 2013
	(in thousands)	
Raw material	$ 23,574	$ 21,761
Work-in-process	9,746	8,206
Finished goods	18,515	10,909
	$ 51,835	$ 40,876

Finished goods inventories includes inventory held on consignment at customer sites of approximately $7.0 million and $4.6 million at September 30, 2014 and December 31, 2013, respectively.

Property, Plant and Equipment, Net

Property, plant and equipment, net consists of the following:

	Estimated Useful Lives	September 30, 2014	December 31, 2013
		(in thousands)	
Machinery and equipment	1.5 to 7 years	$ 21,206	$ 19,790
Leasehold improvements	3 to 10 years	8,825	7,131
Office equipment, furniture and fixtures	5 to 7 years	2,001	1,294
Purchased software	1 to 7 years	6,302	5,057
		38,334	33,272
Less: accumulated depreciation		(18,557)	(14,710)
		$ 19,777	$ 18,562

In the first quarter of 2014, we ceased activities at our facility in Teaneck, New Jersey and vacated the facility. We recorded an impairment charge of $0.6 million related to certain office equipment and software at the facility upon their discontinued use. This amount is included in selling, general and administrative expenses on our condensed consolidated statements of operations.

Other Assets

In October 2013, we invested $10 million in a privately held company focused on the development of novel, minimally invasive heart therapies in the form of a convertible promissory note with an interest rate of 6% per annum (the "Note"). Pursuant to the terms of the Note, on October 7, 2014 (the maturity date), the privately held company elected to convert all unpaid principal and interest on the Note (less applicable taxes) converted into shares of its preferred stock. This investment is carried at cost and is included in long-term investments and other assets on our condensed consolidated balance sheets.

Other Accrued Liabilities

Other accrued liabilities consist of the following:

	September 30, 2014	December 31, 2013
	(in thousands)	
Accrued payroll and other employee costs	$ 12,276	$ 10,840
Accrued milestone payment	—	5,000
Accrued material purchases	2,980	4,325
Accrued warranty	4,121	2,498
Accrued product recall costs	2,597	—
Accrued professional fees	1,236	2,428
Accrued research and development costs	3,424	2,307
Accrued VAT	1,805	1,329
Accrued restructuring costs	1,594	245
Accrued interest	1,475	210
Other accrued expenses	6,496	6,094
	$ 38,004	$ 35,276

Accrued Payroll and Other Employee Costs

Accrued payroll and other employee costs included estimated year-end employee bonuses of approximately $5.8 million and $6.6 million at September 30, 2014 and December 31, 2013, respectively.

Accrued Warranty

Certain patient accessories sold with the HVAD System are covered by a limited warranty ranging from one to two years. Estimated contractual warranty obligations are recorded as an expense when the related revenue is recognized and are included in cost of revenue on our condensed consolidated statements of operations. Factors that affect estimated warranty liability include the number of units sold, historical and anticipated rates of warranty claims, cost per claim, and vendor supported warranty programs. We periodically assess the adequacy of our recorded warranty liabilities and adjust the amounts as necessary. The amount of the liability recorded is equal to the estimated costs to repair or otherwise satisfy claims made by customers.

The following table summarizes changes in our warranty liability for the nine months ended September 30, 2014 and 2013:

	2014	2013
	(in thousands)	
Beginning balance	$ 2,498	$ 543
Accrual for warranty expense	3,097	500
Warranty costs incurred during the period	(1,474)	(345)
Ending balance	$ 4,121	$ 698

The warranty liability as of September 30, 2014 takes into account recent substantial increases in product sales which are covered by our limited warranty policy.

Accrued Product Recall Costs

In April 2014, we implemented an Urgent Medical Device Correction following an observed increase in complaints related to earlier-than-expected battery depletion and routine battery handling. This notification provided information to assist patients and clinicians to monitor battery performance, recognize abnormal behaviors and reinforce proper power management of the HVAD System. We increased our warranty liability in the first quarter of 2014 to account for an anticipated higher level of battery returns likely to be associated with increased battery performance awareness following implementation of the field safety corrective action. On July 30, 2014, we extended our field safety corrective action to include a voluntary recall of certain older batteries. The recall instructs sites to replace certain older batteries in the field upon patients' routine visits in order to further mitigate the potential risks associated with premature battery depletion.

The costs to repair or replace products associated with product recalls and voluntary service campaigns are recorded when they are determined to be probable and reasonably estimable as a cost of revenue and are not included in product warranty liability. During the second and third quarters of 2014, we recorded charges of $1.7 million and $0.6 million, respectively, for estimated costs associated with the battery recall discussed above.

Accrued Restructuring Costs

The following table summarizes changes in our accrued restructuring costs during the nine months ended September 30, 2014:

	Facility Leases	Severance and Related	Contract Termination	Total
		(in thousands)		
Beginning balance	$ —	$ 245	$ —	$ 245
Restructuring charges	2,204	715	688	3,607
Payments	(612)	(739)	(688)	(2,039)
Adjustments to estimated obligations	(155)	(97)	—	(252)
Change in fair value	33	—	—	33
Ending balance	$1,470	$ 124	$ —	$ 1,594

The restructuring obligations reflected above resulted from the following actions:

Facility Closures

In the first quarter of 2014 we ceased the use of our facility in Teaneck, New Jersey, which was subject to an operating lease that runs through the end of 2020. In connection with this action, we recorded a $1.7 million liability equal to the estimated fair value of the remaining lease obligation as of the cease-use date (*see* Note 4). In the first quarter of 2014, we also relocated our corporate headquarters and ceased activities at our former headquarters in Framingham, Massachusetts. In connection with this action, we recorded a $0.5 million liability equal to the aggregate of the remaining payments on the lease for our former headquarters as of the cease-use date. Both of these items are included in selling, general and administrative expenses on our condensed consolidated statements of operations.

Severance Agreements

In the first nine months of 2014, we incurred various costs related to the integration of CircuLite's operations, including severance costs aggregating $0.6 million, the majority of which were recorded in the first quarter of 2014. We recorded $0.4 million in research and development expenses and the remaining $0.2 million in selling, general and administrative expenses on our condensed consolidated statements of operations.

Contract Termination

As a result of anticipated design modifications to the SYNERGY system and our decision to move manufacturing of the SYNERGY system to our Miami Lakes facility, we terminated a supply agreement with a vendor in Germany for the purchase of components necessary to produce the prior-to-modification version of the SYNERGY system. In connection with the termination of this supply agreement, we recorded a charge of $0.7 million in the first quarter of 2014, which is included in research and development expenses on our condensed consolidated statements of operations.

Note 4. Fair Value Measurements

FASB ASC 820 – *Fair Value Measurements and Disclosures,* defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FASB ASC 820 requires disclosures about the fair value of all financial instruments, whether or not recognized, for financial statement purposes. Disclosures about the fair value of financial instruments are based on pertinent information available to us as of the reporting dates. Accordingly, the estimates presented in the accompanying condensed consolidated financial statements are not necessarily indicative of the amounts that could be realized on disposition of the financial instruments.

FASB ASC 820 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect market assumptions. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement).

The three levels of the fair value hierarchy are as follows:

Level 1 – Quoted prices for identical instruments in active markets.

Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3 – Instruments with primarily unobservable value drivers.

We review the fair value hierarchy classification on a quarterly basis. Changes in the ability to observe valuation inputs may result in a reclassification of levels of certain securities within the fair value hierarchy. There were no transfers between Level 1, Level 2 and Level 3 during the nine months ended September 30, 2014 or 2013.

The carrying amounts reported on our condensed consolidated balance sheets for cash and cash equivalents, accounts receivable, accounts payable and other accrued liabilities approximate their fair value based on the short-term maturity of these instruments. Investments are considered available-for-sale as of September 30, 2014 and December 31, 2013 and are carried at fair value.

The following tables represents the fair value of our financial assets and financial liabilities measured at fair value on a recurring basis and which level was used in the fair value hierarchy at the respective dates.

	Carrying Value	Fair Value	Fair Value Measurements at the Reporting Date Using		
			Level 1	Level 2	Level 3
			(in thousands)		
As of September 30, 2014					
Assets					
Short-term investments	$ 66,617	$ 66,617	$ —	$ 66,617	$ —
Long-term investments	1,225	1,225	—	1,225	—
Liabilities					
Convertible senior notes	112,796 (1)	157,855	—	157,855	—
Contingent consideration	52,820	52,820	—	—	52,820
Royalties	985	985	—	—	985
Lease exit costs	1,366	1,366	—	—	1,366

	Carrying Value	Fair Value	Fair Value Measurements at the Reporting Date Using		
			Level 1	Level 2	Level 3
	(in thousands)				
As of December 31, 2013					
Assets					
Short-term investments	$ 37,596	$ 37,596	$ —	$ 37,596	$ —
Long-term investments	1,225	1,225	—	1,225	—
Liabilities					
Convertible senior notes	107,125 (1)	174,117	—	174,117	—
Contingent consideration	67,000	67,000	—	—	67,000
Royalties	999	999	—	—	999

(1) The carrying amount of our convertible senior notes is net of unamortized discount. *See* Note 7 (Debt) for more information.

Our Level 2 financial assets and liabilities include available-for-sale investments and convertible senior notes. The fair value of our available-for-sale investments and convertible senior notes was determined using quoted prices (including trade data) for the instruments in markets that are not active. The fair value of our convertible senior notes is presented for disclosure purposes only.

Financial assets and liabilities are considered Level 3 when their fair values are determined using pricing models, discounted cash flow methodologies, or similar techniques, and at least one significant model assumption or input is unobservable. Our Level 3 financial liabilities include the following:

- **Contingent consideration** – The estimated fair value of the contingent consideration related to our acquisition of CircuLite in December 2013 requires significant management judgment or estimation and is calculated using the income approach, using various revenue assumptions and applying a probability to each outcome. The fair value of the contingent consideration is remeasured at the estimated fair value at each reporting period. Actual amounts paid may differ from the obligations recorded.
- **Royalties** – Royalties represent future royalty payments to be made over the next 15 years pursuant to agreements related to intellectual property licensed or acquired by World Heart Corporation, which we acquired in August 2012. Determination of fair value requires significant management judgment or estimation. The royalty payment obligations were valued using a discounted cash flow model, the future minimum royalty payment amounts and discount rates commensurate with our market risk and the terms of the obligations.
- **Lease exit costs** – In the first quarter of 2014 we ceased the use of our facility in Teaneck, New Jersey, which was subject to an operating lease that runs through the end of 2020, and we recorded a liability equal to the estimated fair value of the remaining lease payments as of the cease-use date. The fair value was estimated based upon the discounted present value of the remaining lease payments, considering future estimated sublease income, estimated broker fees and required tenant improvements. This estimated fair value requires significant management judgment. The fair value of this liability will be remeasured at estimated fair value at each reporting period. Actual amounts paid may differ from the obligation recorded.

The following table summarizes the change in fair value, as determined by Level 3 inputs, of the contingent consideration for the nine months ended September 30, 2014:

	Contingent Consideration (in thousands)
Beginning balance	$ 67,000
Payments	—
Change in fair value	(14,180)
Ending balance	$ 52,820

The change in fair value of the contingent consideration in the nine months ended September 30, 2014 was primarily due to a $16.6 million reduction as a result of the unlikely probability of achieving the performance milestone conditions related to the re-launch of the SYNERGY Surgical System, which is undergoing redesign following its removal from the market in 2013 and loss of CE marking in the European Union in March 2014. In addition, due to the anticipated delay in the re-launch of the SYNERGY Surgical System, we adjusted our revenue projections for the SYNERGY Surgical System, which resulted in a $6.1 million decrease in the fair value of a component of the contingent consideration related to royalty payments. These decreases in fair value were partially offset by an $8.5 million increase in fair value due to the effect of the passage of time on the fair value measurement. Adjustments associated with the change in fair value of contingent consideration are presented on a separate line item on our condensed consolidated statements of operations. Adjustments will be similarly presented in future accounting periods.

The following table summarizes the change in fair value, as determined by Level 3 inputs, of the royalties for the nine months ended September 30, 2014:

	Royalties (in thousands)
Beginning balance	$ 999
Payments	(70)
Change in fair value	56
Ending balance	$ 985

The expense associated with the change in fair value of the royalty payment obligations is included in research and development expenses on our condensed consolidated statements of operations.

The following table summarizes the change in fair value, as determined by Level 3 inputs, of the lease exit costs for the nine months ended September 30, 2014:

	Lease Exit Costs (in thousands)
Beginning balance	$ —
Accruals	1,676
Payments	(343)
Change in fair value	33
Ending balance	$ 1,366

The expense associated with the change in fair value of the lease exit costs is included in selling, general and administrative expenses on our condensed consolidated statements of operations.

The following table presents quantitative information about the inputs and valuation methodologies used for our fair value measurements classified in Level 3 of the fair value hierarchy as of September 30, 2014:

	Fair Value at September 30, 2014 (in thousands)	Valuation Methodology	Significant Unobservable Input	Weighted Average (range, if applicable)
Contingent consideration	$ 52,820	Probability weighted income approach	Milestone dates	2019 to 2022
			Discount rate	20.0% to 24.0%
			Probability of occurrence	0% to 100%
Royalties	$ 985	Discounted cash flow	Discount rate	4.8% to 7.8%
Lease exit costs	$ 1,366	Discounted cash flow	Sublease start date	November 2015
			Sublease rate	$26.50/square foot
			Discount rate	3.5%

Contingent Consideration

The estimated fair value of the contingent consideration related to the acquisition of CircuLite is calculated using the income approach, with significant inputs that include various revenue assumptions, discount rates and applying a probability to each outcome. Material changes in any of these inputs could result in a significantly higher or lower fair value measurement.

The estimated fair value of the contingent consideration is calculated on a quarterly basis by management. Potential valuation adjustments will be made as additional information becomes available, including, among other items, the progress toward achieving re-launch of the SYNERGY Surgical System, as well as revenue and milestone targets as compared to initial projections, with the impact of these adjustments being recorded in our condensed consolidated statement of operations. In the three months ended September 30, 2014, we recorded an adjustment to decrease the recorded value of the contingent consideration by $3.6 million. For the nine months ended September 30, 2014, adjustments decreased the recorded value of the contingent consideration by $14.2 million.

Assets That Are Measured at Fair Value on a Nonrecurring Basis

Non-financial assets such as intangible assets, goodwill and property, plant, and equipment are evaluated for impairment annually or when indicators of impairment exist. In the first quarter of 2014, we recorded an impairment charge of $0.6 million related to certain office equipment and software. No impairment was recorded in the three and nine months ended September 30, 2013. Non-financial assets such as identified intangibles acquired in connection with our acquisition of World Heart in August 2012 and CircuLite in December 2013 are measured at fair value using Level 3 inputs, which include discounted cash flow methodologies, or similar techniques, when there is limited market activity and the determination of fair value requires significant judgment or estimation.

Note 5. Investments

We have cash investment policies that limit investments to investment grade rated securities. At September 30, 2014 and December 31, 2013, all of our investments were classified as available-for-sale and carried at fair value. At September 30, 2014 and December 31, 2013, our short-term investments had maturity dates of less than twenty-four months and our long-term investments had maturity dates within thirty-six months.

The amortized cost and fair value of our investments, with gross unrealized gains and losses, were as follows:

	Amortized Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Aggregate Fair Value
		(in thousands)		
At September 30, 2014				
Short-term investments:				
Corporate debt	$ 43,674	$ 7	$ (123)	$ 43,558
U.S. government agency debt	15,000	—	(26)	14,974
Certificates of deposit	8,085	—	—	8,085
Total short-term investments	$ 66,759	$ 7	$ (149)	$ 66,617
Long-term investments:				
Certificates of deposit	$ 1,225	$ —	$ —	$ 1,225
Total long-term investments	$ 1,225	$ —	$ —	$ 1,225

	Amortized Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Aggregate Fair Value
		(in thousands)		
At December 31, 2013				
Short-term investments:				
Corporate debt	$ 32,221	$ 3	$ (18)	$ 32,206
Certificates of deposit	5,390	—	—	5,390
Total short-term investments	$ 37,611	$ 3	$ (18)	$ 37,596
Long-term investments:				
Certificates of deposit	$ 1,225	$ —	$ —	$ 1,225
Total long-term investments	$ 1,225	$ —	$ —	$ 1,225

For the three and nine months ended September 30, 2014 and 2013, we did not have any realized gains or losses on our investments. At September 30, 2014 and December 31, 2013, none of our available-for-sale investments had been in a continuous loss position for more than twelve months.

Note 6. Goodwill, In-Process Research and Development and Other Intangible Assets, Net

Goodwill

The carrying amount of goodwill and the change in the balance for the nine months ended September 30, 2014 and 2013 is as follows:

	2014	2013
	(in thousands)	
Beginning balance	$61,596	$1,190
Additions	—	—
Impairment	—	—
Foreign currency translation impact	(138)	—
Ending balance	$61,458	$1,190

In-Process Research and Development

The carrying value of our in-process research and development assets, which relate to the development and potential commercialization of certain acquired technologies, consisted of the following:

	September 30, 2014	December 31, 2013
	(in thousands)	
SYNERGY system technology	$ 35,500	$ 35,500

In-process research and development has an indefinite life. At the time the economic life becomes determinable (upon project completion or abandonment) the amount will be amortized over its expected remaining life.

