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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 March 31, 2015

☐ **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
(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 April 30, 2015
Common Stock, $0.001 Par Value Per Share	**17,246,146**

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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, 2014 filed with the SEC on March 2, 2015, 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
(In thousands, except per share data)

	March 31, 2015 (unaudited)	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$ 102,525	$ 102,946
Short-term investments	70,354	75,535
Accounts receivable, net	36,566	38,041
Inventories	52,356	54,046
Prepaid expenses and other current assets	7,259	5,975
Total current assets	269,060	276,543
Property, plant and equipment, net	17,020	19,036
Goodwill	61,223	61,390
In-process research and development	32,850	32,850
Other intangible assets, net	17,785	17,807
Deferred financing costs, net	1,441	1,552
Long-term investments and other assets	14,341	14,635
Total assets	$ 413,720	$ 423,813
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 10,674	$ 13,322
Other accrued liabilities	33,671	36,589
Total current liabilities	44,345	49,911
Convertible senior notes, net	116,871	114,803
Contingent liabilities – *See* Note 4	45,840	43,740
Other long-term liabilities	6,698	6,825
Commitments and contingencies – *See* Note 12		
Stockholders' equity:		
Preferred stock – $.001 par value; 5,000 shares authorized; no shares issued and outstanding at March 31, 2015 and December 31, 2014	—	—
Common stock – $.001 par value; 25,000 shares authorized; 17,245 and 17,156 shares issued and outstanding at March 31, 2015 and December 31, 2014, respectively	17	17
Additional paid-in capital	571,616	565,609
Accumulated deficit	(363,254)	(348,719)
Accumulated other comprehensive loss:		
Cumulative translation adjustments	(8,272)	(8,112)
Unrealized loss on investments	(141)	(261)
Total accumulated other comprehensive loss	(8,413)	(8,373)
Total stockholders' equity	199,966	208,534
Total liabilities and stockholders' equity	$ 413,720	$ 423,813

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 March 31,	
	2015	2014
Revenue, net	$ 70,021	$ 66,472
Cost of revenue	22,040	22,915
Gross profit	47,981	43,557
Operating expenses:		
Selling, general and administrative	21,929	24,232
Research and development	31,267	32,590
Change in fair value of contingent consideration	2,100	3,140
Total operating expenses	55,296	59,962
Loss from operations	(7,315)	(16,405)
Other income (expense):		
Foreign exchange (loss) gain	(3,697)	173
Interest expense	(3,437)	(3,196)
Investment income, net	146	207
Other, net	—	—
Loss before income taxes	(14,303)	(19,221)
Provision for income taxes	232	223
Net loss	$(14,535)	$(19,444)
Net loss per common share — basic and diluted	$ (0.85)	$ (1.15)
Weighted average shares outstanding — basic and diluted	17,193	16,934

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 March 31,	
	2015	2014
Net loss	$(14,535)	$(19,444)
Other comprehensive income (loss)		
Foreign currency translation adjustments	(254)	(240)
Unrealized (loss) gain on investments	(245)	33
Comprehensive loss	$(15,034)	$(19,651)

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, 2014	17,156	$ 17	$565,609	$ (348,719)	$ (8,373)	$208,534
Issuance of common stock pursuant to share-based awards	89	—	31	—	—	31
Share-based compensation	—	—	5,976	—	—	5,976
Net loss	—	—	—	(14,535)	—	(14,535)
Other comprehensive loss	—	—	—	—	(40)	(40)
Balance, March 31, 2015	17,245	$ 17	$571,616	$ (363,254)	$ (8,413)	$199,966

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)

	Three Months Ended March 31,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (14,535)	$ (19,444)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation of property, plant and equipment	1,710	1,580
Amortization of intangible assets	508	400
Impairment of fixed assets	1,118	607
Share-based compensation expense	5,976	4,357
Amortization of premium on investments	300	196
Amortization of discount on convertible senior notes	2,068	1,834
Amortization of deferred financing costs	111	99
Change in fair value of contingent consideration	2,100	3,140
Other	(6)	32
Change in operating assets and liabilities:		
Accounts receivable	(105)	(13,273)
Inventories	(436)	(3,411)
Prepaid expenses and other current assets	(1,445)	954
Accounts payable	(2,625)	(2,806)
Accrued interest on convertible senior notes	1,258	1,258
Other accrued liabilities	(3,662)	7,246
Other long-term liabilities	(124)	(81)
Net cash used in operating activities	(7,789)	(17,312)
CASH FLOWS FROM INVESTING ACTIVITIES		
Maturities of investments	5,000	3,245
Additions to property, plant and equipment, net	(720)	(3,039)
Additions to patents	(486)	(279)
Cash received from security deposits	294	—
Net cash provided by (used in) investing activities	4,088	(73)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from exercise of stock options	31	370
Net cash provided by financing activities	31	370
Effect of exchange rate changes on cash and cash equivalents	3,249	(277)
DECREASE IN CASH AND CASH EQUIVALENTS	(421)	(17,292)
CASH AND CASH EQUIVALENTS — BEGINNING OF PERIOD	102,946	162,880
CASH AND CASH EQUIVALENTS — END OF PERIOD	$ 102,525	$ 145,588

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

HEARTWARE INTERNATIONAL, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

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 U.S. GAAP 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, 2014. The accompanying condensed consolidated balance sheet as of December 31, 2014 has been derived from our audited financial statements. The unaudited condensed consolidated statements of operations and cash flows for the three months ended March 31, 2015 are not necessarily indicative of the results to be expected for any future period or for the year ending December 31, 2015.

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.

New Accounting Standards

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. In April 2015, the FASB issued for public comment a proposed update that would defer the effective date of ASU 2014-09 by one year. If the one-year deferral is adopted, ASU 2014-09 would become effective for us in the first quarter of our fiscal year ending December 31, 2018.

In February 2015, the FASB issued ASU No. 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation Analysis*, which is intended to improve targeted areas of consolidation guidance for legal entities such as limited partnerships, limited liability corporations, and securitization structures (collateralized debt obligations, collateralized loan obligations, and mortgage-backed security transactions). This ASU focuses on the consolidation evaluation for reporting organizations (public and private companies and not-for-profit organizations) that are required to evaluate whether they should consolidate certain legal entities. In addition to reducing the number of consolidation models from four to two, the new standard simplifies the FASB Accounting Standards Codification by: i) placing more emphasis on risk of loss when determining a controlling financial interest; ii) reducing the frequency of the application of related-party guidance when determining a controlling financial interest in a variable interest entity ("VIE"); and iii) changing consolidation conclusions for public and private companies in several industries that typically make use of limited partnerships or VIEs. ASU No. 2015-02 will be effective for us in periods beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. The adoption of ASU No. 2015-02 is not expected to have a material effect on our consolidated financial position, results of operations or cash flows.