Other Intangible Assets

Other intangible assets, net consisted of the following:

	September 30, 2014	December 31, 2013
	(in thousands)	
Patents	$ 4,959	$ 3,754
Purchased intangible assets		
Tradenames	3,700	3,700
Customer relationships	1,800	1,800
Acquired technology rights	9,925	7,925
	20,384	17,179
Less: Accumulated amortization – Patents	(1,028)	(800)
Less: Accumulated amortization – Purchased intangible assets	(1,398)	(404)
	$ 17,958	$ 15,975

Our other intangible assets are amortized using the straight-line method over their estimated useful lives as follows:

Patents	15 years
Purchased intangible assets	
Tradenames	15 years
Customer relationships	20 years
Acquired technology rights	7 to 16 years

In the quarter ended September 30, 2014, we determined the probable achievement of a pre-specified milestone which triggers a $2.0 million obligation under a certain patent assignment and license agreement. The $2.0 million, which is payable in cash or shares of our common stock, was recorded as additional acquired technology rights and is included in other long term liabilities at September 30, 2014 on our condensed consolidated balance sheet. We currently intend to settle this liability by issuing shares of our common stock.

Amortization expense for the three months ended September 30, 2014 and 2013 was $0.4 million and $0.1 million, respectively. Amortization expense for the nine months ended September 30, 2014 and 2013 was $1.2 million and $0.4 million, respectively.

Note 7. Debt

On December 15, 2010, we completed the sale of 3.5% convertible senior notes due 2017 (the "Convertible Notes") for an aggregate principal amount of $143.75 million pursuant to the terms of an Indenture dated December 15, 2010 (the "Indenture"). The Convertible Notes are the senior unsecured obligations of the Company. The Convertible Notes bear interest at a rate of 3.5% per annum, payable semi-annually in arrears on June 15 and December 15 of each year. The Convertible Notes will mature on December 15, 2017, unless earlier repurchased by us or converted.

The Convertible Notes offering was completed pursuant to a prospectus supplement, dated December 9, 2010, to a shelf registration statement on Form S-3 that was previously filed with the SEC and which was declared effective on December 9, 2010.

The Convertible Notes will be convertible at an initial conversion rate of 10 shares of our common stock per $1,000 principal amount of Convertible Notes, which corresponds to an initial conversion price of $100.00 per share of our common stock. The conversion rate is subject to adjustment from time to time upon the occurrence of certain events.

Prior to June 15, 2017, holders may convert their Convertible Notes at their option only upon satisfaction of one or more of the conditions specified in the Indenture relating to the (i) sale price of our common stock, (ii) the trading price per $1,000 principal amount of Convertible Notes or (iii) specified corporate events. As of the date of this report on Form 10-Q, none of the events that would allow holders to convert their Convertible Notes have occurred. On or after June 15, 2017, until the close of business of the business day immediately preceding the date the Convertible Notes mature, holders may convert their Convertible Notes at any time, regardless of whether any of the foregoing conditions have been met. Upon conversion, we will pay or deliver, as the case may be, cash, shares of our common stock or a combination thereof, at our election.

We may not redeem the Convertible Notes prior to maturity. Holders of the Convertible Notes may require us to purchase for cash all or a part of their Convertible Notes at a repurchase price equal to 100% of the principal amount of the Convertible Notes to be repurchased, plus accrued and unpaid interest, upon the occurrence of certain fundamental changes (as defined in the Indenture) involving the Company. The Indenture does not contain any financial or operating covenants or restrictions on the payments of dividends, the incurrence of indebtedness or the issuance or repurchase of securities by us or any of our subsidiaries.

The Indenture contains customary terms and nonfinancial covenants and defines events of default. If an event of default (other than certain events of bankruptcy, insolvency or reorganization) involving the Company occurs and is continuing, the Trustee (by notice to the Company) or the holders of at least 25% in principal amount of the outstanding Convertible Notes (by notice to the Company and the Trustee) may declare 100% of the principal of and accrued and unpaid interest, if any, on all the Convertible Notes to be due and payable. In case of certain events of bankruptcy, insolvency or reorganization, involving the Company, 100% of the principal of and accrued and unpaid interest on the Convertible Notes will automatically become due and payable. Notwithstanding the foregoing, the Indenture provides that, to the extent we elect, the sole remedy for an event of default relating to certain failures by us to comply with certain reporting covenants in the Indenture consists exclusively of the right to receive additional interest on the Convertible Notes.

In accordance with FASB ASC 470-20, *Debt with Conversion and Other Options*, which applies to certain convertible debt instruments that may be settled in cash or other assets, or partially in cash, upon conversion, we recorded the long-term debt and equity components on our Convertible Notes separately on the issuance date. The amount recorded for long-term debt was determined by measuring the fair value of a similar liability that does not have an associated equity component. The measurement of fair value required the Company to make estimates and assumptions to determine the present value of the cash flows of the Convertible Notes, absent the conversion feature. This treatment increased interest expense associated with our Convertible Notes by adding a non-cash component to interest expense in the form of amortization of a debt discount calculated based on the difference between the 3.5% cash coupon rate and the effective interest rate on debt borrowing of approximately 12.5%. The discount is being amortized to interest expense through the December 15, 2017 maturity date of the Convertible Notes using the effective interest method and is included in interest expense on our condensed consolidated statements of operations. Additionally, we allocated the costs related to issuance of the Convertible Notes on the same percentage as the long-term debt and equity components, such that a portion of the costs is allocated to the long-term debt component and the equity component included in additional paid-in capital. The portion of the costs allocated to the long-term debt component is presented as deferred financing costs, net on our condensed consolidated balance sheets. These deferred financing costs are also being amortized to interest expense through the December 15, 2017 maturity date of the Convertible Notes using the effective interest method and the amortization is included in interest expense on our condensed consolidated statements of operations.

The Convertible Notes and the equity component, which is recorded in additional paid-in-capital, consisted of the following:

	September 30, 2014	December 31, 2013
	(in thousands)	
Principal amount	$ 143,750	$ 143,750
Unamortized discount	(30,954)	(36,625)
Net carrying amount	$ 112,796	$ 107,125
Equity component	$ 55,038	$ 55,038

Based on the initial conversion rate of 10 shares of our common stock per $1,000 principal amount of Convertible Notes, which corresponds to an initial conversion price of $100.00 per share of our common stock, the number of shares issuable upon conversion of the Convertible Notes is 1,437,500. The value of these shares, based on the closing price of our common stock on September 30, 2014 of $77.63 per share, was approximately $111.6 million. The fair value of our Convertible Notes as presented in Note 4 was $157.9 million at September 30, 2014.

Interest expense related to the Convertible Notes consisted of interest due on the principal amount, amortization of the discount and amortization of the portion of the deferred financing costs allocated to the long-term debt component. For the three and nine months ended September 30, 2014 and 2013, interest expense related to the Convertible Notes was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(in thousands)			
Stated amount at 3.5% coupon rate	$ 1,258	$ 1,258	$3,774	$3,774
Amortization of discount	1,948	1,727	5,671	5,030
Amortization of deferred financing costs	103	93	304	270
	$ 3,309	$ 3,078	$9,749	$9,074

Note 8. Stockholders' Equity

On March 12, 2013, we entered into an Underwriting Agreement (the "Underwriting Agreement") with J.P. Morgan Securities LLC, as representative of the several underwriters named in the Underwriting Agreement (the "Underwriters"), pursuant to which we agreed to sell and the Underwriters agreed to purchase, subject to and upon terms and conditions set forth therein, an aggregate of 1,500,000 shares of our common stock at a net sales price of $81.9114 per share (the public offering price of $86.45 per share minus the underwriting discount). We also granted the Underwriters an option to purchase 225,000 additional shares of our common stock at the public offering price less the underwriting discount, which the Underwriters exercised in full on March 13, 2013. The closing of the offering occurred on March 18, 2013. After fees and related expenses, net proceeds from the offering were approximately $141.0 million.

The offering was completed pursuant to a prospectus supplement, dated March 12, 2013, to a shelf registration statement on Form S-3 that was previously filed with the SEC and which was declared effective on December 9, 2010. This shelf registration statement expired on December 9, 2013.

On January 30, 2014, we filed a shelf registration statement with the SEC on Form S-3. This shelf registration statement allows us to offer and sell from time to time, in one or more series or issuances and on terms that we will determine at the time of the offering any combination and amount of the securities described in the prospectus contained in the registration statement or in the prospectus supplement filed with respect to a particular offering. An aggregate of 530,816 shares of our common stock were registered for issuance pursuant to various prospectus filings on January 30, 2014 in connection with our acquisition of CircuLite. As of September 30, 2014, there remained 248,872 shares of our common stock reserved for potential issuance in connection with future contingent milestone payments under the terms of the acquisition agreement.

Following satisfaction of a pre-specified milestone in December 2013, we were obligated to pay $5.0 million in cash or stock under the terms of a patent assignment agreement and exclusive license to certain patent applications. The $5.0 million was accrued at December 31, 2013 in other accrued liabilities on our consolidated balance sheet. We issued pursuant to a prospectus supplement an aggregate of 50,330 registered shares of our common stock in January 2014 to settle this liability.

In the nine months ended September 30, 2014, we issued an aggregate of 28,250 shares of our common stock upon the exercise of stock options and an aggregate of 58,000 shares of our common stock upon the vesting of restricted stock units.

In the nine months ended September 30, 2013, we issued an aggregate of 119,654 shares of our common stock upon the exercise of stock options and an aggregate of 31,676 shares of our common stock upon the vesting of restricted stock units.

Note 9. Share-Based Compensation

We allocate share-based compensation expense to cost of revenue, selling, general and administrative expense and research and development expense based on the award holder's employment function. For the three and nine months ended September 30, 2014 and 2013, we recorded share-based compensation expense as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In thousands)			
Cost of revenues	$ 611	$ 828	$ 1,720	$ 1,970
Selling, general and administrative	3,561	3,951	9,958	9,169
Research and development	2,205	2,286	5,613	5,303
	$ 6,377	$ 7,065	$17,291	$16,442

Equity Plans

We have issued share-based awards to employees, non-executive directors and outside consultants through various approved plans and outside of any formal plan. New shares are issued upon the exercise of share-based awards.

Upon receipt of stockholder approval on May 31, 2012, we adopted the HeartWare International, Inc. 2012 Incentive Award Plan ("2012 Plan"). The 2012 Plan provides for the grant of incentive stock options, non-qualified stock options, restricted stock, restricted stock units, performance awards, dividend equivalent rights, deferred stock, deferred stock units, stock payments and stock appreciation rights (collectively referred to as "Awards"), to our directors, employees and consultants. Under the terms of the 2012 Plan, the total number of shares of our common stock initially reserved for issuance under Awards is 1,375,000, provided that the total number of shares of our common stock that may be issued pursuant to "Full Value Awards" (Awards other than options, stock appreciation rights or other Awards for which the holder pays the intrinsic value existing as of the date of grant whether directly or by forgoing a right to receive a payment from the Company) is 1,275,000. As of September 30, 2014, 85,734 shares have been issued upon vesting of Awards issued under the 2012 Plan and Awards with respect to 569,697 shares were issued and outstanding under the 2012 Plan. Subsequent to adoption of the 2012 Plan, no new Awards will be granted under our prior plans. Any outstanding Awards under the prior plans will continue to be subject to the terms and conditions of the plan under which they were granted.

Stock Options

Each option allows the holder to subscribe for and be issued one share of our common stock at a specified price, which is generally the quoted market price of our common stock on the date the option is issued. Options generally vest on a pro-rata basis on each anniversary of the issuance date within four years of the date the option is issued. Options may be exercised after they have vested and prior to the specified expiry date provided applicable exercise conditions are met, if any. The expiry date can be for periods of up to ten years from the date the option is issued.

The fair value of each option is estimated on the date of grant using the Black-Scholes option pricing model based on the assumptions established at that time. No options were issued in the three months ended September 30, 2014 and 2013. The following table includes the weighted average assumptions used for options issued in the nine months ended September 30, 2014 and 2013.

	Nine Months Ended September 30,	
	2014	2013
Dividend yield	0%	0%
Expected volatility	39.00%	40.00%
Risk-free interest rate	1.65%	1.15%
Estimated holding period (years)	5.00	6.25

Information related to options granted under all of our plans at September 30, 2014 and activity in the nine months then ended is as follows (certain amounts in U.S.$ were converted from AU$ at the then period-end spot rate):

	Number of Options (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2013	133	$ 42.82		
Granted	7	88.84		
Exercised	(28)	29.62		
Forfeited	(1)	86.58		
Expired	—	—		
Outstanding at September 30, 2014	111	$ 48.65	4.60	$ 3,448
Exercisable at September 30, 2014	91	$ 40.46	3.76	$ 3,428

The aggregate intrinsic values at September 30, 2014 noted in the table above represent the number of in-the-money options outstanding or exercisable multiplied by the closing price of our common stock traded on NASDAQ less the weighted average exercise price at period end.

The weighted average grant date fair value per share of options issued in the nine months ended September 30, 2014 and 2013 was $32.41 and $38.51 per share, respectively.

The total intrinsic value of options exercised in the nine months ended September 30, 2014 and 2013 was approximately $1.8 million and $7.7 million, respectively. Cash received from options exercised in the nine months ended September 30, 2014 and 2013 was approximately $0.8 million and $3.4 million, respectively.

At September 30, 2014, there was approximately $0.3 million of unrecognized compensation expense, net of estimated forfeitures, related to non-vested options. This expense is expected to be recognized over a weighted average period of one year.

Restricted Stock Units

Each restricted stock unit ("RSU") represents a contingent right to receive one share of our common stock. RSUs generally vest on a pro-rata basis on each anniversary of the issuance date over three or four years or vest in accordance with performance-based criteria. The RSUs with performance-based vesting criteria vest in one or more tranches contingent upon the achievement of pre-determined milestones related to the development of our products, the achievement of certain prescribed clinical and regulatory objectives, the achievement of specific financial performance measures or similar metrics. There is no consideration payable on the vesting of RSUs issued under the plans. Upon vesting, the RSUs are exercised automatically and settled in shares of our common stock.

Information related to RSUs at September 30, 2014 and activity in the nine months then ended is as follows:

	Number of Units (in thousands)	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2013	476		
Granted	350		
Released	(58)		
Forfeited	(41)		
Outstanding at September 30, 2014	727	1.46	$ 56,412

The aggregate intrinsic value at September 30, 2014 noted in the table above represents the closing price of our common stock traded on NASDAQ multiplied by the number of RSUs outstanding.

At September 30, 2014, 27,705 of the RSUs outstanding are subject to performance-based vesting criteria as described above.

The total intrinsic value of RSUs vested in the nine months ended September 30, 2014 and 2013 was approximately $5.3 million and $2.9 million, respectively.

The fair value of each RSU award equals the closing price of our common stock on the date of grant. The weighted average grant date fair value per share of RSUs granted in the nine months ended September 30, 2014 and 2013 was $98.40 and $90.50, respectively.

At September 30, 2014, we had approximately $31.2 million of unrecognized compensation expense related to non-vested RSU awards, net of estimated forfeitures. This expense is expected to be recognized over a weighted average period of 1.5 years.

Note 10. Net Loss Per Share

Basic net loss per common share was computed by dividing net loss for the period by the weighted-average number of common shares outstanding for each respective period. Diluted net loss per common share adjusts basic net loss per common share for the dilutive effects of share-based awards as determined under the "treasury stock" method, our convertible senior notes as determined under the "if-converted" method and other potentially dilutive instruments only in the periods in which the effect is dilutive. Due to our net loss for all periods presented, all potentially dilutive instruments were excluded because their inclusion would have been anti-dilutive. The following instruments were excluded from the calculation of diluted weighted average shares outstanding, as their effect would be anti-dilutive.

	Three and Nine Months Ended September 30,	
	2014	2013
	(in thousands)	
Common shares issuable upon:		
Conversion of convertible senior notes	1,438	1,438
Exercise or vesting of share-based awards	837	787

Note 11. Business Segment, Geographic Areas and Major Customers

For financial reporting purposes, we have one reportable segment which designs, manufactures and markets medical devices for the treatment of advanced heart failure. Products are sold to customers located in the United States through our clinical trials and as commercial products, as commercial products to customers in Europe and under special access in other countries. Product sales attributed to a country or region are based on the location of the customer to whom the products are sold. Long-lived assets are primarily held in the United States.

Product sales by geographic location were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(in thousands)			
United States	$39,068	$28,166	$109,801	$ 79,422
Germany	15,105	14,951	47,187	40,984
International, excluding Germany	14,435	11,683	48,223	34,469
	$68,608	$54,800	$205,211	$154,875

As a significant portion of our revenue is generated outside of the United States, we are dependent on favorable economic and regulatory environments for our products in Europe and other countries outside of the United States. For the three and nine months ended September 30, 2014 and 2013, no customer exceeded 10% of product sales individually.

Note 12. Commitments and Contingencies

We received a warning letter from the FDA, dated June 2, 2014, following an inspection of our Miami Lakes, Florida facility conducted in January 2014. The FDA letter cited four categories for us to address: (1) procedures for validating device design, including device labeling; (2) procedures for implementing corrective and preventive action (CAPA); (3) maintaining records related to investigations; and (4) validation of computer software used as part of production or quality systems. The warning letter did not require any action by physicians or patients and did not restrict use of HeartWare's devices.

We sent the FDA our initial response to the warning letter within the required fifteen business days of receipt, and committed to undertaking certain quality system improvements and providing the FDA with periodic updates. We have begun to implement systemic changes and organizational enhancements to address the four warning letter items and related quality systems. We have established teams to review and address the items cited by the FDA and have engaged external subject matter experts to assist in assessment and remediation efforts.

At September 30, 2014, we had purchase order commitments of approximately $44.3 million related to product costs, supplies, services and property, plant and equipment purchases. Many of our materials and supplies require long lead times. Our purchase order commitments reflect materials that may be received up to one year from the date of order.

In addition to the above, we have entered into employment agreements with all of our executive officers. These contracts do not have a fixed term and are constructed on an at-will basis. Some of these contracts provide executives with the right to receive certain additional payments and benefits if their employment is terminated including after a change of control, as defined in these agreements.

From time to time we invest in certain development stage entities in connection with research activities. Certain contingent milestone payments in connection with these arrangements have not been accrued in the accompanying condensed consolidated financial statements as the amounts are indeterminate at this time.

The taxation and customs requirements, together with other applicable laws and regulations of certain foreign jurisdictions, can be inherently complex and subject to differing interpretation by local authorities. We are subject to the risk that either we have misinterpreted applicable laws and regulations, or that foreign authorities may take inconsistent, unclear or changing positions on local law, customs practices or rules. In the event that we have misinterpreted any of the above, or that foreign authorities take positions contrary to ours, we may incur liabilities that may differ materially from the amounts accrued in the accompanying condensed consolidated financial statements.

Contingent Consideration and Milestone Payments

In December 2013, we acquired CircuLite using a combination of cash, stock and post-acquisition milestone payments. The milestone payments are payable based upon the achievement of six specified performance milestones over a 10 year period. The maximum amount of the aggregate milestone payments could be $320 million. As of September 30, 2014, the fair value of the contingent consideration was estimated to be $52.8 million (*see* Note 4).

License and Development Agreements

From time to time, we license rights to technology or intellectual property from third parties. These licenses may require us to pay upfront payments as well as development or other payments upon successful completion of preclinical, clinical, regulatory or revenue milestones. In addition, these agreements may require us to pay royalties on sales of products arising from the licensed technology or intellectual property. Because the achievement of these milestones is not reasonably estimable, we have not recorded a liability on our condensed consolidated balance sheets for any of these contingencies.

Litigation

From time to time we may be involved in litigation or other contingencies arising in the ordinary course of business. Based on the information presently available, management believes there are no contingencies, claims or actions, pending or threatened, the ultimate resolution of which will have a material adverse effect on our financial position, liquidity or result of operations.

In accordance with FASB ASC 450*, Contingencies*, we accrue loss contingencies including costs of settlement, damages and defense related to litigation to the extent they are probable and reasonably estimable. Otherwise, we expense these costs as incurred. If the estimate of a probable loss is a range and no amount within the range is more likely, we accrue the minimum amount of the range.

Note 13. Subsequent Events

We have evaluated events and transactions that occurred subsequent to September 30, 2014 through the date the financial statements were issued, for potential recognition or disclosure in the accompanying condensed consolidated financial statements. As disclosed in Note 3, in October 2014, a $10 million convertible promissory note receivable from a privately held company was converted into shares of preferred stock of that company. Except for this conversion, we did not identify any events or transactions that should be recognized or disclosed in the accompanying condensed consolidated financial statements.

ITEM 2. 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 together with our unaudited interim condensed consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q. Certain abbreviated key terms have the meanings defined elsewhere in this Quarterly Report on Form 10-Q.

Overview

HeartWare is a medical device company that develops and manufactures miniaturized implantable heart pumps, or ventricular assist devices, to treat patients suffering from advanced heart failure.

The HeartWare Ventricular Assist System (the "HVAD System"), which includes a ventricular assist device ("VAD"), or blood pump, patient accessories and surgical tools, is designed to provide circulatory support for patients in the advanced stage of heart failure. The core of the HVAD System is a proprietary continuous flow blood pump, the HVAD Pump, which is a full-output device capable of pumping up to 10 liters of blood per minute. The HVAD System is designed to be implanted adjacent to the heart, avoiding abdominal surgery, which is generally required to implant similar devices.

In November 2012, we received approval from the United States Food and Drug Administration ("FDA") for the HVAD System as a bridge to heart transplantation in patients with end-stage heart failure. The HVAD System has been available in the European Union since receiving CE marking in 2009. In May 2012, we received an expanded European label for long-term use of the HVAD System in patients at risk of death from refractory, end-stage heart failure. The HVAD System has been implanted in patients at over 250 health care sites in 40 countries.

On August 27, 2013, the FDA approved an Investigational Device Exemption ("IDE") Supplement allowing us to commence enrollment in an additional patient cohort for the ENDURANCE clinical trial. In this supplemental cohort, we intend to enroll up to 310 patients receiving the HVAD System, as well as up to an additional 155 control patients using a randomization scheme consistent with the ENDURANCE protocol. We anticipate completion of enrollment in this supplemental cohort in the first half of 2015. Patients will be followed for 12 months after implant. We intend to incorporate the data from both this supplemental cohort and ENDURANCE into an anticipated PMA Application seeking approval of the HVAD System for the Destination Therapy indication.

MVAD System

Beyond the HVAD System, we are also developing our next generation miniaturized device, known as the MVAD System. The MVAD System is based on the same technology platform as the HVAD System but adopts an axial flow, rather than a centrifugal flow, configuration and is being developed in multiple designs. The MVAD Pump is less than one-half the size of the HVAD Pump and can provide partial or full support. The MVAD platform is designed to allow for a variety of configurations and surgical placements with the goal of further reducing surgical invasiveness while producing superior clinical results. We are preparing regulatory submissions seeking approval to commence a CE Mark study at nine international sites, as well as an IDE study in the United States.

CircuLite

On December 1, 2013, we acquired CircuLite, Inc. CircuLite is the developer of the SYNERGY Circulatory Support System, a partial support system designed to treat less sick, ambulatory, chronic heart failure patients who are not yet inotrope-dependent. While our HVAD and MVAD Systems offer minimally invasive treatment to end-stage heart failure patients, the SYNERGY platform offers potentially even less invasive and ultimately interventional options to earlier-stage heart failure patients. The SYNERGY Surgical System, which received CE marking in the European Union in 2012, was designed for long-term support and is intended to reduce the heart's workload while improving blood flow to vital organs. As a result of issues that arose after its commercial release, the SYNERGY system no longer carries the CE marking and is not presently available for sale. We continue to correspond with regulatory authorities regarding adverse events involving the SYNERGY system. The SYNERGY system is currently undergoing a design review with the goal of identifying design modifications that address the issues experienced by the original commercial system. Following design modifications, we intend to determine a strategy for clinical evaluation and eventual return to clinical use of the SYNERGY system.

We are also developing a next generation endovascular version of the SYNERGY system which offers an interventional approach to circulatory support and is able to be implanted collaboratively by cardiologists and surgeons in a hybrid catheterization ("cath") lab setting.

FDA Warning Letter

We received a warning letter from the FDA, dated June 2, 2014, following an inspection of our Miami Lakes, Florida facility conducted in January 2014. The FDA letter cited four categories for us to address: (1) procedures for validating device design, including device labeling; (2) procedures for implementing corrective and preventive action (CAPA); (3) maintaining records related to investigations; and (4) validation of computer software used as part of production or quality systems. The warning letter did not require any action by physicians or patients and did not restrict use of HeartWare's devices.

We sent the FDA our initial response to the warning letter within the required fifteen business days of receipt and committed to undertaking certain quality system improvements and providing the FDA with periodic updates. We have begun to implement systemic changes and organizational enhancements to address the four warning letter items and related quality systems. We have established teams to review and address the items cited by the FDA and have engaged external subject matter experts to assist in assessment and remediation efforts. As we complete this comprehensive review of our quality systems, it is possible that we may need to take additional actions.

Recent Urgent Medical Device Corrections and Voluntary Battery Recall

We issued two Urgent Medical Device Corrections in April 2014 and a recall of certain older batteries in July 2014, which are ongoing as of September 30, 2014.

The first Correction was announced by us on April 24, 2014 and provides updated information to patients and clinicians with respect to a driveline connector correction previously distributed to all of our clinical sites in December 2013. A disconnected driveline would result in a temporary pump stop which could cause serious injury or death, depending on the function of a patient's native heart. This notification requests patients to discuss the Correction with their physician or VAD Coordinator. Clinicians are asked to inspect the patient's driveline connector for proper locking at implant and at each routine clinic visit to ensure that the connector assembly remains secure. The notification provides instruction to both patients and clinicians should the locking mechanism fail to engage or the driveline becomes disconnected from the controller and advises clinicians to promptly call their HeartWare representative to arrange a permanent repair should these events occur.

The second Correction was announced by us on May 1, 2014. In letters to clinicians and patients, we reported an observed increase in complaints related to earlier-than-expected battery depletion and routine battery handling. This field safety correction action provides information to assist patients and clinicians to monitor battery performance, recognize abnormal behaviors and reinforce proper power management of the HVAD System. On July 30, 2014, we extended our field safety corrective action to include a voluntary recall of certain older batteries. The recall instructs sites to replace certain older batteries in the field upon patients' routine visits in order to further mitigate the potential risks associated with premature battery depletion. We continue to monitor complaints and may take further actions as appropriate. During the second and third quarters of 2014, we recorded charges of $1.7 million and $0.6 million, respectively, for estimated costs associated with the recall.

Summary of Recent Financial Performance

Revenue was $68.6 million for the quarter ended September 30, 2014 compared to $54.8 million in the same period of 2013. This increase reflects 39% revenue growth in the United States, where our HVAD System is labeled solely for a bridge-to-transplantation indication, and 11% internationally where the HVAD System is more broadly indicated for general long-term heart failure patients. In each case, revenue growth reflected continued market penetration within existing customer accounts and to a lesser extent revenue contributed from newly added customers. As of September 30, 2014, the Company had 105 customers in the United States and 151 customers internationally.

We realized a slight increase in gross margin percentage to 66.5% in the third quarter compared to 64.4% in the third quarter of 2013 which is primarily attributable to production efficiencies associated with increased manufacturing throughput.

Combined selling, general, administrative, research and development expenses in the third quarter increased to $50.0 million, compared to $45.8 million in the third quarter of 2013. The net increase includes expansion of sales and marketing activities, external warning letter remediation costs, and increased clinical activity as we make preparations for human clinical testing for the MVAD System and associated peripherals.

Our financial results are more fully described in *Results of Operations* below.

Critical Accounting Policies and Estimates

We prepare our financial statements in accordance with accounting principles generally accepted in the United States. We are required to adopt various accounting policies and to make estimates and assumptions in preparing our financial statements that affect the reported amounts of our assets, liabilities, revenue and expenses. On an ongoing basis, we evaluate our estimates and assumptions. We base our estimates on our historical experience to the extent practicable and on various other assumptions that we believe are reasonable under the circumstances and at the time they are made. If our assumptions prove inaccurate or if our future results are not consistent with our historical experience, we may be required to make adjustments in our policies that affect our reported results. Our significant accounting policies are disclosed in Note 3 to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013 ("2013 Annual Report on Form 10-K") filed with the Securities and Exchange Commission on March 3, 2014. During the nine months ended September 30, 2014, there were no significant changes to any of our significant accounting policies.

Our most critical accounting policies and estimates include: revenue recognition, inventory capitalization and valuation, reserves, accounting for share-based compensation, measurement of fair value, valuation of tax assets and liabilities, long-lived assets, intangible assets and goodwill, and contingent consideration. We also have other key accounting policies that are less subjective and, therefore, their application is less subject to variations that would have a material impact on our reported results of operations. There have been no material changes to our critical accounting policies and estimates from the information provided in Part II, Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, included in our 2013 Annual Report on Form 10-K.

Results of Operations

Three and nine months ended September 30, 2014 and 2013

Revenue, net

In the three and nine months ended September 30, 2014 and 2013, we generated revenue through commercial sales and clinical trials.

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2014	2013	Change	2014	2013	Change
	(in thousands)			(in thousands)		
Revenue, net	$68,608	$54,800	25%	$205,211	$154,875	33%

Revenue was $68.6 million for the quarter ended September 30, 2014, reflecting 39% revenue growth in the United States, where our HVAD System is labeled solely for a bridge-to-transplantation indication, and 11% internationally where the HVAD System is more broadly indicated for general long-term heart failure patients. In each case, revenue growth reflected continued market penetration within existing customer accounts and to a lesser extent revenue contributed from newly added customers.

Our U.S. revenue was $39.1 million for the quarter ended September 30, 2014 compared to $28.2 million during the quarter ended September 30, 2013. A total of 361 pumps were sold in the U.S. during the third quarter of 2014 compared to 263 pumps sold in the same period of 2013. The U.S. revenue increase included 62 HVAD Systems sold under the Company's supplemental patient cohort for the ENDURANCE clinical trial.

Our international revenue was $29.5 million for the quarter ended September 30, 2014 compared to $26.6 million during the quarter ended September 30, 2013. A total of 314 pumps were sold internationally during the third quarter of 2014 compared to 287 pumps sold in the same period of 2013.

Total revenue was $205.2 million for the nine months ended September 30, 2014, reflecting 38% revenue growth in the United States and 26% internationally. In each case, revenue growth reflected continued market penetration within existing customer accounts and to a lesser extent revenue contributed from newly added customers.

Our U.S. revenue was $109.8 million for the nine months ended September 30, 2014 compared to $79.4 million in the same period of 2013. A total of 1,012 pumps were sold in the U.S. during the nine months ended September 30, 2014 compared to 736 pumps sold in the same period of 2013. The U.S. revenue increase included 133 HVAD Systems sold under the Company's supplemental patient cohort for the ENDURANCE clinical trial.

Our international revenue was $95.4 million for the nine months ended September 30, 2014 compared to $75.5 million in the same period of 2013. A total of 1,002 pumps were sold internationally during the nine months ended September 30, 2014 compared to 819 pumps sold in the same period of 2013.

Changes in foreign currency exchange rates favorably impacted net revenue by approximately $0.3 million and $2.9 million, or 0.5% and 1.9%, in the three and nine months ended September 30, 2014, compared to the same periods in 2013. In the three and nine months ended September 30, 2014, approximately 40% and 44% of our net revenue was denominated in foreign currencies including principally the Euro and British pound compared to 46% and 45% in the same periods in 2013. Movements in foreign currency exchange rates have had an effect on our reported revenue amounts in the past and could have a significant favorable or unfavorable impact on our reported revenue amounts in the future.

We expect to continue to generate and grow commercial revenue from product sales as we further expand our sales and marketing efforts on a global basis. Future product sales are dependent on many factors, including perception of product performance and market acceptance among physicians, patients, health care payers and the medical community as well as our capacity to meet customer demand by manufacturing sufficient quantities of our products.

Cost of Revenue

Cost of revenue includes costs associated with manufacturing and distributing our products and consists of direct materials, labor and overhead expenses allocated to the manufacturing process, provisions for excess or obsolete inventory, and shipping costs. Cost of revenue totaled approximately $23.0 million and $19.5 million in the three months ended September 30, 2014 and 2013, respectively. Cost of revenue totaled approximately $68.8 million and $57.2 million in the nine months ended September 30, 2014 and 2013, respectively.

Gross profit and gross margin percentage are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(in thousands)		(in thousands)	
Gross profit	$45,631	$35,271	$136,365	$97,700
Gross margin %	66.5%	64.4%	66.5%	63.1%

The three month comparative increase in gross margin percentage was primarily a result of production efficiencies driven by increased revenue and manufacturing throughput resulting in 3.3 percentage points of improvement, partially offset by 1.2 percentage points resulting from increases in reserve allowances including the recent battery recall charges described in Note 3 to the condensed consolidated financial statements included in this report.

The nine month comparative increase in gross margin percentage was primarily a result of production efficiencies driven by increased revenue and manufacturing throughput resulting in 6.5 percentage points of improvement, partially offset by 3.1 percentage points resulting from increases in reserve allowances including the recent battery recall charge noted above.

Selling, General and Administrative

Selling, general and administrative expenses include costs associated with selling and marketing our products and the general corporate administration of the Company. These costs are primarily related to salaries and wages and related employee costs, travel, marketing, external consultants and contractors, legal and accounting fees and general infrastructure costs, and include all operating costs not associated with or otherwise classified as research and development costs or cost of revenue.

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2014	2013	Change	2014	2013	Change
	(in thousands)			(in thousands)		
Total selling, general and administrative expenses	$ 20,584	$ 19,844	4%	$ 65,765	$ 53,548	23%

The increase of $0.7 million for the three months ended September 30, 2014 as compared to the same period in 2013 resulted primarily from commercial expansion and included $2.0 million of salaries and related costs associated with headcount growth, an increase in certain professional fees of $1.2 million and $0.4 million of increased travel, conference, tradeshows and other marketing expenditures. These increases were partially offset by various reductions in certain information technology and facilities expenses of $1.5 million, a reduction in legal fees of $0.9 million and a decrease in non-cash share-based compensation expense of $0.4 million.