In April 2015, the FASB issued ASU No. 2015-03, *Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. The updated standard requires debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. ASU 2015-03 will be effective for us in periods beginning after December 15, 2015. Early adoption is permitted

HEARTWARE INTERNATIONAL, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(unaudited)

for financial statements that have not been previously issued. ASU 2015-03 should be applied on a retrospective basis, wherein the balance sheet of each individual period presented should be adjusted to reflect the period-specific effects of applying the new guidance. The adoption of ASU No. 2015-03 will result in the reclassification of debt issuance costs currently classified in long-term assets to be offset against the carrying value of our convertible notes. Based on the amount of debt issuance costs included in long-term assets as of March 31, 2015, the adoption of ASU 2015-03 is not expected to have a material effect on our consolidated financial position, results of operations or cash flows.

Note 2. Liquidity

We have funded our operations primarily through product revenue, the issuance of shares of our common stock and the issuance of convertible notes. At March 31, 2015, we had approximately $174.1 million of cash, cash equivalents and available-for-sale investments. Our cash, cash equivalents and available-for-sale 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, acquisition of and investment in third-party technologies as well as for general working capital. We believe our cash, cash equivalents and available-for-sale 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 accounting principles generally accepted in the United States, which contemplate continuation of the Company as a going concern. We have incurred substantial losses from operations since our inception, and losses have continued through March 31, 2015. At March 31, 2015, we had an accumulated deficit of approximately $363.3 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. No customer had an accounts receivable balance greater than 10% of total accounts receivable at March 31, 2015 or December 31, 2014.

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 three months ended March 31, 2015 and 2014:

	2015	2014
	(in thousands)	
Beginning balance	$671	$495
Reversal of expense	(26)	—
Charge-offs	—	—
Ending balance	$645	$495

As of March 31, 2015 and December 31, 2014, we did not have an allowance for returns.

HEARTWARE INTERNATIONAL, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(unaudited)

Inventories

Components of inventories are as follows:

	March 31, 2015	December 31, 2014
	(in thousands)	
Raw material	$ 28,773	$ 28,688
Work-in-process	10,032	10,240
Finished goods	13,551	15,118
	$ 52,356	$ 54,046

Finished goods inventories includes inventory held on consignment at customer sites of approximately $5.7 million at March 31, 2015 and $5.8 million at December 31, 2014.

Property, Plant and Equipment, Net

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

	Estimated Useful Lives	March 31, 2015	December 31, 2014
		(in thousands)	
Machinery and equipment	1.5 to 7 years	$ 20,504	$ 21,279
Leasehold improvements	3 to 10 years	8,917	9,070
Office equipment, furniture and fixtures	5 to 7 years	2,014	2,206
Purchased software	1 to 7 years	6,694	6,474
		38,129	39,029
Less: accumulated depreciation		(21,109)	(19,993)
		$ 17,020	$ 19,036

In the first quarter of 2015, we ceased activities at our facility in Aachen, Germany. We recorded an impairment charge of $1.1 million related to leasehold improvements and equipment at the facility upon their discontinued use. This amount is included in research and development expenses on our condensed consolidated statements of operations.

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 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.

Long-Term Investment

In October 2013, we invested $10 million in an early-stage, 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) 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. The carrying value of this investment was $10.5 million at March 31, 2015 and December 31, 2014.

The fair value of this investment has not been estimated as of March 31, 2015 and December 31, 2014. As of March 31, 2015, the investee company had limited liquidity and is in the process of raising additional capital to continue its operations. However, there can be no assurance this effort will be successful or that the investee company will be able to raise a sufficient amount of capital to conduct their operations at a level that would allow for commercial development of their products. We considered determination of the fair value of this investment to be impracticable as it represents an equity interest in an early-stage, privately-held company. We believe there have been no significant events or changes in circumstances that may have a significant adverse effect on the fair value of the investment. Events may occur or information may become available, including the inability of the investee company to raise sufficient additional capital, that could require us to write-off all or a portion of this asset, which could have a material adverse effect on our consolidated results of operations.

HEARTWARE INTERNATIONAL, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(unaudited)

Other Accrued Liabilities

Other accrued liabilities consist of the following:

	March 31, 2015	December 31, 2014
	(in thousands)	
Accrued payroll and other employee costs	$ 9,578	$ 13,404
Accrued material purchases	4,251	4,284
Accrued warranty	4,815	4,685
Accrued research and development costs	2,772	2,663
Other accrued expenses	12,255	11,553
	$ 33,671	$ 36,589

Accrued payroll and other employee costs

Accrued payroll and other employee costs included estimated year-end employee bonuses of approximately $2.4 million and $7.9 million at March 31, 2015 and December 31, 2014, 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 the 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 the change in our warranty liability for the three months ended March 31, 2015 and 2014:

	2015	2014
	(in thousands)	
Beginning balance	$4,685	$2,498
Accrual for warranty expense	785	2,105
Warranty costs incurred during the period	(655)	(341)
Ending balance	$4,815	$4,262

The accrual for warranty expense in the three months ended March 31, 2014 reflected an anticipated increase in battery returns as a result of a field safety corrective action in April 2014, following an observed increase in complaints related to earlier-than-expected battery depletion and routine battery handling. The Company 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 as of March 31, 2014 to account for an anticipated higher level of battery returns likely to be associated with increased battery performance awareness.

HEARTWARE INTERNATIONAL, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(unaudited)

Accrued Product Recall Costs

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 our warranty liability. No such costs were incurred in the three months ended March 31, 2014. The following table summarizes the change in product recall liability for the three months ended March 31, 2015:

	2015
	(in thousands)
Beginning balance	$ 1,888
Accrual for recall costs	505
Recall costs incurred during the period	(1,305)
Ending balance	$ 1,088

As noted above, in April 2014, we implemented a field action following an observed increase in complaints related to earlier-than-expected battery depletion and routine battery handling. On July 30, 2014, we extended the field 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. This recall was ongoing as of March 31, 2015.

In February 2015, we expanded a 2013 voluntary field safety corrective action, by initiating a voluntary medical device recall of certain older controllers distributed in the U.S. during the ADVANCE and ENDURANCE clinical trial periods. The action had been initiated in certain foreign markets around the end of 2014. The affected controllers exhibit a higher susceptibility to electrostatic discharge than newer, commercial controllers. This recall was ongoing as of March 31, 2015.