The increase of $12.2 million for the nine months ended September 30, 2014 as compared to the same period in 2013 included approximately $3.0 million of restructuring charges, primarily related to our acquisition of CircuLite. These expenses included lease exit costs associated with facilities we vacated in Massachusetts and New Jersey, severance costs and asset impairment charges. The remainder of the increase resulted primarily from commercial expansion and included $7.1 million of salaries and related costs associated with headcount growth and $2.5 million of increased travel, conference, tradeshows and other marketing expenditures. We also experienced an increase in non-cash share-based compensation expense of $0.8 million due to an increase in the number of outstanding awards and the increased valuation of those awards as well as an increase in certain professional fees of $2.7 million and an increase in medical device excise taxes of $0.6 million. These increases were partially offset by various reductions in certain information technology and facilities expenses of $3.2 million and a reduction in legal fees of $1.1 million.

We expect our selling, general and administrative expenses to continue to increase as we continue to expand our sales and distribution capabilities in an effort to increase market penetration on a global basis as well as enhance our administrative capabilities to support our overall corporate growth.

Research and Development

Research and development expenses are the direct and indirect costs associated with developing our products prior to commercialization, including the costs of operating clinical trials, and are expensed as incurred. These expenses fluctuate based on project level activity and consist primarily of salaries and wages and related employee costs of our research and development, clinical and regulatory staffs, external research and development costs, and materials and expenses associated with clinical trials. Research and development expenses also include costs associated with our compliance with FDA regulations. Additional costs include travel, facilities and overhead allocations.

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2014	2013	Change	2014	2013	Change
	(in thousands)			(in thousands)		
Total research and development expenses	$ 29,477	$ 25,930	14%	$ 88,981	$ 72,201	23%

The increase of $3.5 million for the three months ended September 30, 2014 as compared to the same period of 2013 was primarily due to a $2.0 million increase in salaries and related costs associated with headcount growth and an increase in preclinical and clinical trial costs of $1.4 million. We also experienced an increase in certain infrastructure costs of $1.6 million. These increases were partially offset by a $0.5 million decrease in development project costs, including consumables, outside engineering, consultants and contractors. The third quarter of 2013 also included a $0.6 million loss on the disposal of assets. This loss primarily related to the sale or disposal of fixed assets when we ceased certain development activities performed at our former Australian facility and relocated those activities to the United States.

The increase of $16.8 million for the nine months ended September 30, 2014 as compared to the same period of 2013 was primarily due to a $6.3 million increase in salaries and related costs associated with headcount growth and an increase in preclinical and clinical trial costs of $5.2 million. We also experienced an increase in certain infrastructure costs of $3.5 million, a $1.5 million increase in development project costs, including consumables, outside engineering, consultants and contractors and $0.5 million in fees related to the cancellation of a development agreement. In connection with our acquisition of CircuLite, we recorded restructuring charges aggregating $1.1 million, including contract termination fees and severance costs.

Included in the amounts above for the three and nine months ended September 30, 2014 are incremental expenses of $2.2 million incurred in connection with the warning letter we received from the FDA in June 2014. We expect our warning letter-related expenses to trend higher in the fourth quarter of 2014, and into the first quarter of 2015, but should decrease thereafter as we complete some of the resource intensive activities for which we have contracted external consultants and advisors.

We expect that research and development expenses will continue to represent a significant portion of our operating expenses for the foreseeable future as we continue to incur substantial development costs related to our next generation products, including the Pal controller, the MVAD System, the SYNERGY system and certain early research initiatives, clinical trial expenses related to clinical trials for the HVAD System in new markets and expanded indications and for the MVAD System both in Europe and the United States, as well as ongoing clinical trial expenses associated with bridge-to-transplant post-approval study requirements and ongoing patient follow-up related to the ENDURANCE clinical trial.

Change in Fair Value of Contingent Consideration

On December 1, 2013, we acquired CircuLite, Inc. using a combination of cash and stock. In addition to initial consideration paid at closing, the former CircuLite securityholders may be entitled to receive additional shares of HeartWare common stock (or cash, in certain cases, at our discretion) upon the achievement of six specified performance milestones. The estimated fair value of the contingent consideration is calculated on a quarterly basis by management. In the three months ended September 30, 2014, we recorded a $3.6 million adjustment for the net decrease in the estimated fair value of the contingent consideration from June 30, 2014 to September 30, 2014. Adjustments in revenue projections, due to the anticipated delay in re-launching the SYNERGY Surgical System, resulted in a $6.1 million decrease in the fair value of a component of the contingent consideration related to royalty payments. This decrease in fair value was partially offset by a $2.5 million increase in fair value due to the effect of the passage of time on the fair value measurement.

In the nine months ended September 30, 2014, adjustments aggregating $14.2 million were recorded for the net decrease in the estimated fair value of the contingent consideration since December 31, 2013. The net decrease in the estimated fair value of the contingent consideration in the nine months ended September 30, 2014 was primarily due to a $16.6 million reduction as a result of the unlikely probability of achieving the performance milestone conditions related to the re-launch of the SYNERGY Surgical System, which is undergoing redesign following its removal from the market in 2013 and loss of CE marking in the European Union in March 2014. In addition, as noted above, we adjusted our revenue projections for the SYNERGY Surgical System, which resulted in a $6.1 million decrease in the fair value of a component of the contingent consideration related to royalty payments. These decreases in fair value were partially offset by an $8.5 million increase in fair value due to the effect of the passage of time on the fair value measurement.

The estimated fair value of the contingent consideration requires significant management judgment or estimation and is calculated using the income approach. We utilize significant inputs, including various revenue assumptions, discount rates and apply a probability to each outcome. Potential valuation adjustments will be made as additional information becomes available, including the progress toward achieving re-launch of the SYNERGY Surgical System as well as revenue and milestone targets as compared to initial projections. Adjustments associated with changes in the estimated fair value of the contingent consideration are presented on a separate line item on our condensed consolidated statements of operations and will be similarly presented in future accounting periods.

Foreign Exchange

We generate a substantial portion of our revenue and collect receivables in foreign currencies. Fluctuations in the exchange rate of the U.S. dollar against the Euro, British Pound and Australian dollar can result in foreign currency exchange gains and losses that may significantly affect our financial results. Continued fluctuation of these exchange rates could result in financial results that are not comparable from quarter to quarter.

In the three months ended September 30, 2014, our net foreign exchange losses totaled approximately $3.3 million compared to net foreign exchange gains of approximately $2.1 million in the same period of 2013. In the nine months ended September 30, 2014, our net foreign exchange losses totaled approximately $3.1 million compared to net foreign exchange losses of approximately $0.4 million in the same period of 2013. During the third quarter of 2014, the Euro weakened significantly relative to the U.S. dollar. This was the primary contributor to the foreign exchange losses experienced in the third quarter of 2014.

In 2014 and 2013, the majority of our realized and unrealized foreign exchange gains and losses resulted from the settlement of certain balance sheet accounts, primarily accounts receivable that were denominated in foreign currencies, and the remeasurement to U.S. dollars at period end of certain balance sheet accounts, denominated in foreign currencies, primarily the Euro. We expect to continue to realize foreign exchange gains and losses for the foreseeable future as a significant portion of our sales is denominated in foreign currencies. We do not currently utilize foreign currency contracts to manage foreign exchange risks.

Interest Expense

Interest expense in 2014 and 2013 primarily consists of interest incurred on the principal amount of our convertible senior notes issued in December 2010, amortization of the related discount and amortization of the portion of the deferred financing costs allocated to the debt component. The convertible senior notes bear interest at a rate of 3.5% per annum. The discount on the convertible senior notes and the deferred financing costs are being amortized to interest expense through the December 15, 2017 maturity date of the convertible senior notes using the effective interest method.

In the three months ended September 30, 2014, interest expense was approximately $3.3 million, which included $1.3 million of interest incurred on the principal amount of the convertible notes at the 3.5% coupon rate and $2.0 million of non-cash amortization of the related discount and deferred financing costs. In the three months ended September 30, 2013, interest expense was approximately $3.1 million, which included $1.3 million of interest incurred on the principal amount of the convertible notes at the 3.5% coupon rate and $1.8 million of non-cash amortization of the related discount and deferred financing costs.

In the nine months ended September 30, 2014, interest expense was approximately $9.8 million, which included $3.8 million of interest incurred on the principal amount of the convertible notes at the 3.5% coupon rate and $6.0 million of non-cash amortization of the related discount and deferred financing costs. In the nine months ended September 30, 2013, interest expense was approximately $9.1 million, which included $3.8 million of interest incurred on the principal amount of the convertible notes at the 3.5% coupon rate and $5.3 million of non-cash amortization of the related discount and deferred financing costs.

Investment Income, net

Investment income is primarily derived from investments and cash and short-term deposit accounts held in the U.S. as well as note receivable interest on a strategic investment in a private company. The amortization of premium on our investments is also included in investment income, net. Investment income, net was approximately $0.1 million and $0.5 million in the three and nine months ended September 30, 2014, respectively, compared to $0.1 million and $0.2 million in the same periods in the prior year. We continue to experience low interest rates on our deposits and available-for-sale investments.

Income Taxes

We are subject to taxation in the United States and jurisdictions outside of the United States. These jurisdictions have different marginal tax rates. Foreign earnings are considered to be permanently reinvested in operations outside the U.S. and therefore we have not provided for U.S. income taxes on these unrepatriated foreign earnings. We have incurred significant U.S. losses since inception, however, changes in issued capital and share ownership, as well as other factors, may limit our ability to utilize any net operating loss carry-forwards, and therefore a 100% valuation allowance has been recorded against our net deferred tax assets. For the three and nine months ended September 30, 2014, our tax provision includes estimated foreign taxes in jurisdictions where wholly-owned subsidiaries may be subject to current taxes.

Additionally, in accordance with ASC 740 we continue to record and evaluate tax positions for recognition using a more-likely-than-not threshold, and those tax positions eligible for recognition are measured as the largest amount of tax benefit that is greater than 50% likely of being realized upon the effective settlement with a taxing authority that has full knowledge of all relevant information.

Liquidity and Capital Resources

As of September 30, 2014, our cash and cash equivalents were approximately $113.6 million as compared to $162.9 million at December 31, 2013.

Following is a summary of our cash flow activities:

	Nine Months Ended September 30,	
	2014	2013
	(in thousands)	
Net cash used in operating activities	$ (15,046)	$ (19,624)
Net cash used in investing activities	(36,860)	(22,913)
Net cash provided by financing activities	837	144,356
Effect of exchange rate changes on cash and cash equivalents	1,837	166
Net (decrease) increase in cash and cash equivalents	$ (49,232)	$ 101,985

Cash Used in Operating Activities

For the nine months ended September 30, 2014, cash used in operating activities consisted of a net loss of $18.5 million, adjustments for non-cash items of $17.7 million and cash used in working capital of $14.3 million. The net loss was driven by normal operating activities including the sale of the HVAD System in the U.S. and abroad, increased expenditures on research and development as well as increased administrative costs. Adjustments for non-cash items primarily consisted of $17.3 million of share-based compensation, $6.2 million of depreciation and amortization of long-lived assets, $5.7 million for the amortization of the discount on our convertible notes, $1.0 million loss on an equity investment and $0.6 million for the impairment of fixed assets, which were partially offset by an adjustment of $14.2 million from the decrease in fair value of contingent consideration. The decrease in cash from changes in working capital included $10.4 million in increased trade accounts receivable, $13.1 million for the purchase and manufacture of inventories and $2.3 million for the payment of trade accounts payable. These amounts were partially offset by a decrease in prepaid expenses and other assets of $2.4 million and an increase in accrued liabilities of $7.1 million.

For the nine months ended September 30, 2013, cash used in operating activities consisted of a net loss of $37.3 million and non-cash adjustments to net loss totaling approximately $28.1 million. Non-cash adjustments include $16.4 million of share-based compensation, $5.0 million for the amortization of the discount on our convertible notes and $5.2 million of depreciation and amortization on long-lived assets. Also included in cash used in operating activities in the nine months ended September 30, 2013 was approximately $4.8 million in increased trade accounts receivable, $2.7 million for the payment of trade payables and $5.6 million for prepaid expenses and other current assets.

Cash Used in Investing Activities

In the nine months ended September 30, 2014, net cash used in investing activities included $29.7 million for the purchase (net of maturities) of available-for sale securities, $6.0 million to acquire property, plant and equipment and $1.2 million for intellectual property.

In the nine months ended September 30, 2013, net cash used by investing activities included $20.7 million for the purchase (net of maturities) of available-for sale securities, $2.1 million used to acquire property, plant and equipment and $0.6 million for intellectual property. These amounts were partially offset by $0.7 million received upon the sale of certain property, plant and equipment in connection with the closure of our Australian facility.

Cash Provided by Financing Activities

On March 12, 2013, we entered into an Underwriting Agreement (the "Underwriting Agreement") with J.P. Morgan Securities LLC, as representative of the several underwriters named in the Underwriting Agreement (the "Underwriters"), pursuant to which we agreed to sell and the Underwriters agreed to purchase, subject to and upon terms and conditions set forth therein, an aggregate of 1,500,000 shares of our common stock at a net sales price of $81.9114 per share (the public offering price of $86.45 per share minus the underwriting discount). We also granted the Underwriters an option to purchase 225,000 additional shares of our common stock at the public offering price less the underwriting discount, which the Underwriters exercised in full on March 13, 2013. The closing of the offering occurred on March 18, 2013. After fees and related expenses, net proceeds from the offering were approximately $141.0 million. The offering was completed pursuant to a prospectus supplement, dated March 12, 2013, to a shelf registration statement on Form S-3 that was previously filed with the SEC and which was declared effective on December 9, 2010.

The exercise of stock options in the nine months ended September 30, 2014 and 2013 resulted in cash proceeds of approximately $0.8 million and $3.4 million, respectively.

Operating Capital and Capital Expenditure Requirements

We have incurred substantial operating losses to date and anticipate that we will continue to consume cash and incur net losses as we expand our sales and marketing capabilities, develop new products and seek regulatory approvals for expanded indications of the HVAD System in the United States. For the remainder of 2014, cash on hand is expected to be used primarily to fund our ongoing operations, including:

- expanding our sales and marketing capabilities on a global basis;
- growing market penetration particularly in United States;
- continued product development, including development of the MVAD Pump and Pal controller;
- pre-clinical and clinical costs relating to prospective first human implants of the MVAD Pump, and clinical trials related to expanded indications of the HVAD System;
- development and relaunch efforts with respect to the SYNERGY Surgical System;
- development of the next generation endovascular system with respect to the SYNERGY platform;
- regulatory and other compliance functions, including activities to enhance our quality systems in response to the warning letter we received from the FDA in June 2014;
- expanding work in process and finished goods inventory to support ongoing operations;
- planned investments in infrastructure to support our growth; and
- general working capital.

Our convertible notes bear interest at a rate of 3.5% per annum, payable semi-annually in arrears on June 15 and December 15 of each year. To date, all interest payments have been paid on a timely basis. Based on the outstanding principal amount of our convertible senior notes at September 30, 2014, the semi-annual interest payment due on December 15, 2014 will be approximately $2.5 million. This amount is expected to be paid from cash on hand.

We believe cash on hand and investment balances as of September 30, 2014 are sufficient to support our planned operations for at least the next twelve months. At September 30, 2014, approximately $5.9 million of our cash on hand was held in foreign locations, including Australia, Germany and the United Kingdom. To date, the Company has not had unremitted foreign earnings and has not incurred U.S. federal and state income taxes related to repatriated earnings. As our operations in our foreign subsidiaries grow, we may generate foreign earnings. Any repatriation of those earnings to the United States would likely result in us incurring federal and state income taxes. We currently plan to permanently reinvest any earnings of our foreign subsidiaries.

Because of the numerous risks and uncertainties associated with the development of medical devices, we are unable to estimate the exact amounts of capital outlays and operating expenditures necessary to maintain regulatory approvals, fund commercial expansion, and develop and obtain regulatory approvals for new products. Our future capital requirements will depend on many factors, including but not limited to the following:

- implementation of systemic improvements necessary to satisfactorily address the observations cited in the June 2, 2014 warning letter we received from the FDA;
- commercial acceptance of our products;
- reimbursement of our products by governmental agencies and third party payers;
- costs to manufacture and ensure regulatory compliance of our products;
- expenses required to operate multiple clinical trials;
- further product research and development for next generation products and expanding indications for our products as well as efforts to sustain and implement incremental improvements to existing products;
- expanding our sales and marketing capabilities on a global basis;
- broadening our infrastructure in order to meet the needs of our growing operations, including regulatory compliance;
- expenses related to funding and integrating strategic investments, acquisitions and collaborative arrangements;

- payment of the 2.3% excise tax on gross revenue from the sale of our medical devices in the United States imposed by the Patient Protection and Affordable Care Act;
- payment of our convertible notes on maturity if not converted or repurchased; and
- complying with the requirements related to being a public company in the United States.

Contractual Obligations

In the nine months ended September 30, 2014, there were no material changes outside the ordinary course of business to our contractual obligations provided in Part II, Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, included in our 2013 Annual Report on Form 10-K filed with the SEC on March 3, 2014.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk represents the risk of changes in the value of market risk sensitive instruments caused by fluctuations in interest rates, foreign exchange rates and commodity prices. Changes in these factors could cause fluctuations in our results of operations and cash flows.

Interest Rate Risk

Our exposure to interest rate risk is currently confined to interest earnings on our cash and cash equivalents that are invested in highly liquid money market funds, short-term time deposits, short-term bank notes and short-term commercial paper. The primary objective of our investment activities is to preserve our capital to fund operations. We also seek to generate reasonable income from our investments without assuming significant risk. We do not presently use derivative financial instruments in our investment portfolio. Our cash and investments policy emphasizes liquidity and preservation of principal over other portfolio considerations.

If interest rates rise, the market value of our investment portfolio may decline, which could result in a loss if we choose or are forced to sell an investment before its scheduled maturity. We do not utilize derivative financial instruments to manage interest rate risks.

Our convertible senior notes do not bear interest rate risk as the notes were issued with a fixed interest rate of 3.5% per annum.

Foreign Currency Rate Fluctuations

We conduct business in foreign countries. For U.S. reporting purposes, we translate all assets and liabilities of our non-U.S. entities at the period-end exchange rate and revenue and expenses at the average exchange rates in effect during the periods. The net effect of these translation adjustments is shown in the accompanying condensed consolidated financial statements as a component of stockholders' equity.

We generate a significant portion of our revenue and collect receivables in foreign currencies. Fluctuations in the exchange rate of the U.S. dollar against major foreign currencies, including the Euro, British Pound and Australian dollar, can result in foreign currency exchange gains and losses that may significantly impact our financial results. These foreign currency transaction and translation gains and losses are presented as a separate line item on our condensed consolidated statements of operations. Continued fluctuation of these exchange rates could result in financial results that are not comparable from quarter to quarter. We do not currently utilize foreign currency contracts to mitigate the gains and losses generated by the re-measurement of non-functional currency assets and liabilities but do hold cash reserves in currencies in which those reserves are anticipated to be expended.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of the Chief Executive Officer and Chief Financial Officer, carried out an evaluation required by the Securities Exchange Act of 1934, as amended (the "Exchange Act"), of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rule 13a-15(e) of the Exchange Act, as of September 30, 2014. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of September 30, 2014, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms and to provide reasonable assurance that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the fiscal quarter ended September 30, 2014, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Controls and Procedures

Our management, including the Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. Thus, misstatements due to error or fraud may occur and not be detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of controls.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is not a party to any material legal proceedings at the date of filing of this Quarterly Report on Form 10-Q.

ITEM 1A. RISK FACTORS

In addition to the information set forth in this report you should carefully consider the risk factors described in Part I, Item 1A. "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013 filed with the SEC on March 3, 2014.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

There were no unregistered sales of our equity securities during the three months ended September 30, 2014.

ITEM 6. EXHIBITS

3.1	Certificate of Incorporation of HeartWare International, Inc. (1)
3.2	Bylaws of HeartWare International, Inc. (1)
10.1	Offer letter, dated as of September 23, 2013, between HeartWare, Inc. and Mark Strong +*
10.2	Promotion letter, effective as of July 21, 2014, between HeartWare, Inc. and Mark Strong +*
10.3	Employment Contract, dated as of September 1, 2014, between HeartWare GmbH and Katrin Leadley, M.D. +*
31.1	Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 *
31.2	Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 *
32.1	Certification by the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 **
32.2	Certification by the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 **
101	The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2014, formatted in eXtensible Business Reporting Language (XBRL): (i) Unaudited Condensed Consolidated Balance Sheets as of September 30, 2014 and December 31, 2013, (ii) Unaudited Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2014 and 2013, (iii) Unaudited Condensed Consolidated Statements of Comprehensive Loss for the three and nine months ended September 30, 2014 and 2013, (iv) Unaudited Condensed Consolidated Statement of Stockholders' Equity for the nine months ended September 30, 2014, (v) Unaudited Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2014 and 2013, and (vi) Notes to Unaudited Condensed Consolidated Financial Statements.

(1) Incorporated by reference to the respective exhibits filed with the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 13, 2008.
* Filed herewith
** Furnished herewith
\+ Management contract or compensatory plan or arrangement

SIGNATURES

In accordance with 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.

HEARTWARE INTERNATIONAL, INC.

Date: October 31, 2014

/s/ Douglas Godshall

Douglas Godshall
President and Chief Executive Officer
(Principal Executive Officer)

Date: October 31, 2014

/s/ Peter F. McAree

Peter F. McAree
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

EXHIBIT INDEX

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Exhibit 10.1

September 23, 2013 *REVISED*

Mark Strong
922 County Road I West
Shoreview, MN 55126

Dear Mark:

We are pleased to offer you a position with HeartWare, Inc. (together, the "Company" or "we" or "us") on the terms and conditions set out below:

1. **Position.** Your title will be Vice President, Research & Development of the Company**.** As such, you will be responsible, among other things, for the leadership of the Company's product development group. In this role you will be responsible for providing technical and managerial leadership related to product development of mechanical, electrical systems and associated sustaining engineering. You will manage the early identification and retirement of technical and project management risks associated with product commercialization, product enhancements for customer satisfaction, and business sustaining projects. Other responsibilities include the establishment and implementation of tactical and strategic development plans, development and control of product specifications for internal and external manufacturing, and ensuring compliance with the Company's Design Control Standard Operating Procedures. You will report directly to the Chief Executive Officer of the Company, and shall provide such other services as may be requested by the Chief Executive Officer or the Board of Directors of the Company, consistent with your position. Your usual place of business will be at the Company's offices in Framingham, Massachusetts but you will also be expected to visit the engineering team in Miami Lakes, Florida on a regular basis. You understand and agree that the Company may from time to time require you to travel to and work at other locations. We expect your commencement date to be September 30, 2013 ("Commencement Date").

2. **Compensation.** Your base salary shall be at the annual rate of $250,000, payable in accordance with the Company's payroll policies as from time to time in effect ("Base Salary"). Your Base Salary will be reviewed annually by the Board and may be adjusted by the Board in its discretion.

3. **Annual Bonus.** You are eligible to participate in an annual cash bonus program established from time to time by the company based on your performance (which may be measured by specific individual and corporate goals), targeted at 35% of your salary and as determined by the Company in its discretion. The Company shall pay the annual cash bonus for a calendar year, if at all, on or after January 1st, but by no later than March 15th, of the next year. No annual cash bonus is guaranteed. Payment of all annual bonuses rests in the sole discretion of the Company regardless of the achievement of pre-specified goals, and you must be employed with the

Company on the payment date in order to be eligible to receive any such annual bonus. During your first year of employment, if your start date is between April 1st and September 30th you will be eligible for a prorated bonus based on the number of days you are actually employed by the Company during the year, however if your start date is after September 30th you will not be eligible for a bonus.

4. In addition, you will receive a one-off bonus of $50,000.00 (fifty thousand dollars), payable within 90 days of your commencement so long as you continue to be employed by the Company at that date and contingent to a hire date of September 30, 2013 or before.

5. Equity Award.

a. The Company will recommend to the Board of Directors of HeartWare International, Inc. (the "Parent") that you be granted 12,000 restricted stock units. Restricted stock units represent the Company's commitment to issue to you that number of shares of common stock upon the satisfaction of specified terms and conditions.

b. The Company will also recommend to the Board of Directors of Parent that you be granted nonqualified options to purchase 5,000 shares of Parent common stock at an exercise price equal to the closing price of Parent common stock reported on NASDAQ on the later of the Commencement Date or the date the Board of Directors approves the grant (the "Grant Date").

Both the restricted stock units and the options would vest in four equal installments on each of the first four anniversaries of the Commencement Date and on such other terms and conditions as the Board shall determine in its sole discretion at the time of grant generally consistent with past practice. Vesting of these securities shall be subject to you continuing to be employed by the Company as of an anniversary date.

6. Relocation. To assist you with the relocation of your family to Massachusetts, the Company agrees to reimburse you for the following:

- Customary home sale closing costs to include broker fees;
- Customary home purchase closing costs to include broker fees;
- Reasonable moving expenses paid to an outside moving company for transportation of the household goods from your home in Minnesota to your residence in Massachusetts;
- Reasonable spousal travel expenses incurred for one (1) house hunting trip;
- Reasonable and customary travel expenses (airfare, rental, meals) for up to 60 days until family relocation complete;
- If necessary up to 60 days of temporary housing and storage of household goods.

Should you voluntarily resign or are terminated by the Company for Cause within twelve (12) months of your Commencement Date, you will be obligated to repay a portion of the total relocation expense reimbursement. The portion to be repaid will be calculated as follows:

- Departure within 6 months of hire: 100% repayment
- Departure within 7 to 12 months of hire: percentage of repayment to be prorated based upon number of full months employed with the Company

7. Vacation, Insurance and Benefits; Expenses.

a. You shall be entitled to all legal holidays recognized by the Company, and 20 days of paid vacation per annum. Any unused vacation shall be subject to Company policy as from time to time in effect. Vacation days for the first fiscal year of your employment will be prorated from the Commencement Date.

b. You shall be eligible for participation in any health, dental, and other insurance plans that may be established and maintained by the Company from time to time for its employees of your level, all as determined by the Board in its discretion. You shall also be eligible to participate in any employee benefit programs that the Board may establish for Company employees generally, including but not limited to health insurance, 401(k) Plan and equity incentive plans. The Company's employee benefit programs will be discussed during your orientation.

c. The Company shall reimburse you for all usual and ordinary business expenses incurred by you in the scope of your employment hereunder in accordance with the Company's expense reimbursement policy as from time to time in effect.

8. Severance Pay.

a. If your employment is terminated by the Company without "Cause" (as defined below) or by you for "Good Reason" (as defined below) other than in connection with a Change in Control (as described below), and subject to the notice and release requirements described below, the Company shall pay, beginning within 15 days after your termination of employment, (i) your Base Salary for a period of 6 months, payable in accordance with the standard payroll practices then in effect for active senior executives; and (ii) the employee portion of your COBRA continuation coverage (to the extent that you elect coverage) for a period of 6 months or, if earlier, until you become entitled to participate in another employer's health plan.

b. If your employment is terminated by the Company without "Cause" (as defined below) or by you for "Good Reason" (as defined below) coincident

with or within 18 months after a Change in Control (as defined below), and subject to the notice and release requirements described below, the Company shall cause to be paid, on or beginning within 15 days after your termination of employment, (i) a lump-sum cash payment in an amount equal to one times your Total Salary; and (ii) the employee portion of your COBRA continuation coverage (to the extent that you elect coverage) for a period of 12 months or, if earlier, until you become entitled to participate in another employer's health plan. The severance pay provided under this Section 6(b) shall supersede, and not be in duplication of, the severance pay provided under Section 6(a). "Total Salary" means your then current Base Salary plus the most recent amount paid to you as your Annual Bonus, provided that for purposes of this Section 6(b) your 2013 Annual Bonus shall not be prorated and prior to the payment of your 2013 Annual Bonus your target 2013 Annual Bonus shall be deemed to be the most recent amount paid to you as your Annual Bonus.

c. "Cause" means your: (i) material or persistent breach of this letter agreement; (ii) engaging in any act that constitutes serious misconduct, theft, fraud, material misrepresentation, serious dereliction of fiduciary obligations or duty of loyalty to the Company; (iii) conviction of a felony, or a plea of guilty or *nolo contendere* to a felony charge or any criminal act involving moral turpitude or which in the reasonable opinion of the Board brings you, the Board, the Company or any affiliate into disrepute; (iv) neglect of or negligent performance of your duties under this letter agreement; (v) willful, unauthorized disclosure of material confidential information belonging to the Company, or entrusted to the Company by a client, customer, or other third party; (vi) repeatedly being under the influence of drugs or alcohol (other than prescription medicine or other medically related drugs to the extent that they are taken in accordance with their directions) during the performance of your duties under this letter agreement, or, while under the influence of such drugs or alcohol, engaging in grossly inappropriate conduct during the performance of your duties under this letter agreement; (vii) repeated failure to comply with the lawful directions of your immediate supervisor or the Board that are not inconsistent with the terms of this letter agreement; or (viii) actual engagement in conduct that violates applicable state or federal laws governing the workplace that could reasonably be expected to bring the Company or any affiliate into disrepute. In order for the Company to terminate your employment for Cause under any of clauses (i), (iv), (vi) or (vii) in the preceding sentence, the Company must provide you with written notice of its intention to terminate employment for Cause and describing the acts or omissions upon which such termination for Cause is based, and you shall be provided a 30-day period from the date of such notice within which to cure or correct such acts or omissions if they are reasonably susceptible of cure or correction.

d. "Good Reason" means the occurrence of any of the following without your consent:

i. a material diminution in your Base Salary;

ii. a material diminution in your authority, duties, or responsibilities;

iii. a material diminution in the authority, duties, or responsibilities of the supervisor to whom you are required to report, including a requirement that you report to a corporate officer or employee instead of the Board;

iv. a material diminution in the budget over which you retain authority; or

v. any other action or inaction that constitutes a material breach by the Company of any agreement under which you provide services.

Notwithstanding the above, no "Good Reason" exists unless (I) you notify the Company in writing within 90 days after the initial existence of any condition listed above, and the Company fails to cure the condition within 30 days after receiving notice, and (II) you terminate employment by no later than 2 years after the initial existence of any condition listed above.

e. A "Change in Control" means the earliest to occur of any of the following events, construed in accordance with section 409A of the Internal Revenue Code:

i. Any one Person or more than one Person Acting as a Group (each as defined below) acquires, or has acquired during the 12-month period ending on the date of the most recent acquisition by such Person or Group, beneficial ownership of more than a majority of the total fair market value or total voting power of the then-outstanding securities of the Parent;

ii. Any one Person or more than one Person Acting as a Group (each as defined below) acquires, or has acquired during the 12-month period ending on the date of the most recent acquisition by such Person or Group, the assets of the Parent that have a total gross fair market value (as determined by the Board) of more than 50% of the total gross fair market value of all of the assets of, as applicable, the Parent immediately prior to the initiation of the acquisition; or

iii. A majority of the members of the board of directors of the Parent is replaced during any 12-month period by directors whose appointment or election is not endorsed or approved by a majority of the members of the board who were members of the board prior to the initiation of the replacement.

For purposes of this Section 6(e), a "Person" means any individual, entity or group within the meaning of section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as

amended, other than (A) the Parent, (B) any trustee or other fiduciary holding securities under an employee benefit plan of the Parent, or (C) any corporation owned, directly or indirectly, by the stockholders of the Parent in substantially the same proportions as their ownership of stock of the Parent. Persons will be considered to be "Acting as a Group" (or a "Group") if they are owners of a corporation that enters into a merger, consolidation, purchase or acquisition of stock, or similar business transaction with the corporation. If a Person owns stock in both corporations that enter into a merger, consolidation, purchase or acquisition of stock, or similar transaction, such stockholder is considered to be Acting as a Group with other stockholders only with respect to the ownership in that corporation before the transaction giving rise to the change and not with respect to the ownership interest in the other corporation. Persons will not be considered to be Acting as a Group solely because they purchase assets of the same corporation at the same time or purchase or own stock of the same corporation at the same time, or as a result of the same public offering.

For purposes of this Section 6(e), section 318(a) of the Internal Revenue Code applies to determine stock ownership. Stock underlying a vested option is considered owned by the individual who holds the vested option (and the stock underlying an unvested option is not considered owned by the individual who holds the unvested option). For purposes of the preceding sentence, however, if a vested option is exercisable for stock that is not substantially vested (as defined by Treasury regulation section 1.83 3(b) and (j)), the stock underlying the option is not treated as owned by the individual who holds the option.

f. Your right to receive severance pay under this Section 6 is conditioned upon (i) your signing and delivering to the Company, before any payment is due or scheduled to begin, a general release of claims, in form and substance reasonably acceptable to the Company, by which you release the Company from any claim arising from your employment by, or termination of employment with, the Company, in consideration for the payment; and (ii) your compliance with Sections 8, 9, 10 and 11 of this letter agreement. The Company shall make no payment before the general release becomes effective upon the expiration of any applicable revocation period.

g. Although your employment may be terminated immediately by the Company at any time for any reason, if your employment is terminated by the Company other than for Cause upon less than 90 days' prior written notice of such termination, the Company agrees to pay you that portion of your compensation attributable to the period for which the Company fails to satisfy the 90 day notice requirement described above. Any such payment of compensation in lieu of notice will be paid in accordance with the provisions of Section 6(a) or 6(b), as applicable. Any termination of employment by you for any reason shall require 90 days' prior written notice.

h. Notwithstanding the above, on termination of your employment (for whatever reason) you shall be entitled to receive the pro rata portion of your Base

Salary through the date of your termination, together with such compensation or benefits to which you may be entitled by law or under the terms of the Company's compensation and benefit plans in effect including, without limitation, amounts owed to you for unpaid vacation leave accrued during the course of your employment with the Company.

9. At Will Employment.

a. This letter agreement describes the compensation and benefits that you are entitled to receive for so long as you remain employed by the Company, but is not a contract or guarantee of employment for any particular period of time. At all times you will remain an employee at will, and you and the Company are free to terminate your employment at any time for any reason.

b. Should your employment with the Company be terminated by the Company for Cause, by you without Good Reason, or as a result of your death or permanent disability or other physical or mental incapacity, you shall be entitled to receive only the prorated portion of your Base Salary through the date of your termination of employment, together with such other compensation or benefits to which you may be entitled by law, the terms of this letter agreement, or under the terms of the Company's compensation and benefit plans then in effect.