Accrued Restructuring Costs

The following table summarizes changes in our accrued restructuring costs for the three months ended March 31, 2015:

	Facility Leases	Severance and Related	Contract Termination	Total
		(in thousands)		
Beginning balance	$ 1,266	$ —	$ —	$1,266
Restructuring charges	139	598	310	1,047
Payments	(191)	(217)	—	(408)
Adjustments to estimated obligations	456	—	—	456
Change in fair value	11	—	—	11
Ending balance	$ 1,681	$ 381	$ 310	$2,372

The restructuring obligations reflected above resulted from the following actions:

Facility Closures

In the three months ended March 31, 2015, we ceased activities at our facility in Aachen, Germany, which is subject to an operating lease that runs through October 2017. In connection with this action, we recorded a $0.1 million liability equal to the lease termination payment that has been negotiated with the landlord. This amount is included in research and development expenses on our condensed consolidated statements of operations.

In the three months ended March 31, 2014, we ceased the use of CircuLite's former headquarters in Teaneck, New Jersey, which is 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. In the three months ended March 31, 2015, this liability was increased by $0.5 million as a result of a change in our estimated sublease start date (*see* Note 6). These amounts are included in selling, general and administrative expenses on our condensed consolidated statements of operations.

In the three months ended March 31, 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. This amount is included in selling, general and administrative expenses on our condensed consolidated statements of operations.

HEARTWARE INTERNATIONAL, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(unaudited)

Severance Agreements

In the three months ended March 31, 2015, we incurred severance costs aggregating $0.6 million in connection with our decision to cease activities at our facility in Aachen, Germany. This amount is included in research and development expenses on our condensed consolidated statements of operations.

In the three months ended March 31, 2014, we incurred various costs related to the integration of CircuLite's operations, including severance costs aggregating $0.6 million. 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 our decision to cease activities at our facility in Aachen, Germany, we terminated supply agreements with vendors for the purchase of supplies. In connection with the termination of these supply agreements, we recorded a charge of $0.3 million in the three months ended March 31, 2015, which is included in research and development expenses on our condensed consolidated statements of operations.

As a result of 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 version of the SYNERGY System. In connection with the termination of this supply agreement, we recorded a charge of $0.7 million in the three months ended March 31, 2014, which is included in research and development expenses on our 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 three months ended March 31, 2015 or 2014.

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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 March 31, 2015 and December 31, 2014 and are carried at fair value.

The following tables represent 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 March 31, 2015					
Assets					
Short-term investments	$ 70,354	$ 70,354	$ —	$ 70,354	$ —
Long-term investments	1,225	1,225	—	1,225	—
Liabilities					
Convertible senior notes	116,871(1)	164,079	—	164,079	—
Contingent consideration	45,840	45,840	—	—	45,840
Royalties	971	971	—	—	971
Lease exit costs	1,500	1,500	—	—	1,500

	Carrying Value	Fair Value	Fair Value Measurements at the Reporting Date Using		
			Level 1	Level 2	Level 3
			(in thousands)		
As of December 31, 2014					
Assets					
Short-term investments	$ 75,535	$ 75,535	$ —	$ 75,535	$ —
Long-term investments	1,225	1,225	—	1,225	—
Liabilities					
Convertible senior notes	114,803(1)	153,978	—	153,978	—
Contingent consideration	43,740	43,740	—	—	43,740
Royalties	962	962	—	—	962
Lease exit costs	1,207	1,207	—	—	1,207

(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 our convertible senior notes. The fair value of our available-for-sale investments and out 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** – Determining the fair value of the contingent consideration related to our acquisition of CircuLite in December 2013 requires significant management judgment or estimation. The estimated fair value 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 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.

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- **Royalties** – Royalties represent future royalty payments to be made over the next 14 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 CircuLite's former headquarters 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 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 three months ended March 31, 2015:

	Contingent Consideration (in thousands)
Beginning balance	$ 43,740
Payments	—
Change in fair value	2,100
Ending balance	$ 45,840

The change in the fair value of the contingent consideration in the three months ended March 31, 2015 was due to accretion of the liability 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. Potential valuation adjustments will be made in future accounting periods as additional information becomes available, including, among other items, progress toward developing the SYNERGY System, as well as revenue and milestone targets as compared to our current projections, with the impact of these adjustments being recorded in our condensed consolidated statements of operations.

The following table summarizes the change in fair value, as determined by Level 3 inputs, of the royalties for the three months ended March 31, 2015:

	Royalties (in thousands)
Beginning balance	$ 962
Payments	(10)
Change in fair value	19
Ending balance	$ 971

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.

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The following table summarizes the change in fair value, as determined by Level 3 inputs, of the lease exit costs for the three months ended March 31, 2015:

	Lease Exit Costs (in thousands)
Beginning balance	$ 1,207
Adjustments	454
Payments	(172)
Change in fair value	11
Ending balance	$ 1,500

The expense associated with changes in the fair value of the lease exit costs is included in selling, general and administrative expenses on our consolidated statements of operations. The change in the fair value of the lease exit costs in the three months ended March 31, 2015 was primarily due to a change in our estimated sublease start date, which was deferred by eight months. Potential valuation adjustments will be made in future accounting periods as additional information becomes available, including, our ability to sublease the facility in a timely manner and obtain a rate equivalent to our estimated sublease rate, with the impact of these adjustments being recorded in 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 March 31, 2015:

	Valuation Methodology	Significant Unobservable Input	Weighted Average (range, if applicable)
Contingent consideration	Probability weighted income approach	Milestone dates	2019 to 2022
		Discount rate	17.0% to 24.0%
		Probability of occurrence	0% to 100%
Royalties	Discounted cash flow	Discount rate	4.8% to 7.8%
Lease exit costs	Discounted cash flow	Sublease start date	July 1, 2016
		Sublease rate	$26.50/square foot
		Discount rate	3.5%

Assets That Are Measured at Fair Value on a Nonrecurring Basis

Non-marketable equity investments and non-financial assets such as intangible assets, goodwill and property, plant, and equipment are evaluated for impairment annually or when indicators of impairment exist and are measured at fair value only if an impairment charge is recorded. In the three months ended March 31, 2015 and 2014, we recorded impairment charges of $1.1 million and $0.6 million related to certain property, plant, and equipment. *See* Note 3 for more information. Non-financial assets such as identified intangible assets acquired in connection with our acquisitions 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.