10. Noncompetition.

a. You will not without the prior written consent of the Company or the Parent during your employment either directly or indirectly in any capacity (including without limitation as principal, agent, partner, employee, stockholder, unit holder, joint venturer, director, trustee, beneficiary, manager, consultant, or advisor) carry on, advise, provide services to or be engaged, concerned or interested in or associated with any Competitive Business (as defined below), or be engaged or interested in any public or private work or duties which in the reasonable opinion of the Board or the CEO, may hinder or otherwise interfere with the performance of your duties.

b. You will not at any time in the 12 months after the termination of your employment (for whatever reason) without the written consent of the Company or the Parent:

i. on a worldwide basis directly or indirectly in any capacity (whether as principal, agent, partner, employee, stockholder, unit holder, joint venturer, director, trustee, beneficiary, manager, consultant, or advisor) carry on, advise, provide services to or be engaged, concerned or interested in or associated with any Competitive Business (as defined below); or

ii. counsel, procure, or otherwise assist any person to do any of the acts referred to in Section 8(b)(i).

Given that the business of the Company and the Parent is and is expected to continue to be conducted on a worldwide basis, and you will be actively involved with and intimately familiar with the business of the Company on a worldwide basis, you acknowledge and agree that more narrow geographical limitations of any nature on this noncompetition covenant (and the non-solicitation covenant below) are therefore not appropriate and would not adequately protect the Company or the Parent.

Nothing in this Section 8(b) prohibits you (whether directly or through nominees) of holding shares listed on a recognized stock exchange, provided you do not hold more than 5% of the issued capital of a company.

c. "Competitive Business" means any business or activity which is involved in the research, development, sale, distribution and/or marketing of mechanical circulatory assist devices or other business or activities in which the Company participates or plans to participate within 12 months.

11. Non-solicitation. During your employment with the Company and for 12 months after your termination of employment (for whatever reason), you shall not, directly or indirectly, on your own behalf or on behalf of any third party, without the express written consent of the Company or the Parent:

a. canvass, solicit, target, induce or entice or endeavor to solicit, target, induce or entice away from the Company or the Parent, or attempt to divert, reduce or take away, the business or patronage (with respect to products or services of the kind or type developed, produced, marketed, furnished or sold by the Company with which you were substantively involved during the course of your employment with the Company) of, of any of the clients, customers, vendors, suppliers or accounts, or prospective clients, customers, suppliers, vendors or accounts of the Company or the Parent that you contacted, solicited or served while employed by the Company or supplier to or in the habit of dealing with the Company or the Parent;

b. target, recruit, solicit, hire away, or otherwise interfere with the employment relationship of, or endeavor to entice away, any employee of the Company or the Parent, or otherwise induce any such employee to cease their relationship with the Company or the Parent; or

c. counsel, procure or otherwise assist any person to do any of the acts referred to in Section 9(a) or (b).

12. Non-disparagement. You shall not, while employed by the Company or at any time after your termination of employment, directly, or through any other personal entity, make any public or private statements that are disparaging of the Company or the Parent, their respective businesses or employees, officers, directors, or stockholders.

The Company agrees that, after your termination of employment with the Company for any reason, it will refrain from making any public statements that disparage you. The Company's obligations under this Section 9 extend only to the then-current officers and members of the Board, and only for so long as those individuals are officers or directors of the Company. Nothing herein shall be deemed to prevent you or the Company from complying with their respective legal obligations or responding to a subpoena or other court order.

13. **Indemnification.** Except in the case of negligence, fraud, embezzlement or misrepresentation, the Company hereby agrees to indemnify and hold you harmless to the fullest extent permitted by Section 145 of the Delaware General Corporation Law and to cause any parent or subsidiary of the Company (including, without limitation, the Parent) to indemnify and hold you harmless to the fullest extent permitted by the provisions of the laws of the jurisdiction of its incorporation against any liability, loss or expense (including reasonable attorney's fees and costs incurred in defense of such claims) incurred in connection with the your services as an officer or director of the Company or any of its subsidiaries or affiliates, including the Parent, if in each of the foregoing cases, (i) you acted in good faith and in a manner you believed to be in, or not opposed to, the best interests of the Company, and, with respect to any criminal proceeding, had no reasonable cause to believe your conduct was unlawful, and (ii) your conduct did not constitute gross negligence or willful or wanton misconduct. Without limitation of the foregoing, this paragraph shall be deemed to grant to the you the rights to indemnification provided by the Company's and the Parent's certificate of incorporation and by-laws, as currently constituted, regardless of any subsequent amendment or modification of the applicable provisions of such instruments, with such provisions being deemed incorporated herein by reference. The Company shall advance or cause its subsidiaries to advance all expenses (including all reasonable legal fees and expenses) reasonably incurred by you in defending any such claim, action or proceeding, whether civil, administrative, criminal or otherwise, brought against you in your capacity as an officer of director of the Company or any of its subsidiaries or affiliates, including the Parent, to the fullest extent permitted under applicable law, provided you provide an undertaking pursuant to which you agree to repay all such advances if it is ultimately determined that you are not entitled to indemnification under the circumstances. Notwithstanding anything else contained in this letter agreement, the above shall not apply where the liability, loss or expense (including reasonable attorney's fees and costs incurred in defense of such claims) incurred by you arise as a result, directly or indirectly, of any claim or action taken against you by the Company, the Parent or any of their respective subsidiaries or affiliates.

14. **Proprietary Information.** Both during and after your employment with the Company, you will treat all proprietary or other confidential information as strictly confidential. Further, you agree to sign and comply with the terms and conditions of the enclosed Proprietary Information, Confidentiality, and Inventions Assignment Agreement, which is incorporated by reference into this letter agreement. This offer of continued employment is contingent upon your signing that agreement.

15. **Injunctive Relief: Clawback.** You recognize and acknowledge that it would be difficult to ascertain the damages arising from a breach or threatened breach of the covenants set forth in Sections 8 (noncompetition), 9 (non-solicitation), 10 (non-disparagement), and 11 (proprietary information) and that any such breach or threatened breach could result in irreparable harm to the Company. You therefore agree that, notwithstanding anything in this letter agreement to the contrary, including but not limited to the forfeiture and clawback provision below, the Company shall have the right to an injunction or other equitable relief in any court of competent jurisdiction, enjoining any such breach, without prior notice to you and without the posting of a bond or other guarantee, to enforce this letter agreement. You hereby waive any and all defenses you may have on the ground of lack of jurisdiction or competence of the court to grant such an injunction or other equitable relief. The existence of this right shall not preclude any other rights and remedies at law or in equity that the Company may have. The provisions of Section 12 shall survive termination of this letter agreement and/or your employment with the Company. The existence of a claim or cause of action of any kind by you against the Company shall not constitute a defense to the enforcement by the Company of the rights provided in this Section 12 and shall not be a defense to any injunction proceeding. In addition, notwithstanding anything herein to the contrary, if the Board, in its discretion, determines that you have engaged in any activity that contravenes any covenant set forth in Section 8, 9, 10 or 11, you shall forfeit any amount payable under Section 6 (severance pay), and you agree to repay the Company, within 30 days after you receive notice of the Board's determination, any amount previously paid by the Company under Section 6.

16. **Blue Pencil; Severability**. If any provision of this letter agreement is construed by a court of competent jurisdiction to be invalid or unenforceable, that construction does not affect the remainder of this agreement, which is to be given full force and effect without regard to the invalid or unenforceable provision. Any invalid or unenforceable provision is to be reformed to the maximum time, geographic and/or business limitations permitted by applicable laws, so as to be valid and enforceable.

17. **Waivers.** No delay or omission by the Company in exercising any right under this letter agreement operates as a waiver of that or any other right. The Company's waiver or consent on any one occasion is effective only for that occasion and is not be construed as a bar or waiver of any right on any other occasion.

18. **Federal Employment Law.** Please note that Federal law requires you to provide the Company with documentation of your identity and eligibility to work in the United States. In addition, the Company verifies the validity of social security numbers. Accordingly, this offer is further conditioned upon your providing the required documentation to the Company within three business days after your start date. A list of the required documentation will be provided during your orientation.

19. **Prior Employers.** By accepting this offer of employment, you are representing that you are not party to any agreement with any prior employer that prevents your working for the Company or that would prevent you from performing your assigned duties for the Company. You agree to respect the provisions of any confidentiality and nondisclosure agreements and obligations you may have with any prior employer.

20. **Background Check.** The Company reserves the right to conduct a background check of its employees, and your employment may be conditioned on satisfactory results.

21. **Tax Withholding.** The Company may withhold from any amounts payable under this letter agreement such federal, state, local or foreign income and employment taxes as shall be required to be withheld under applicable law.

22. **Section 409A Compliance.** The following rules relate to section 409A of the Internal Revenue Code of 1986 and any regulations and Treasury guidance promulgated thereunder ("Section 409A"), which govern deferred compensation:

    a. This letter agreement is intended to comply with, or otherwise be exempt from, Section 409A.

    b. The Company shall undertake to administer, interpret, and construe this letter agreement in a manner that does not result in the imposition on you of any additional tax, penalty, or interest under Section 409A.

    c. The Company and you agree to execute any and all amendments to this letter agreement permitted under applicable law, as mutually agreed in good faith, as may be necessary to ensure that this letter agreement complies with Section 409A.

    d. The preceding provisions, however, shall not be construed as a guarantee by the Company of any particular tax effect to you under this letter agreement. The Company shall not be liable to you for any payment made under this letter agreement that is determined to result in an additional tax, penalty, or interest under Section 409A, nor for reporting in good faith any payment made under this letter agreement as an amount includible in gross income under Section 409A.

    e. For purposes of Section 409A, the right to a series of installment payments under this letter agreement shall be treated as a right to a series of separate payments.

    f. With respect to any reimbursement of expenses of, or any provision of in-kind benefits to, you, as specified under this letter agreement, such reimbursement of expenses or provision of in-kind benefits shall be subject to the following conditions: (i) the expenses eligible for reimbursement or the amount of in-kind benefits provided in one taxable year shall not affect the expenses

eligible for reimbursement or the amount of in-kind benefits provided in any other taxable year, except for any medical reimbursement arrangement providing for the reimbursement of expenses referred to in section 105(b) of the Internal Revenue Code; (ii) the reimbursement of an eligible expense shall be made no later than the end of the year after the year in which such expense was incurred; and (iii) the right to reimbursement or in-kind benefits shall not be subject to liquidation or exchange for another benefit.

g. "Termination of employment," or words of similar import, as used in this letter agreement means, for purposes of any payments under this letter agreement that are payments of deferred compensation subject to Section 409A, your "separation from service" as defined in Section 409A.

h. If a payment obligation under this letter agreement arises on account of your separation from service while you are a "specified employee" (as defined under Section 409A and determined in good faith by the Board), any payment of "deferred compensation" (as defined under Treasury regulation section 1.409A-1(b)(1), after giving effect to the exemptions in Treasury regulation sections 1.409A-1(b)(3) through (b)(12)) that is scheduled to be paid within six months after such separation from service shall accrue without interest and shall be paid within 15 days after the end of the six-month period beginning on the date of such separation from service or, if earlier, within 15 days after the appointment of the personal representative or executor of your estate following your death.

23. **Successors, Binding Agreement.** This letter agreement shall not be assignable by you. This letter agreement may be assigned by the Company to any affiliate or to any other person that is a successor in interest to all or substantially all of the business operations of the Company. This letter agreement shall be binding upon, and inure to the benefit of, the parties hereto and their respective successors, heirs and permitted assigns.

24. **Governing Law.** This letter agreement shall be governed in all respects, including as to validity, interpretation and effect, by the laws of the Commonwealth of Massachusetts, without regard to its conflict of laws principles.

25. **Entire Agreement, Amendments.** This letter agreement, including the proprietary information, confidentiality, and inventions assignment agreement incorporated herein by reference, sets forth the entire agreement between you and the Company regarding your employment with the Company and supersedes all prior agreements or other understandings, whether written or oral, express or implied, between the parties to the extent that such agreements or understandings contain provisions addressed herein. This letter agreement may not be amended or modified except by a written agreement executed by the parties hereto or their respective successors and legal representatives.

* * * *

To indicate your acceptance of these updated terms and conditions of your employment, please sign and return the following to me:

- one copy of this letter, and
- one copy of the Company's standard Proprietary Information, Confidentiality, and Inventions Assignment Agreement, the form of which is annexed hereto as Exhibit A.

This is a great opportunity for both you and the Company, and we look forward to having you as a member of our team.

Sincerely,

HEARTWARE, INC.

By: /s/ Doug Godshall
Name: Doug Godshall
Title: President and Chief Executive Officer

Agreed to and accepted:

/s/ Mark Strong
Name: Mark Strong

Dated: 9-23-13

Exhibit 10.2

Mark Strong
4 Donnelly Drive
Dover, MA 02030

Dear Mark:

On behalf of HeartWare, Inc., we are pleased to promote you to the position of Senior Vice President, Research & Development and Quality, effective July 21, 2014. You will now assume leadership for the Quality organization in addition to Research and Development. Your new base salary will be $310,000 with an annual bonus target of 45% of your base salary, based upon your individual and company goal achievement.

The Company will recommend to the Board of Directors that you be granted 10,000 restricted stock units. The restricted stock units will vest in four equal installments on each of the first four anniversaries of your promotion commencement date, July 21st 2014, and on such other terms and conditions as the Board shall determine in its sole discretion at the time of the grant generally consistent with past practice.

In addition, you will receive $2,500 (net) per month as a housing allowance for 18 months or the removal of warning letter by FDA, whichever is shorter.

In your new role you will continue to report to me.

Congratulations on your new role and much continued success.

Sincerely,

/s/ Douglas Godshall

Douglas Godshall
President and Chief Executive Officer
HeartWare, Inc.

ARBEITSVERTRAG

Zwischen

HeartWare GmbH
Kugelfangtrift 10
30179 Hannover

(im folgenden "**Gesellschaft**" genannt)

und

Frau
Dr. Katrin Leadley
Karwendelstr. 15
82152 Krailling Deutschland

(im folgenden "**Mitarbeiterin"** genannt)

wird folgender Arbeitsvertrag geschlossen:

§ 1
Beginn und Dauer des Arbeitsverhältnisses

Das Arbeitsverhältnis beginnt zum 01.09.2014 und besteht unbefristet.

§ 2
Grundlagen des Arbeitsverhältnisses

1. Die Mitarbeiterin wird von zu Hause aus tätig werden. Es wird erwartet und ist nach dem Wesen dieses Vertrages erforderlich, dass die Mitarbeiterin regelmäßig Dienstreisen unternimmt und bei Bedarf an anderen Orten innerhalb Deutschlands, aber auch im europäischen und außereuropäischen Ausland tätig wird.

2. Für das Arbeitsverhältnis gelten die betrieblichen Regelungen und ergänzend die allgemeinen gesetzlichen Vorschriften nach deutschem Recht in der jeweils gültigen Fassung, soweit in diesem Vertrag nichts anderes vereinbart ist.

EMPLOYMENT CONTRACT

Between

HeartWare GmbH
Kugelfangtrift 10
30179 Hannover

(hereinafter referred to as "**Company**")

and

Mrs.
Katrin Leadley, MD
Karwendelstr. 15
82152 Krailling, Germany

(hereinafter referred to as "**Employee**")

the following Employment Contract is concluded:

§ 1
Commencement and Duration of Employment Contract

The Employment Contract commences on 01st September 2014 and continues for an unlimited period.

§ 2
Basis of Employment

1. The Employee will basically perform her employment duties from her home. However, it is expected and implied in this contract that the Employee travels for work purposes on a regular basis and will also work at other places within Germany as well as in foreign countries within or outside Europe.

2. The Company arrangements as far as work is concerned as well as the valid statutory provisions according to German law shall be part of this contract, unless otherwise stipulated.

3. Die Mitarbeiterin wird der Gesellschaft ihre ganze Arbeitskraft widmen und ihre Interessen wahren. Die Übernahme einer entgeltlichen und unentgeltlichen Nebentätigkeit im beruflichen Bereich bedarf der vorherigen schriftlichen Zustimmung der Gesellschaft. Die Gesellschaft wird ihre Zustimmung unverzüglich erteilen, sofern nicht berechtigte Interessen entgegenstehen.

3. The Employee will devote her entire working hours to take care of the Company's interest. Any additional professional occupation, whether paid or unpaid, requires the previous written consent of the Company. The Company shall provide its consent immediately unless there is contrary legitimate interest.

§ 3
Tätigkeit

1. Die Mitarbeiterin wird eingestellt als "Chief Medical Officer" ("CMO").

2. Die Gesellschaft behält sich vor, der Mitarbeiterin andere gleichwertige und zumutbare Aufgaben zuzuweisen, die ihren Vorkenntnissen und Fähigkeiten entsprechen. Macht die Gesellschaft hiervon Gebrauch, so ist sie verpflichtet, die bisherige Vergütung weiter zu zahlen.

§ 3
Job Description

1. The Employee shall be engaged as Chief Medical Officer ("CMO").

2. The Company reserves the right to engage the Employee in other equal and reasonable activities which correspond with her previous knowledge and capabilities. Should the Company avail itself of this right, it shall continue to pay the same amount of salary as beforehand.

§ 4
Arbeitszeit

1. Die regelmäßige Arbeitszeit beträgt 40 Stunden wöchentlich.

2. Die Verteilung der Arbeitszeit richtet sich nach den betrieblichen Erfordernissen.

3. Soweit es aus dienstlichen Gründen notwendig ist, verpflichtet sich die Mitarbeiterin, Mehrarbeit im Rahmen der gesetzlichen Bestimmungen zu leisten.

§ 4
Working Hours

1. The regular working hours shall be 40 hours per week.

2. The working time shall be distributed in accordance with the requirements of the business.

3. The Employee shall be obliged to work overtime insofar as this is legally permissible.

§ 5
Vergütung

1. Die Mitarbeiterin erhält ein Bruttogehalt in Höhe von € 276.000,00 jährlich, welches in 12 gleichen monatlichen Teilen in Höhe von € 23.000,00 ausgezahlt wird.

2. Darüber hinausgehende Gratifikationen, Leistungen oder sonstige Sonderzahlungen sind freiwillig und begründen auch bei wiederholter Zahlung keine Verpflichtung der Gesellschaft für die Zukunft. Dieser Freiwilligkeitsvorbehalt gilt nicht für Bonuszahlung nach Ziffer 3 dieser Vorschrift.

3. Die Mitarbeiterin nimmt nach den folgenden Maßgaben am Bonusprogramm der Gesellschaft teil:

- In Abhängigkeit ihrer persönlichen Leistung und dem Gesamtergebnis der Gesellschaft innerhalb eines Kalenderjahres ("Bemessungszeitraum") erhält die Mitarbeiterin eine jährliche Bonuszahlung.
- Beginnt das Arbeitsverhältnis nach dem Beginn des Bemessungszeitraums, wird eine etwaige Bonuszahlung anteilig ausgekehrt. Eine Bonuszahlung erfolgt nicht, wenn das Arbeitsverhältnis nach dem 30.09. beginnt.
- Die Höhe der Bonuszahlung wird nach Wahl der Gesellschaft festgelegt werden. Als Target gelten 40% der jährlichen Brutto-Vergütung gemäß § 5 Ziffer 1.

§ 5
Remuneration

1. The Employee shall receive an annual gross salary of € 276,000.00, which will be paid in twelve equal monthly installments in an amount of € 23.000,00.

2. Further bonuses or other extra payments are without prejudice for the future and do not constitute any obligation whatsoever on behalf of the Company. This shall not apply to the bonus payment under Paragraph 3.

3. The Employee shall under the following terms and conditions participate in the Company's bonus program:

- Depending on her individual performance and on the performance of the Company within a calendar year ("Assessment Period") the Employee shall receive an annual bonus payment.
- If the employment relationship commences after the beginning of the Assessment Period, bonus payments (if any) shall be pro-rated. No bonus payments shall be made if the employment relationship commences after 30 September.
- The amount of the bonus payment shall be determined at the Company's discretion and shall be targeted at 40 % of the annual gross remuneration under Section 5, Paragraph 1.

- Etwaige Bonuszahlungen erfolgen innerhalb des ersten Quartals nach dem Ende des Bemessungszeitraumes (Auszahlungszeitpunkt).
- Es besteht kein Anspruch auf eine Bonuszahlung, wenn das Arbeitsverhältnis im Auszahlungszeitpunkt nicht mehr besteht. Dieses gilt nicht, sofern das Anstellungsverhältnis endete, die Mitarbeiterin aber bei der HeartWare, Inc. ("HeartWare") in den Vereinigten Staaten eine Anstellung aufgenommen hat . Anteilige Zahlungen erfolgen nicht.
- Ein Anspruch besteht weiterhin nicht, wenn sich das Arbeitsverhältnis zum Auszahlungszeitpunkt in einem gekündigten Zustand befindet. Dies gilt nicht, wenn die Kündigung aus Gründen erfolgt, die der Mitarbeiter nicht zu vertreten hat, insbesondere aus betriebsbedingten Gründen.

4. Das Board der HeartWare International, Inc. hat bereits durch Beschluss der Gewährung von 15.000 "Restricted Stock Units" zugestimmt. Restricted Stock Units stellen die Verpflichtung der Gesellschaft dar, an die Mitarbeiterin die entsprechende Anzahl von Aktien bei Erreichen bestimmter Auflagen und Bedingungen auszugeben. Die Restricted Stock Units würden sodann in vier gleichen Tranchen jeweils im Zeitpunkt der ersten vier Jahrestage der Gewährung der Restricted Stock Units ("Datum der Gewährung") und gemäß der von der Geschäftsführung nach ihrem eigenen Ermessen erstellten sonstigen Auflagen und Bedingungen sowie im Einklang mit der bisherigen Übung ausgegeben. Die Ausgabe der Restricted Stock Units ist davon abhängig, dass die Mitarbeiterin jeweils im Zeitpunkt der vorbezeichneten Jahrestage bei der Gesellschaft oder HeartWare, Inc. beschäftigt ist. Das "Datum derGewährung" ist das Datum des Beginns derBeschäftigung der Mitarbeiterin bei der Gesellschaft.

- The bonus payment – if any - shall be made within the first quarter after the end of the Assessment Period (Payment Date)
- The Employee is not entitled to a bonus payment if the employment relationship has ended before the Payment Date, unless the employment relationship has ended and Employee has commenced employment with HeartWare, Inc. in the United States ("HeartWare"). There shall be no pro-rata payments.
- Furthermore the Employee is not entitled to a bonus payment if the employment relationship has been terminated on the Payment Date, unless the termination was caused by circumstances beyond the Employee's influence, e.g. urgent operational reasons.

4. The Board of Directors of HeartWare International, Inc. (the "Board") has already approved to the grant of 15,000 restricted stock units to the Employee. Restricted stock units represent the Company's commitment to issue to the employee that number of shares of common stock upon the satisfaction of specified terms and conditions. The restricted stock units would vest in four equal installments on each of the first four anniversaries of the date the restricted stock units are granted ("Grant Date") and on such other terms and conditions as the Board shall determine in its sole discretion at the time of grant generally consistent with past practice. Vesting of restricted stock units are subject to the employee continuing to be employed by the Company or HeartWare, as of an anniversary date. The "Grant Date" will be the commencement date of the Employee with the Company.

5. Geleistete Mehrarbeit ist mit dem Gehalt abgegolten, soweit die Mehrarbeit nicht mehr als 25 % der regelmäßigen Arbeitszeit gemäß § 4 Abs. 1 übersteigt. Darüber hinausgehende Mehrarbeit wird nur vergütet, wenn die Mehrarbeit von der Gesellschaft angeordnet oder ausdrücklich genehmigt wurde.

5. The remuneration includes salary for overtime as far as the overtime does not exceed 25 % of the regular working hours according to sec. 4 para. 1. Overtime beyond this level will only be paid for if the overtime is directed or approved by the Company.

§ 6
Auslagenersatz

Auslagen, die der Mitarbeiterin im Rahmen ihrer dienstlichen Tätigkeit für die Gesellschaft entstehen, werden von der Gesellschaft im Einklang mit der jeweils gültigen Fassung der Reise- und Kostenerstattungsrichtlinie der Gesellschaft nach Vorlage von Belegen ersetzt. Die Gesellschaft entscheidet darüber, ob die Auslagen im Rahmen der dienstlichen Tätigkeit der Mitarbeiterin entstanden sind. Die Mitarbeiterin hat die Belege für ihre Ausgaben bis zum Ende des Kalendermonats, in dem die Ausgaben entstanden sind, der Gesellschaft vorzulegen.

§ 6
Expenses

Expenses which arise in the course of the Employee's execution of her duties for the Company will be compensated by the Company on the basis of supporting documents consistent with the Company's travel and expense reimbursement policy in effect at the time. It is at the Company's discretion to decide whether or not the expenses arose in the course of the Employee's execution of her duties. The Employee is obliged to present the documentary proof of her expenses to the Company prior to the end of the month in which they arose.

§ 7
Arbeitsverhinderung

1. Wird die Mitarbeiterin durch Arbeitsunfähigkeit infolge Krankheit, Unfall oder einem sonstigen Grund

§ 7
Inability to work

1. In the event that the Employee is unable to perform her work due to sickness, accidents or any other reason without any

vorübergehend an ihrer Dienstleistung gehindert, ohne dass sie hieran ein Verschulden trifft, so wird das Gehalt nach den gesetzlichen Bestimmungen weitergezahlt.

2. Bei Arbeitsverhinderung ist die Gesellschaft unverzüglich über die Gründe und die voraussichtliche Dauer zu unterrichten.

3. Ist die Arbeitsverhinderung durch Krankheit verursacht, so ist die Arbeitsunfähigkeit außerdem spätestens am dritten Kalendertag durch Vorlage einer ärztlichen Bescheinigung nachzuweisen. Dauert die Arbeitsunfähigkeit länger als in der Bescheinigung angegeben, so ist innerhalb von drei Tagen eine neue Bescheinigung einzureichen.

§ 8
Urlaub

1. Die Mitarbeiterin hat einen Anspruch auf einen Erholungsurlaub von 30 Arbeitstagen je Kalenderjahr.

2. Zeitpunkt und Dauer des Urlaubs sind mit dem zuständigen Vorgesetzten abzustimmen.

3. Der Urlaub ist im Urlaubsjahr = Kalenderjahr zu nehmen. Er erlischt nach Ablauf des Kalenderjahres, es sei denn, dass er aus betrieblichen Gründen, mit Zustimmung der Gesellschaft oder wegen Krankheit nicht genommen werden konnte. Bei Beendigung des Arbeitsverhältnisses erfolgt eine etwaige Urlaubsabgeltung nur bis zur Höhe des gesetzlichen Mindesturlaubs.

fault on their part, the Company shall continue to pay the remuneration in accordance with German statutory law.

2. The Employee shall be obliged to inform the Company of any inability to work and the expected duration of such an inability. The Employee shall give reasons for the inability to work.

3. In the case of sickness, the Employee shall be obliged to present a doctor's certificate of inability to work giving the probable duration thereof before the end of the third calendar day from the beginning of inability to work. Should the inability to work last longer than given in the doctor's certificate a new doctor's certificate shall be submitted within three days.

§ 8
Vacation

1. The Employee will be entitled to 30 days vacation for each calendar year.

2. The date and the duration of the vacation are to be agreed upon with the Company's management.

3. The vacation is to be taken within the calendar year. After the end of the calendar year the Employee will not be entitled to carry over vacation days unless it could not be taken due to sickness or for Company reasons approved by the Company prior to year-end. If the employment relationship ends the Employee shall be entitled to payments for accrued vacation (if any) only up to the statutory minimum vacation entitlement.

§ 9
Verschwiegenheitspflicht

1. Die Mitarbeiterin verpflichtet sich, über alle nicht allgemein bekannten Firmenangelegenheiten, die der Mitarbeiterin anvertraut wurden oder die ihr anderweitig bekannt geworden sind, gegenüber dritten Personen Verschwiegenheit zu wahren. Diese Schweigepflicht erstreckt sich insbesondere auf Angelegenheiten anderer Firmen, mit denen die Gesellschaft wirtschaftlich oder organisatorisch verbunden ist, auf Informationen betreffend die Geschäftsstruktur, die Kunden- und Lieferantenbeziehungen, technisches Know-How und/oder andere Marketing, Handels- oder technische Informationen. Diese Verpflichtung dauert über das Ende des Arbeitsverhältnisses hinaus fort.

2. Geschäftliche Protokolle und Berichte jeder Art, einschließlich persönlicher Notizen betreffend geschäftliche Aktivitäten und sonstiger Geschäfte sind sorgfältig zu behandeln und unter Verschluss zu halten und nur für geschäftliche Zwecke zu verwenden. Es ist nicht gestattet, Kopien oder Abschriften, auch nicht auszugsweise, von Zeichnungen, Berechnungen, Statistiken und dergleichen oder von anderen geschäftlichen Protokollen oder dergleichen anzufertigen, sofern dies nicht für geschäftliche Zwecke erfolgt.

3. Bei Beendigung des Dienstverhältnisses ist die Mitarbeiterin verpflichtet, alle Gegenstände, die der Gesellschaft gehören und alle Schriftstücke, Korrespondenzen, Aufzeichnungen, Computerdateien, Entwürfe, Kopien und dergleichen, die die Angelegenheiten der Gesellschaft betreffen und sich noch in ihrem Besitz befinden, unverzüglich an die Gesellschaft herauszugeben. Ein Zurückbehaltungsrecht oder das Recht Kopien anzufertigen, besteht nicht.

§ 9
Secrecy

1. The Employee shall not disclose to any third party, any confidential, technical or other business information which has been entrusted to Employee, or which has otherwise become known to Employee and which relates to the Company or its business. In particular, no information may be disclosed concerning the matters of affiliated companies, the organization of the business, relationships with customers and suppliers and the technical know-how as well as other marketing, commercial and technical information related to the Company. This obligation shall not expire upon termination of employment but shall remain in force.

2. Business record of any kind, including private notes concerning Company affairs and activities, shall be carefully kept, maintained as confidential and shall be used only for business purposes. It is not permitted to make copies or extracts or duplicates of drawings, calculations, statistics and the like of any other business records or purposes other than for the Company's business.

3. Upon termination of employment, the Employee shall immediately return to the Company all things belonging to the Company and all documents, correspondence, notes, business records, computer data, drafts, copies and similar records in her possession and concerning the business of the Company. The Employee does not have a right to withhold such records or to make or to retain copies.

§ 10
Kündigung des Arbeitsverhältnisses

1. Dieser Vertrag kann von beiden Parteien mit einer Frist von 3 Monaten zum Monatsende ordentlich gekündigt werden.

   Das Recht beider Parteien zur ausserordentlichen Kündigung aus wichtigem Grund bleibt hiervon unberührt. Zwingende gesetzliche Kündigungsfristen, die für Kündigungen durch die Gesellschaft gelten, gelten in gleicher Weise für Kündigungen durch den Mitarbeiter.

   Im Falle der Kündigung behält sich die Gesellschaft das Recht vor, den Mitarbeiter mit sofortiger Wirkung unter Fortzahlung seines Gehalts freizustellen.

2. Sollte die Mitarbeiterin keine Erlaubnis zur Arbeit in den Vereinigten Staaten, die ihr die bereits geplante Arbeitsaufnahme bei der HeartWare Inc. ermöglicht, zum oder vor dem 01.10.2015 erhalten, steht beiden Parteien ein außerordentliches Kündigungsrecht mit einer Frist von drei Monaten zum Ende eines Kalendermonats zu.

3. Die Kündigung bedarf der Schriftform.

§ 10
Termination of the Employment Relationship

1. This agreement can be terminated by both parties with an ordinary termination period of 3 months to the end of a month.

   This does not affect the right of both parties to terminate this contract for good cause. Terms of notice, which are compulsory as a matter of law applicable to the notice of termination by the Company shall be compulsory with respect to the notice of termination by the Employee as well.

   Should notice of termination be given, the Company shall have the right to release the Employee with immediate effect. Employee's claim to salary for the notice period shall not be affected by such suspension.

2. In case the employee does not obtain authorization to work in the United States on or before October 1, 2015 to allow her to commence the already planned work with HeartWare Inc. in the USA both parties have the right, to terminate this Employment extraordinary with a notice period of three months to the end of the calendar month.

3. Notice of termination shall be given in writing.

4. Das Arbeitsverhältnis endet spätestens am Schluss des Monats, in dem die Mitarbeiterin das gesetzliche Rentenalter erreicht, ohne dass es einer Kündigung bedarf.

§ 11
Nachvertragliches Wettbewerbsverbot

1. Der Mitarbeiterin ist es untersagt, für die Dauer von 1 (einem) Jahr nach Beendigung des zwischen den Parteien bestehenden Arbeitsverhältnisses in selbständiger, unselbständiger und sonstiger Weise, weder mittelbar noch unmittelbar, weder für eigene noch für fremde Rechnung für ein Unternehmen im Gebiet der Mitgliedstaaten der Europäischen Union und den USA ("Wettbewerbsgebiet") tätig zu werden, welches mit der Gesellschaft im direkten oder indirekten Wettbewerb steht, einen solchen Wettbewerb fördert oder mit dem Wettbewerbsunternehmen verbunden ist ("Konkurrenztätigkeit"). Direkte und indirekte Wettbewerber sind definiert als Unternehmen, die Produkte entwickeln, herstellen und / oder vertreiben, die zu den Produkten der Gesellschaft im Wettbewerb stehen, insbesondere ventrikuläre Unterstützungssysteme (VAD – Ventricular Assist System).

2. In gleicher Weise ist es der Mitarbeiterin untersagt, während der Dauer dieses Verbots ein solches Unternehmen zu errichten, zu erwerben oder sich hieran unmittelbar oder mittelbar zu beteiligen. Von diesem Verbot ausgenommen sind Beteiligungen an bis zu einer Höhe von 5,0 % des stimmberechtigten Kapitals.

3. Für die Dauer des Verbots erhält die

4. The employment relationship shall terminate at the end of the month in which the Employee reaches the statutory pension age without termination notice being required.

§ 11
Postcontractual Noncompetition clause

1. The Employee shall be prohibited for the period of one (1) year after the cessation of the employment relation existing between the Parties from becoming active in a self-employed, employed or other fashion, either directly or indirectly, for her own account or for the account of a third party, for any enterprise in the territory of the member states of the European Union and the United States of America ("Competitive Territory") that competes with the Company directly or indirectly, promotes such competition or is affiliated with a competing company ("Competitive Activity"). Direct and indirect competitors are hereby defined as enterprises that develop, produce and/or market products that compete with the Company's products, particularly ventricular assist devices (VADs).

2. In the same fashion, the Employee shall be prohibited throughout the term of this prohibition from forming or acquiring such an enterprise or taking direct or indirect shares therein. Exempt from this prohibition shall be shareholdings of up to 5.0% of the voting capital.