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Note 5. Investments

We have cash investment policies that limit investments to investment grade rated securities. At March 31, 2015 and December 31, 2014, all of our investments were classified as available-for-sale and carried at fair value. At March 31, 2015 and December 31, 2014, our short-term and long-term investments had maturity dates of less than twenty-four 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 March 31, 2015				
Short-term investments:				
Corporate debt	$ 45,940	$ 1	$ (136)	$ 45,805
U.S. government agency debt	15,000	1	(7)	14,994
Certificates of deposit	9,555	—	—	9,555
Total short-term investments	$ 70,495	$ 2	$ (143)	$ 70,354
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, 2014				
Short-term investments:				
Corporate debt	$ 51,241	$ 8	$ (244)	$ 51,005
U.S. government agency debt	15,000	—	(25)	14,975
Certificates of deposit	9,555	—	—	9,555
Total short-term investments	$ 75,796	$ 8	$ (269)	$ 75,535
Long-term investments:				
Certificates of deposit	$ 1,225	$ —	$ —	$ 1,225
Total long-term investments	$ 1,225	$ —	$ —	$ 1,225

For the three months ended March 31, 2015 and 2014, we did not have any realized gains or losses on our investments. At March 31, 2015 and December 31, 2014, none of our available-for-sale investments had been in a continuous loss position for more than twelve months. As of March 31, 2015, a total of 16 individual securities had been in an unrealized loss position for twelve months or less and the losses were determined to be temporary. We regularly review our investment portfolio to determine if any security is other-than-temporarily impaired, which would require us to record an impairment charge in the period any such determination is made. In making this judgment, we evaluate, among other things, the duration and extent to which the fair value of a security has been less than its amortized cost, the financial condition of the issuer, the time to maturity of the investment and our intent to sell the security prior to maturity where we would not be able to recover its amortized cost basis.

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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 three months ended March 31, 2015 and 2014 is as follows:

	2015	2014
	(in thousands)	
Beginning balance	$61,390	$61,596
Additions	—	—
Impairment	—	—
Foreign currency translation impact	(167)	(2)
Ending balance	$61,223	$61,594

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 at March 31, 2015 and December 31, 2014:

	March 31, 2015	December 31, 2014
	(in thousands)	
SYNERGY System technology	$ 32,850	$ 32,850

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:

	March 31, 2015	December 31, 2014
	(in thousands)	
Patents	$ 5,796	$ 5,310
Purchased intangible assets		
Tradenames	3,700	3,700
Customer relationships	1,800	1,800
Acquired technology rights	9,925	9,925
	21,221	20,735
Less: Accumulated amortization – Patents	(1,215)	(1,118)
Less: Accumulated amortization – Purchased intangible assets	(2,221)	(1,810)
	$ 17,785	$ 17,807

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	6 to 16 years

Amortization expense for the three months ended March 31, 2015 and 2014 was $0.5 million and $0.4 million, respectively.

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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 payment 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.

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

	March 31, 2015	December 31, 2014
	(in thousands)	
Principal amount	$143,750	$ 143,750
Unamortized discount	(26,879)	(28,947)
Net carrying amount	$116,871	$ 114,803
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 March 31, 2015 of $87.77 per share, was approximately $126.2 million. The fair value of our Convertible Notes as presented in Note 4 was $164.1 million at March 31, 2015.

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 months ended March 31, 2015 and 2014, interest expense related to the Convertible Notes was as follows:

	Three Months Ended March 31	
	2015	2014
	(in thousands)	
Stated amount at 3.5% coupon rate	$ 1,258	$ 1,258
Amortization of discount	2,068	1,834
Amortization of deferred financing costs	111	99
	$ 3,437	$ 3,191

Note 8. Stockholders' Equity

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 March 31, 2015, 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 merger 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. We issued an aggregate of 50,330 registered shares of our common stock in January 2014 to settle this liability.

In the three months ended March 31, 2015, we issued an aggregate of 1,429 shares of our common stock upon the exercise of stock options and an aggregate of 88,184 shares of our common stock upon the vesting of restricted stock units.

In the three months ended March 31, 2014, we issued an aggregate of 16,964 shares of our common stock upon the exercise of stock options and an aggregate of 29,999 shares of our common stock upon the vesting of restricted stock units.

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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 months ended March 31, 2015 and 2014, we recorded share-based compensation expense as follows:

	Three Months Ended March 31,	
	2015	2014
	(in thousands)	
Cost of revenue	$ 438	$ 447
Selling, general and administrative	3,449	2,732
Research and development	2,089	1,178
	$ 5,976	$ 4,357

Deferred tax benefits attributed to our share-based compensation expense are not recognized in the accompanying condensed consolidated financial statements because we are in a net operating loss position and a full valuation allowance is maintained for all net deferred tax assets. We receive a tax deduction for certain stock option exercises during the period the options are exercised, and for the vesting of restricted stock units during the period the restricted stock units vest. For stock options, the amount of the tax deduction is generally for the excess of the fair market value of our shares of common stock over the exercise price of the stock options at the date of exercise. For restricted stock units, the amount of the tax deduction is generally for the fair market value of our shares of common stock at the vesting date. Excess tax benefits are not included in the accompanying condensed consolidated financial statements because we are in a net operating loss position and a full valuation allowance is maintained for all net deferred tax assets.

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, SARs 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 March 31, 2015, 207,020 shares have been issued upon vesting of Awards issued under the 2012 Plan and Awards with respect to 720,026 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 March 31, 2015 and 2014.

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Information related to options granted under all of our plans at March 31, 2015 and activity in the three 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, 2014	107	$ 48.32		
Granted	—	—		
Exercised	(1)	21.42		
Forfeited	—	—		
Expired	—	—		
Outstanding at March 31, 2015	106	$ 47.87	4.16	$ 4,284
Exercisable at March 31, 2015	86	$ 39.19	3.29	$ 4,203

The aggregate intrinsic values at March 31, 2015 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 total intrinsic value of options exercised in the three months ended March 31, 2015 and 2014 was approximately $0.1 million and $1.2 million, respectively. Cash received from options exercised in the three months ended March 31, 2015 and 2014 was approximately $0.03 million and $0.4 million, respectively.

At March 31, 2015, there was approximately $0.1 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 0.5 years.

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 March 31, 2015 and activity in the three 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, 2014	589		
Granted	286		
Vested/Exercised	(88)		
Forfeited	(14)		
Expired	—		
Outstanding at March 31, 2015	773	1.82	$ 67,860

The aggregate intrinsic value at March 31, 2015 noted in the table above represents the closing price of our common stock traded on NASDAQ multiplied by the number of RSUs outstanding.

At March 31, 2015, 72,705 of the RSUs outstanding are subject to performance-based vesting criteria as described above.

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The total intrinsic value of RSUs vested in the three months ended March 31, 2015 and 2014 was approximately $7.9 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 three months ended March 31, 2015 and 2014 was $89.53 and $100.95, respectively.

At March 31, 2015, we had approximately $42.0 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 1.8 years.

Note 10. Net Loss Per Share

Basic net loss per common share is 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 have been excluded from the calculation of diluted net loss per share, as their effect would be anti-dilutive.

	Three Months Ended March 31,	
Common shares issuable upon:	**2015**	**2014**
	(in thousands)	
Conversion of convertible senior notes	1,438	1,438
Exercise or vesting of share-based awards	879	851

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 distributed 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 March 31,	
	2015	**2014**
	(in thousands)	
United States	$42,189	$33,788
Germany	12,741	14,678
International, excluding Germany	15,091	18,006
	$70,021	$66,472

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 months ended March 31, 2015 and 2014, no customer exceeded 10% of product sales individually.

HEARTWARE INTERNATIONAL, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(unaudited)

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 our 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. During 2014 and 2015, we commenced implementing systemic changes and organizational enhancements to address the four warning letter items and related quality systems. We established teams to review and address the items cited by the FDA and engaged external subject matter experts to assist in assessment and remediation efforts. We have developed an overall corporate quality plan and individual quality plans which govern our quality improvement efforts.

At March 31, 2015, we had purchase order commitments of approximately $33.6 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, 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 and royalty payments. The post-acquisition payments are payable based upon the achievement of five specified performance milestones and revenue over periods ranging from 8-10 years subsequent to the acquisition date. The maximum amount of the aggregate post-acquisition payments could be $320 million. As of March 31, 2015, the fair value of the contingent consideration was estimated to be $45.8 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 in the accompanying consolidated financial statements 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 results of operations.

HEARTWARE INTERNATIONAL, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(unaudited)

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 March 31, 2015 through the date the financial statements were issued, for potential recognition or disclosure in the accompanying condensed consolidated financial statements. Except as disclosed below, we did not identify any events or transactions that should be recognized or disclosed in the accompanying condensed consolidated financial statements.

On April 30, 2015, we announced our intention to initiate additional field safety corrective actions in May 2015. These actions are intended to reinforce information contained in our Instructions for Use and Patient Manuals, to provide awareness to clinicians and patients regarding forthcoming product improvements and to inform patients and clinicians about various HVAD system safety and performance concerns we have identified as part of our warning letter remediation activities. These field actions are not expected to have a material effect on our financial position, liquidity or results of operations.

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 all patients at risk of death from refractory, end-stage heart failure. As of March 31, 2015, there have been over 8,000 implants of the HVAD System in patients at over 280 health care sites in 42 countries.

We also intend to seek an expanded indication for the HVAD System in the U.S. to include destination therapy. In May 2012, we completed enrollment in our ENDURANCE destination therapy clinical trial. Each test patient has now been followed to the primary endpoint of two years, and will be followed for a subsequent five-year period post-implant. On August 27, 2013, the FDA approved a supplemental Investigational Device Exemption trial ("ENDURANCE2") allowing us to commence enrollment in an additional patient cohort for the ENDURANCE clinical trial. ENDURANCE2 studies the benefits of blood pressure management to reduce neurological events. Enrollment commenced in October 2013, and with more than 80% of the study enrolled, we expect enrollment to be completed in mid-2015. Patients have been, or will be, followed for 12 months after implant. In 2016, we intend to incorporate the data from both ENDURANCE2 and ENDURANCE into an anticipated pre-market approval application seeking approval of the HVAD System for the destination therapy indication.

In April 2015, we presented results from our ENDURANCE clinical trial during the Opening Plenary Session at the 35th International Society for Heart and Lung Transplantation (ISHLT) Annual Meeting in Nice, France, which successfully demonstrated that the trial achieved the primary endpoint. Although neurological events in the treatment arm were higher than in the control arm, the data suggested that blood pressure management appears to reduce neurological events, a hypothesis being tested in ENDURANCE2 trial. The data presented also showed that sintering of the inflow cannula, a system modification which occurred during the trial, reduced the overall rate of suspected thrombus and that pump exchanges were less frequent in patients with the currently available HVAD system as compared to the control.

MVAD System

We continue to expand our pipeline through research and development into next-generation products and peripherals and through ongoing and new clinical trials and to expand our presence in commercial markets outside of the United States. Among these activities, we are developing our next generation miniaturized device, 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, approach 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 towards further reduction of surgical invasiveness while producing superior clinical results. In December 2014, we initiated submissions to commence a CE Mark study at nine international sites and are preparing regulatory submissions to commence 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. The SYNERGY Surgical System is designed for long-term partial support and is intended to reduce the heart's workload while improving blood flow to vital organs. The system is currently undergoing an upgrade to resolve issues that arose after its commercial release and caused the loss of its CE marking in the European Union in March 2014. In January 2015, we discontinued development of the prior micropump and have focused our efforts on a version of our MVAD pump for our SYNERGY partial-assist program. Following the necessary clinical trials and regulatory approvals, we plan to re-launch the system in Europe and will focus on building experience at a small number of centers of excellence, refining training techniques and implementing additional system upgrades. The next-generation endovascular system, which will be implanted collaboratively by cardiologists and surgeons in a hybrid catheterization ("cath") lab setting, offers an interventional approach to circulatory support. While our HVAD and MVAD Systems offer minimally invasive treatment to end-stage heart failure patients, the SYNERGY Circulatory Support System offers even less invasive and ultimately interventional options to earlier-stage heart failure patients.

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 the use of our 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. During 2014 and 2015, we commenced implementing systemic changes and organizational enhancements to address the four warning letter items and related quality systems. We established teams to review and address the items cited by the FDA and engaged external subject matter experts to assist in assessment and remediation efforts. We have developed an overall corporate quality plan and individual quality plans which govern our quality improvement efforts. As we complete this comprehensive review of our quality systems, it is possible that we may need to take additional actions including the possibility of voluntary product recalls when necessary to ensure patient safety and effective performance of the HVAD System.

Recent Field Actions

On April 30, 2014, we implemented a field safety corrective action to update patients and clinicians with respect to a driveline connector correction communicated to all of our clinical sites in December 2013. The update provided instruction to both patients and clinicians advising them that should the locking mechanism fail to engage, or the driveline becomes disconnected from the controller, clinicians should promptly call their HeartWare representative to arrange a permanent repair. This field action was ongoing as of March 31, 2015.

Also on April 30, 2014, we implemented a field safety corrective action to notify clinicians and patients of 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 with monitoring battery performance, recognizing abnormal behaviors and reinforcing proper power management of the HVAD System. Subsequently, on July 30, 2014, we extended this field 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. This field action was ongoing as of March 31, 2015.

In February 2015, we expanded a 2013 field safety corrective action, by initiating a recall of certain older controllers distributed in the U.S. during the ADVANCE and ENDURANCE clinical trial periods. The action had been initiated in certain foreign markets around the end of 2014. The affected controllers exhibit a higher susceptibility to electrostatic discharge than newer, commercial controllers. This recall was ongoing as of March 31, 2015.

During the first quarter of 2015, we recorded charges aggregating $0.5 million for estimated costs associated with the battery and controller recalls discussed above.

On April 30, 2015 we announced our intention to initiate additional field safety corrective actions in May 2015. These actions are intended to reinforce information contained in our Instructions for Use and Patient Manuals, to provide awareness to clinicians and patients regarding forthcoming product improvements and to inform patients and clinicians about various HVAD system safety and performance concerns we have identified as part of our warning letter remediation activities. These field actions are not expected to have a material effect on our financial position, liquidity or results of operations.