3. For the duration of the prohibition, the Employee shall receive an indemnity of

Mitarbeiterin eine Entschädigung in Höhe der Hälfte der von ihr zuletzt bezogenen vertragsgemäßen Leistungen (§ 74 HGB).

4. Auf die Entschädigung muss sich die Mitarbeiterin andere Bezüge vollumfänglich anrechnen lassen. Der Mitarbeiter hat über anderweitige Einkünfte zum Ende eines jeden Quartals unaufgefordert Auskunft zu geben; die Auskunft ist auf Anforderung zu belegen.

5. Endet der Vertrag aufgrund des Eintritts der Mitarbeiterin in den vorzeitigen oder endgültigen Ruhestand, so entfallen die Regelungen der vorstehenden Ziffern 1. bis 4.

6. Für jede Handlung, durch die die Mitarbeiterin das Verbot gemäß vorstehenden Ziffern 1. und 2. schuldhaft verletzt, hat sie eine Vertragsstrafe in Höhe von € 25.000,00 zu zahlen.

7. Besteht die Verletzungshandlung in der kapitalmäßigen Beteiligung an einem Wettbewerbsunternehmen oder der Eingehung eines Dauerschuldverhältnisses (z.B. Arbeits-, Dienst-, Handelsvertreter- oder Beraterverhältnis), wird die Vertragsstrafe für jeden angefangenen Monat, in dem die kapitalmäßige Beteiligung oder das Dauerschuldverhältnis besteht, neu verwirkt (Dauerverletzung). Mehrere Verletzungen lösen jeweils gesonderte Vertragsstrafen aus, ggf. auch mehrmals innerhalb eines Monats. Erfolgen dagegen einzelne Verletzungshandlungen im Rahmen einer Dauerverletzung, sind sie von der für die Dauerverletzung verwirkten Vertragsstrafe mit umfasst.

8. Die Geltendmachung von Schäden, die über die verwirkte Vertragsstrafe hinausgehen, bleibt vorbehalten, das

one-half of her most recently received contractual benefits (§ 74 of the Commercial Code).

4. The Employee must allow the full scope of any other remuneration to be credited towards the indemnity. The Employee must provide information about any other income as of the end of each quarter, without need of request; proof of the information must be furnished upon request.

5. If the Agreement ceases because the Employee goes into early retirement or reaches definitive retirement age, the provisions in Paragraphs 1 to 4 shall no longer be applicable.

6. For each act through which the Employee negligently breaches the prohibition pursuant to Paragraphs 1 and 2, the Employee must pay a contractual penalty in the amount of € 25,000.00.

7. If the infringement act consists in a capital investment in a competing enterprise or the entry into a recurring obligation (e.g. employment, service, commercial representative or consultant relation), the contractual penalty shall be forfeited again for each initiated month in which the capital investment or the recurring obligation exists (persistent breach). Several breaches shall each trigger separate contractual penalties, even several times within one month. If, in contrast, individual acts of infringement occur within the framework of a single persistent breach, they shall be encompassed by the contractual penalty forfeited for the persistent breach.

8. The right to assert claims beyond the forfeited contractual penalty shall hereby reserved; this shall also apply to the assertion

Gleiche gilt für die Geltendmachung aller sonstigen gesetzlichen Ansprüche oder Rechtsfolgen aus einer Verletzung.

9. Die Gesellschaft kann auf die Einhaltung des Wettbewerbsverbotes jederzeit verzichten, sowohl während des Anstellungsverhältnisses als auch danach. Im Falle eines Verzichts wird die Mitarbeiterin von der Verpflichtung zur Unterlassung nach vorstehenden Ziffern 1. und 2. mit sofortiger Wirkung frei, während die Pflicht der Gesellschaft zur Zahlung der Entschädigung gemäß vorstehender Ziffer 3. sechs Kalendermonate nach Ausspruch des Verzichts endet.

§ 12
Sonstige Vereinbarungen

1. Dieser Vertrag unterliegt deutschem Recht.
2. Die deutsche Fassung dieses Vertrages ist die allein maßgebliche und bindende.

§ 13
Datenschutz

Die Mitarbeiterin ermächtigt die Gesellschaft, personenbezogene Daten über die Mitarbeiterin zu erheben und zu verwenden, soweit eine Rechtsvorschrift dies vorsieht und zwingend voraussetzt, dies der Zweckbestimmung des Arbeitsvertrages dient oder es zur Wahrnehmung berechtigter Interessen der Gesellschaft dient und die schutzwürdigen Interessen der Gesellschaft die schutzwürdigen Interessen der Mitarbeiterin am Ausschluss der Erhebung oder Verwendung überwiegen. Hierzu gehört auch die Übermittlung personenbezogener Daten im Rahmen der Auskunfts- und Meldepflicht nach sozialversicherungs- und steuerrechtlichen Vorschriften. Im Übrigen ermächtigt die Mitarbeiterin die Gesellschaft

of all other claims and legal consequences from the breach that are stipulated by law.

9. The Company may waive the observance of this Covenant Not to Compete at any time, both during the employment relation and thereafter. In the event of a waiver, the Employee shall be free of the desistance obligation in accordance with Paragraphs 1 and 2 with immediate effect, while the duty of the Company to pay the indemnity pursuant to Paragraph 3 shall cease 6 calendar months after declaration of the waiver.

§ 12
Subsidiary Agreement

1. The employment contract shall be governed by German law.
2. The German version of this contract shall be the authoritative and binding version.

§ 13
Data protection

The Employee agrees that the Company can collect and use Employee's personal data, if the collection and use is prescribed and required mandatory by a legal provision, or if it is necessary to fulfil the concrete purpose of the employment contract, or if it is necessary to safeguard legitimate interests of the Company and if it is appropriate after the interests of both parties have been weighed against each other. This includes the transfer of personal data within the scope of fulfilling the duty to provide information and the duty to report pursuant to Social Law and Tax Law. Furthermore the Employee authorizes the Company to forward his personal data to the Company's parent company HeartWare, Inc., which has its business seat in the US. The

dazu, ihre personenbezogenen Daten an die Muttergesellschaft der Gesellschaft, die HeartWare Inc., die ihren Geschäftssitz in den USA hat, weiterzuleiten. Die Mitarbeiterin ermächtigt HeartWare, Inc. diese Daten zu verwenden, soweit dies der Zweckbestimmung des Arbeitsverhältnisses zwischen der Mitarbeiterin und der Gesellschaft dient.

Employee authorizes HeartWare, Inc. to use such data as long as this is necessary to fulfil the concrete purpose of the employment relationship between the Employee and the Company.

§ 14
"Business Protection Agreement" und "Amendment to the Employment agreement concerning the grant of severance in the event of change in control"

Die Inhalte des als **Anlage 1** mit dieser Vereinbarung fest verbundenen und von der HeartWare Inc. vorgegebenen "Business Protection Agreement" und des als **Anlage 2** mit dieser Vereinbarung fest verbundenen und von der HeartWare Inc. vorgegebenen "Amendment to the Employment agreement concerning the grant of severance in the event of change in control" sind ebenfalls Vertragsbestandteile des zwischen der Gesellschaft und der Mitarbeiterin geschlossenen Arbeitsverhältnisses.

Das "Amendment to the Employment agreement concerning the grant of severance in the event of change in control" gilt sowohl für einen "change in control" bei der HeartWare Inc. oder HeartWare International, Inc. als auch sinngemäß bei einem solchen der Gesellschaft.

Die Parteien vereinbaren bereits zum jetzigen Zeitpunkt, dass die gemäß dem "Amendment to the Employment agreement concerning the grant of severance in the event of change in control" (Anlage 2) von der Gesellschaft zu erbringende Abfindungszahlung jedwede mögliche, insbesondere aufgrund Gesetz, einem Urteil oder einer Aufhebungs- oder Abwicklungsvereinbarung zu zahlende Abfindung an Erfüllungsstatt ersetzt.

§ 14
Business Protection Agreement and Amendment to the Employment agreement concerning the grant of severance in the event of change in control

The contents of the "Business Protection Agreement", which is attached fixed with this Agreement as **Annex 1** and given from the HeartWare Inc., and of the "Amendment to the Employment agreement concerning the grant of severance in the event of change in control", which is attached fixed with this Agreement as **Annex 2** and given from the HeartWare Inc., are also contractual parts of the employment between the Company and the employee.

The "Amendment to the Employment agreement concerning the grant of severance in the event of change in control" applies as well in the case of a change of control in regard to the HeartWare Inc. or HeartWare International, Inc. as analogously in the case of a change of control in regard of the Company.

The parties already agree at this time, that a severance pay provided by the Company under the "Amendment to the Employment agreement concerning the grant of severance in the event of change in control" (Annex 2) shall supersede any other possible severance payment especially based on law, on a judgment or on a termination / settlement agreement in lieu of fulfillment.

§ 15
Vertragsänderungen

1. Änderungen und/oder Ergänzungen dieses Vertrages, die nicht durch eine individuelle Vereinbarung der Vertragsparteien erfolgen, bedürfen zu ihrer Rechtswirksamkeit der schriftlichen Bestätigung. Dies gilt auch für den Verzicht auf dieses Schriftformerfordernis. Das bedeutet, dass keine Ansprüche aus betrieblicher Übung entstehen können

2. Sollte aus irgendeinem Grund eine Bestimmung dieses Vertrages unwirksam sein oder werden, so berührt dies nicht die übrigen Bestimmungen. An die Stelle der unwirksamen Bestimmung soll eine Regelung treten, die dem am nächsten kommt, was die Vertragspartner in verständiger Würdigung der beiderseitigen Interessen vereinbart hätten, falls sie die Unwirksamkeit der betreffenden Regelung gekannt hätten.

§ 15
Amendments to the Contract

1. Changes of and/or amendments to this contract, which were not agreed upon individually among the parties, shall require to be confirmed to in writing in order to become effective. This applies also to the waiver of the written form requirement. This means that no claims may arise under the terms of an operational practice ("*Betriebliche Übung*").

2. Should, for any reason, a provision of this contract be or become invalid, the remaining provisions shall not be effected thereby. The invalid provision shall be replaced by another provision reflecting as closely as possible what the parties would have agreed taking their mutual interests into consideration if they have known about the invalidity of the respective provision.

Datum, September 1, 2014

Gesellschaft

/s/ Doug Godshall
Doug Godshall
Geschäftsführer HeartWare GmbH

Mitarbeiterin

/s/ Katrin Leadley
Katrin Leadley

Date, September 1, 2014

Company

/s/ Doug Godshall
Doug Godshall
Managing Director HeartWare GmbH

Employee

/s/ Katrin Leadley
Katrin Leadley

Annex 2
Grant of Severance in the Event of Change in Control

a. If your employment is terminated by the Company without "Cause" (as defined below) or by you for "Good Reason" (as defined below) coincident with or within 18 months after a Change in Control (as defined below), and subject to the notice and release requirements described below, the Company shall cause to be paid, on or beginning within 15 days after your termination of employment a lump-sum cash payment in an amount equal to one times your Total Salary. The severance pay provided herein shall supersede, and not be in duplication of, any severance pay provided under the Employment Agreement or as required pursuant to any other statutory or legal requirement. "Total Salary" means your then current Base Salary plus the most recent amount paid to you as your Annual Bonus, if any.

b. "Cause" means your: (i) material or persistent breach of this letter agreement; (ii) engaging in any act that constitutes serious misconduct, theft, fraud, material misrepresentation, serious dereliction of fiduciary obligations or duty of loyalty to the Company; (iii) conviction of a felony, or a plea of guilty or *nolo contendere* to a felony charge or any criminal act involving moral turpitude or which in the reasonable opinion of the Board brings you, the Board, the Company or any affiliate into disrepute; (iv) neglect of or negligent performance of your duties under this letter agreement; (v) willful, unauthorized disclosure of material confidential information belonging to the Company, or entrusted to the Company by a client, customer, or other third party; (vi) repeatedly being under the influence of drugs or alcohol (other than prescription medicine or other medically related drugs to the extent that they are taken in accordance with their directions) during the performance of your duties under this letter agreement, or, while under the influence of such drugs or alcohol, engaging in grossly inappropriate conduct during the performance of your duties under this letter agreement; (vii) repeated failure to comply with the lawful directions of your immediate supervisor or the Board that are not inconsistent with the terms of this letter agreement; or (viii) actual engagement in conduct that violates applicable state or federal laws governing the workplace that could reasonably be expected to bring the Company or any affiliate into disrepute. In order for the Company to terminate your employment for Cause under any of clauses (i), (iv), (vi) or (vii) in the preceding sentence, the Company must provide you with written notice of its intention to terminate employment for Cause and describing the acts or omissions upon which such termination for Cause is based, and you shall be provided a 30-day period from the date of such notice within which to cure or correct such acts or omissions if they are reasonably susceptible of cure or correction.

c. "Good Reason" means the occurrence of any of the following without your consent:

   i. a material diminution in your Base Salary;

   ii. a material diminution in your authority, duties, or responsibilities;

iii. a material diminution in the authority, duties, or responsibilities of the supervisor to whom you are required to report, including a requirement that you report to a corporate officer or employee instead of the Board;

iv. a material diminution in the budget over which you retain authority; or

v. any other action or inaction that constitutes a material breach by the Company of any agreement under which you provide services.

Notwithstanding the above, no "Good Reason" exists unless (I) you notify the Company in writing within 90 days after the initial existence of any condition listed above, and the Company fails to cure the condition within 30 days after receiving notice, and (II) you terminate employment by no later than 2 years after the initial existence of any condition listed above.

d. A "Change in Control" means the earliest to occur of any of the following events, construed in accordance with section 409A of the Internal Revenue Code:

i. Any one Person or more than one Person Acting as a Group (each as defined below) acquires, or has acquired during the 12-month period ending on the date of the most recent acquisition by such Person or Group, beneficial ownership of more than a majority of the total fair market value or total voting power of the then-outstanding securities of the Parent;

ii. Any one Person or more than one Person Acting as a Group (each as defined below) acquires, or has acquired during the 12-month period ending on the date of the most recent acquisition by such Person or Group, the assets of the Parent that have a total gross fair market value (as determined by the Board) of more than 50% of the total gross fair market value of all of the assets of, as applicable, the Parent immediately prior to the initiation of the acquisition; or

iii. A majority of the members of the board of directors of the Parent is replaced during any 12-month period by directors whose appointment or election is not endorsed or approved by a majority of the members of the board who were members of the board prior to the initiation of the replacement.

For purposes of this Amendment, a "Person" means any individual, entity or group within the meaning of section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended, other than (A) the Parent, (B) any trustee or other fiduciary holding securities under an employee benefit plan of the Parent, or (C) any corporation owned, directly or indirectly, by the stockholders of the Parent in substantially the same proportions as their ownership of stock of the Parent. Persons will be considered to be "Acting as a Group" (or a "Group") if they are owners of a corporation that enters into a merger, consolidation, purchase or acquisition of stock, or similar business transaction with the corporation. If a Person owns stock in both corporations that enter into a merger, consolidation, purchase

or acquisition of stock, or similar transaction, such stockholder is considered to be Acting as a Group with other stockholders only with respect to the ownership in that corporation before the transaction giving rise to the change and not with respect to the ownership interest in the other corporation. Persons will not be considered to be Acting as a Group solely because they purchase assets of the same corporation at the same time or purchase or own stock of the same corporation at the same time, or as a result of the same public offering.

For purposes of this Amendment section 318(a) of the Internal Revenue Code applies to determine stock ownership. Stock underlying a vested option is considered owned by the individual who holds the vested option (and the stock underlying an unvested option is not considered owned by the individual who holds the unvested option). For purposes of the preceding sentence, however, if a vested option is exercisable for stock that is not substantially vested (as defined by Treasury regulation section 1.83 3(b) and (j)), the stock underlying the option is not treated as owned by the individual who holds the option.

e. Your right to receive severance pay under this Amendment is conditioned upon (i) your signing and delivering to the Company, before any payment is due or scheduled to begin, a general release of claims, in form and substance reasonably acceptable to the Company, by which you release the Company from any claim arising from your employment by, or termination of employment with, the Company, in consideration for the payment; and (ii) your compliance with the terms of the Business Protection Agreement, attached to the Employment Agreement as Annex 1. The Company shall make no payment before the general release becomes effective upon the expiration of any applicable revocation period.

Exhibit 31.1

CERTIFICATION BY THE CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Douglas Godshall, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of HeartWare International, 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 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 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: October 31, 2014

/s/ Douglas Godshall

Douglas Godshall
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION BY THE CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Peter F. McAree, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of HeartWare International, 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 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 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: October 31, 2014

/s/ Peter F. McAree

Peter F. McAree
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

CERTIFICATION BY THE CHIEF EXECUTIVE OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of HeartWare International, Inc. (the "Company") for the quarterly period ended September 30, 2014 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned President and Chief Executive Officer of the Company hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that based on his knowledge:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

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

Date: October 31, 2014

/s/ Douglas Godshall

Douglas Godshall
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 32.2

CERTIFICATION BY THE CHIEF FINANCIAL OFFICER PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of HeartWare International, Inc. (the "Company") for the quarterly period ended September 30, 2014 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned Senior Vice President and Chief Financial Officer of the Company hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that based on his knowledge:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

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

Date: October 31, 2014

/s/ Peter F. McAree
Peter F. McAree
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)