Summary of Recent Financial Performance

Total revenue increased 5%, to $70.0 million for the quarter ended March 31, 2015 compared to $66.5 million during the first quarter of 2014. U.S. revenue increased by 25% on unit sales growth of 22%, while international revenue decreased by 15% corresponding to a decrease in international unit sales of 6%. Currency changes negatively impacted total revenue growth by approximately 8% during the first quarter of 2015.

In the U.S., where our HVAD System is labeled for the bridge-to-transplantation ("BTT") indication, revenue growth was driven primarily from an increase in HVAD BTT indication implants among existing customers. We added six new U.S. customer sites during the first quarter of 2015. International revenue growth, excluding approximately $5.0 million of negative impact from foreign currency changes, would have been slightly positive compared to the first quarter of 2014. While international units sales decreased by 6% overall, the first quarter of 2015 was a particularly challenging quarter for comparison purposes given the strength of our prior year performance, especially in our distributor territories which have a greater tendency to fluctuate on a quarterly basis. In general, we experienced softness in international implant procedures compared to the fourth quarter of 2014 and, while difficult to quantify, we believe increased competition may also have modestly influenced our international results during the first quarter of 2015. We added six new international customer sites during the first quarter of 2015.

A total of 713 HVAD Systems were sold during the first quarter of 2015, compared to 737 units sold during the fourth quarter of 2014 and 665 units sold in the first quarter of 2014, reflecting the unevenness of growth in the VAD market. With several HeartWare and competitive product clinical trials either ongoing, or expected to be ongoing in the course of 2015, we anticipate that our quarterly revenue and market share may be subject to greater volatility in the near-term. As of March 31, 2015, the Company had 116 customers in the United States and 166 customers internationally.

We realized an improvement in gross margin percentage, to 68.5% in the first quarter compared to 68.1% in fourth quarter of 2014 and 65.5% in the first quarter of 2014. This continued improvement was primarily a result of lower material cost of goods and production efficiencies driven by increased manufacturing throughput and reduced scrap cost.

Combined selling, general, administrative, research and development expenses in the first quarter of 2015 decreased to $53.2 million, compared to $54.9 million in the fourth quarter of 2014 and $56.8 million in the first quarter of 2014.

First quarter operating expenses included a $2.1 million increase in the estimated fair value of contingent consideration obligations related to our acquisition of CircuLite, $0.5 million of acquired intangible asset amortization and $2.6 million of restructuring charges, including $1.1 million of asset impairment charges, $0.6 million for employee severance, $0.6 million for lease exit costs and $0.3 million for miscellaneous contract termination costs.

These summary 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, 2014 ("2014 Annual Report on Form 10-K") filed with the Securities and Exchange Commission on March 2, 2015. During the three months ended March 31, 2015, 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, accounting for share-based compensation, measurement of fair value, valuation of tax assets and liabilities, reserves, 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 2014 Annual Report on Form 10-K.

Results of Operations

Three months ended March 31, 2015 and 2014

Revenue, net

In the three months ended March 31, 2015 and 2014, we generated revenue through commercial sales and clinical trials.

	Three Months Ended March 31,		
	2015	2014	Change
	(in thousands)		
Revenue, net	$70,021	$66,472	5%

Total revenue was $70.0 million for the quarter ended March 31, 2015, reflecting 25% revenue growth in the United States, where our HVAD System is labeled for bridge-to-transplantation, offset by a 15% decrease in our international revenue due in large part to currency exchange movements. Revenue growth in the United States reflected continued strong growth in commercial market acceptance of the HVAD System, while international revenues decreased due to the impact of currency and a decrease in distributor region sales. Currency changes negatively impacted total revenue growth by approximately $5.0 million, or 8%, during the first quarter of 2015.

Our U.S. revenue was $42.2 million for the quarter ended March 31, 2015 compared to $33.8 million during the quarter ended March 31, 2014. A total of 381 pumps were sold in the U.S. during the first quarter of 2015 compared to 313 pumps sold in the same period of 2014. The U.S. revenue increase included approximately 48 HVAD Systems sold under the Company's ENDURANCE2 clinical trial.

Our international revenue was $27.8 million for the quarter ended March 31, 2015 compared to $32.7 million during the quarter ended March 31, 2014. A total of 332 pumps were sold internationally during the first quarter of 2015 compared to 352 pumps sold in the same period of 2014. While international units sales decreased by 6% overall, the first quarter of 2015 was a particularly challenging quarter for comparison purposes given the strength of our prior year performance, especially in our distributor territories which have a greater tendency to fluctuate on a quarterly basis. In general, during the first quarter of 2015 we experienced softness in international implant procedures and, while difficult to quantify, we believe increased competition may also have negatively influenced our international results during the first quarter.

In 2015, approximately 36% of our net revenue was denominated in foreign currencies including principally the Euro and British pound compared to 47% in 2014. This geographic mix shift results in a partial offset of the impact of foreign currency declines. 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 $22.0 million and $22.9 million in the three months ended March 31, 2015 and 2014, respectively.

Gross profit and gross margin percentage are as follows:

	Three Months Ended March 31,	
	2015	2014
	(in thousands)	
Gross profit	$47,981	$43,557
Gross margin %	69%	66%

The increase in gross margin percentage was primarily a result of volume-related production efficiencies along with a decrease in inventory reserve requirements.

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 March 31,		
	2015	2014	Change
	(in thousands)		
Selling, general and administrative expenses	$21,929	$24,232	(10)%
% of operating expenses, excluding changes in fair value of contingent consideration	41%	43%	

The decrease of $2.3 million for the three months ended March 31, 2015 as compared to the three months ended March 31, 2014 reflects a decrease in restructuring charges of $2.6 million. In the 2014 period, we recorded restructuring charges aggregating $3.0 million, 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. Other decreases included $0.7 million of professional fees and legal expenses and $0.3 million of infrastructure-related costs. Increases included $0.8 million in salaries and related costs associated with headcount growth and $0.7 million of non-cash share-based compensation expense.

We expect our selling, general and administrative expenses to increase in 2015 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 March 31,		
	2015	2014	Change
	(in thousands)		
Total research and development expenses	$31,267	$32,590	(4)%
% of operating expenses, excluding changes in fair value of contingent consideration	59%	57%	

The net decrease of $1.3 million for the three months ended March 31, 2015 as compared to the three months ended March 31, 2014 resulted primarily from a decrease in overall research and development project expenses of $5.0 million, offset by an increase in clinical and regulatory expenses of $3.7 million, including $2.8 million of incremental outside costs associated with FDA warning letter remediation efforts. Included within the net spending decrease, we incurred an increase in compensation related expenses of $1.1 million, including share-based payments, associated with new and existing headcount. In addition to the foregoing changes, restructuring charges associated with the CircuLite acquisition increased by approximately $1.1 million. The $2.2 million current period charge included fixed asset impairment, contract termination fees and severance costs in connection with our decision to cease activities at our facility in Aachen, Germany. In the three months ended March 31, 2014, we recorded restructuring charges aggregating $1.1 million, including contract termination fees and severance costs, also in connection with our acquisition of CircuLite.

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. We also expect to incur substantial costs for 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. We expect our warning letter-related expenses to begin to decrease in the second half of 2015 as we complete some of the resource-intensive activities for which we have contracted external consultants and advisors.

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 five specified performance milestones and royalty payments. We calculate the estimated fair value of the contingent consideration on a quarterly basis. In the three months ended March 31, 2015, we recorded a $2.1 million charge for the increase in the estimated fair value of the contingent consideration from December 31, 2014 to March 31, 2015. The change in the fair value of the contingent consideration in the three months ended March 31, 2015 was due to the effect of the passage of time on the fair value measurement. In the three months ended March 31, 2014, we recorded a $3.1 million charge for the increase in the estimated fair value of the contingent consideration from December 31, 2013 to March 31, 2014. The change in the fair value of the contingent consideration in the three months ended March 31, 2014 was due to the effect of the passage of time on the fair value measurement and, to a lesser extent, the change in the price of our common stock.

Determining the estimated fair value of the contingent consideration requires significant management judgment or estimation. The estimated fair value 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. Potential valuation adjustments will be made in future accounting periods as additional information becomes available, including, among other items, progress toward

developing the SYNERGY System, as well as revenue and milestone targets as compared to our current projections. Adjustments associated with changes in the estimated fair value of the contingent consideration are presented on a separate line item on our 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 March 31, 2015, our net foreign exchange loss totaled approximately $3.7 million, compared to a net gain of approximately $0.2 million in the same period of 2014. In 2015 and 2014, 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 2015 and 2014 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 March 31, 2015, interest expense was approximately $3.4 million, which included $1.3 million of interest incurred on the principal amount of the convertible notes at the 3.5% coupon rate and $2.1 million of non-cash amortization of the discount and deferred financing costs. In the three months ended March 31, 2014, interest expense was approximately $3.2 million, which included $1.3 million of interest incurred on the principal amount of the convertible notes at the 3.5% coupon rate and $1.9 million of non-cash amortization of the 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. The amortization of premium on our investments is also included in investment income, net. Investment income, net was approximately $0.1 million in the three months ended March 31, 2015, compared to $0.2 million in the same period 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 months ended March 31, 2015, our tax provision includes estimated foreign taxes in jurisdictions where wholly-owned subsidiaries may be subject to current taxes.

Liquidity and Capital Resources

As of March 31, 2015, our cash and cash equivalents combined with short term available-for-sale investments were approximately $172.9 million as compared to $178.5 million at December 31, 2014.

Following is a summary of our cash flow activities for the three months ended March 31, 2015 and 2014:

	Three Months Ended March 31,	
	2015	2014
	(in thousands)	
Net cash used in operating activities	$ (7,789)	$ (17,312)
Net cash provided by (used in) investing activities	4,088	(73)
Net cash provided by financing activities	31	370
Effect of exchange rate changes on cash and cash equivalents	3,249	(277)
Net decrease in cash and cash equivalents	$ (421)	$ (17,292)

Cash Used in Operating Activities

For the three months ended March 31, 2015, cash used in operating activities included a net loss of approximately $14.5 million, adjustments for non-cash items totaling $13.9 million and cash used in working capital of $7.1 million. The net loss was driven by normal operating activities including the sale of the HVAD System in the United States and abroad, a charge for the increase in the fair value of contingent consideration, interest expense and foreign exchanges losses. Adjustments for non-cash items primarily consisted of $6.0 million of share-based compensation, $2.2 million of depreciation and amortization on long-lived assets, $2.1 million of amortization of the discount on our convertible notes, $2.1 million for the increase in the fair value of contingent consideration related to the CircuLite acquisition and $1.1 million for the impairment of fixed assets. The decrease in cash from changes in working capital included $3.7 million for the decrease in accrued liabilities, $2.6 million for the payment of trade accounts payable, and an increase in prepaid expenses and other assets of $1.4 million. These amounts were partially offset by an increase in accrued interest on our convertible senior notes of $1.3 million.

For the three months ended March 31, 2014, cash used in operating activities included a net loss of approximately $19.4 million and non-cash adjustments to net loss totaling approximately $12.2 million, which primarily consisted of $4.4 million of share-based compensation, $2.0 million of depreciation and amortization on long-lived assets, $1.8 million for the amortization of the discount on our convertible notes and $0.6 million for the impairment of fixed assets. Also included in cash used in operating activities in the three months ended March 31, 2014 was approximately $13.3 million in increased trade accounts receivable, $3.4 million for the purchase and manufacture of inventories and $2.8 million for the payment of trade accounts payable. These amounts were partially offset by increases in accrued liabilities of $7.2 million and accrued interest on our convertible senior notes of $1.3 million.

Cash Used in Investing Activities

In the three months ended March 31, 2015, net cash provided by investing activities included maturities of available-for-sale securities aggregating $5.0 million. This amount was partially offset by cash usage of $0.7 million to acquire property, plant and equipment and $0.5 million for intellectual property.

In the three months ended March 31, 2014, net cash used by investing activities included $3.0 million to acquire property, plant and equipment. Other investing activities in the three months ended March 31, 2014 used cash of approximately $0.3 million. These amounts were offset by maturities of available-for-sale securities aggregating $3.2 million.

Cash Provided by Financing Activities

The exercise of stock options in the three months ended March 31, 2015 and 2014 resulted in cash proceeds of approximately $0.03 million and $0.4 million, respectively.

Operating Capital and Capital Expenditure Requirements

We have incurred operating losses to date and anticipate that we will continue to consume cash and incur substantial 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 2015, 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;
- preclinical 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 of the SYNERGY System, including the next generation endovascular system;
- 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;
- expand work in process and finished goods inventory to support ongoing operations;
- planned investments in infrastructure to support our growth;
- acquisition of and investment in third party technologies; 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 March 31, 2015, the semi-annual interest payments due on June 15 and December 15, 2015 will be approximately $2.5 million each. These amounts are expected to be paid from cash on hand.

We believe cash on hand and investment balances as of March 31, 2015 are sufficient to support our planned operations for at least the next twelve months. At March 31, 2015, approximately $4.9 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 three months ended March 31, 2015, 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 2014 Annual Report on Form 10-K filed with the SEC on March 2, 2015.

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 March 31, 2015. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of March 31, 2015, 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 March 31, 2015, 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, 2014 filed with the SEC on March 2, 2015.

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 March 31, 2015.

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 December 22, 2014, between HeartWare, Inc. 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 March 31, 2015, formatted in eXtensible Business Reporting Language (XBRL): (i) Unaudited Condensed Consolidated Balance Sheets as of March 31, 2015 and December 31, 2014, (ii) Unaudited Condensed Consolidated Statements of Operations for the three months ended March 31, 2015 and 2014, (iii) Unaudited Condensed Consolidated Statements of Comprehensive Loss for the three months ended March 31, 2015 and 2014, (iv) Unaudited Condensed Consolidated Statement of Stockholders' Equity for the three months ended March 31, 2015, (v) Unaudited Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2015 and 2014, 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: May 1, 2015

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

Date: May 1, 2015

/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

December 22, 2014

Katrin Leadley, MD
Karwendestr. 15
82152 Krailling, Germany

Dear Katrin:

As you are aware, you have been employed by HeartWare GmbH since August 25, 2014 in the position of Chief Medical Officer. I am pleased to offer you the opportunity to transfer to HeartWare, Inc. (together, the "Company" or "we" or "us" in a full-time exempt position, effective January 1, 2015 ("Commencement Date") on the terms and conditions set out in this letter agreement.

1. **Position.** Your title will be Chief Medical Officer of the Company**.** As such, you will be responsible, among other things, for the leadership of the Company's Clinical Organization. In this role you will be responsible for helping to lead HeartWare through our next stage of clinical and commercial growth, advance our ongoing trials, and initiate new studies as we move toward obtaining regulatory approval of devices in our pipeline. You will report directly to the President and 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. You understand and agree that the Company may from time to time require you to travel to and work at other locations.

2. **Compensation.** Your bi-weekly base salary representing payment for all hours worked shall be $14,423.07, equivalent to an annualized base salary of $375,000 ("Base Salary"), payable in accordance with the Company's payroll policies and subject to all required withholdings and deductions. Your Base Salary will be reviewed annually by the Board, and may be adjusted by the Board in its discretion. If you are hired on or before September 30, you may be eligible for a prorated merit increase the following calendar year based upon the number of days you are actually employed by the Company during your first year of employment. If your Commencement Date is after September 30, you will not be eligible for a merit increase in the calendar year immediately following your Commencement Date.

3. **Annual Bonus.** You are eligible to participate in Company's annual bonus plan, subject to its terms and conditions, with the potential to earn a bonus equivalent to a target percentage of up to 40% of your annualized base salary ("Bonus") based upon achievement of corporate and individual goals. The Company shall pay the Bonus for a calendar year, if at all, on or after January 1st, but by no later than March 15th, of the following calendar year, and you must be employed by the Company on the payment date and not provided the

Company notice of your resignation of employment in order to have earned the Bonus. No annual Bonus is guaranteed, and its payment rests in the sole discretion of the Company. If you are hired on or before September 30, you may be eligible to earn a prorated bonus for the year you are hired, based upon the number of days you are actually employed by the Company during your first year of employment. If your Commencement Date is after September 30, you will not be eligible to participate in the Company's annual bonus plan until the following calendar year.

4. One-time Bonus.

In addition, you will receive a one-time bonus of $50,000, subject to all required deductions and withholdings, payable within 90 days of your Commencement Date so long as you continue to be employed by the Company at that date. As you have been employed by HeartWare, GmbH for 90 days or longer prior to the Commencement Date, the Company will pay you the one-time bonus within 30 days of your Commencement Date.

5. Equity Award.

Upon your commencement of employment with HeartWare GmbH, the Board of Directors of HeartWare International, Inc. (the "Board") approved the grant to you of 15,000 restricted stock units. Restricted stock units represent the commitment to issue to you that number of shares of common stock upon the satisfaction of specified terms and conditions. The restricted stock units will vest in four equal installments on each of the first four anniversaries of the date the restricted stock units were granted ("Grant Date") and on such other terms and conditions as the Board determined 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 HeartWare 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, not to exceed cap established following relocation estimate;
- Customary home purchase closing costs to include broker fees, not to exceed cap established following relocation estimate;
- Reasonable moving expenses paid to an outside moving company for transportation of the household goods from your home in Germany to your residence in Massachusetts;
- Reasonable spousal travel expenses incurred for one (1) house hunting trip;
- Reasonable and customary travel expenses (airfare, rental, meals) through July until family relocation is complete;
- Temporary housing beginning in February with a targeted completion date of July 2015 and if needed, temporary storage of household goods.

Should you voluntarily resign or are terminated by the Company for Cause, as defined in this Agreement below, 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: 50% repayment

7. Vacation, Insurance and Benefits; Expenses; Immigration Assistance.

a. You shall be eligible for all paid holidays recognized by the Company, and twenty (20) days of paid vacation per annum, consistent with Company policy. Vacation days for the first calendar year of your employment will be prorated. You will also be eligible for floating holidays, personal days, and sick days consistent with Company policy.

b. You shall be eligible for participation in the Company's employee benefit programs offered from time to time pursuant to the terms and conditions of these programs, generally including a 401(k) plan with a matching Company contribution, group medical, dental and vision insurance, life insurance and short and long term disability benefits.

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.

d. The Company shall pay on your behalf or reimburse you for the reasonable legal and associated visa and/or filing fees associated with your family based application for permanent residence.

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 executive employees; 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 8(b) shall supersede, and not be in duplication of, the severance pay provided under Section 8(a). "Total Salary" means your then current Base Salary plus 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 8(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 8(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 8 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 attached Business Protection 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 8(a) or 8(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. 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 10 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.

11. 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.

12. **Proprietary Information, Non-Solicitation, Non-Competition.** 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 Business Protection Agreement, which is incorporated by reference into this letter agreement and contains customary terms regarding non-disclosure, non-solicitation and non-competition. This offer of continued employment is contingent upon your signing that Business Protection Agreement, the form of which is attached hereto as Exhibit A, and returning it to the Company along with this executed letter agreement.

13. **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 the Business Protection Agreement 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 the Business Protection 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 13 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 13 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 the Business Protection Agreement, you shall forfeit any amount payable under Section 8 (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 8. Further, this Letter Agreement shall be subject to any clawback policy adopted from time to time or in accordance with applicable law, regulation or listing requirements applicable to the Company.

14. **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.

15. **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.

16. **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.

17. **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.

18. **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.

19. **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.

20. **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.

21. **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.

22. **Entire Agreement, Amendments.** This letter agreement, including the Business Protection 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 Business Protection 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/ Katrin Leadley
Name: Katrin Leadley, MD

Dated: January 1, 2015

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: May 1, 2015

/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: May 1, 2015

/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 March 31, 2015 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: May 1, 2015

/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 March 31, 2015 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: May 1, 2015

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