Table of Contents

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 June 30, 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 July 30, 2015
Common Stock, $0.001 Par Value Per Share	17,300,387

Table of Contents

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.

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)

	June 30, 2015 (unaudited)	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$ 181,222	$ 102,946
Short-term investments	69,574	75,535
Accounts receivable, net	35,648	38,041
Inventories	50,571	54,046
Prepaid expenses and other current assets	6,276	5,975
Total current assets	343,291	276,543
Property, plant and equipment, net	17,005	19,036
Goodwill	61,254	61,390
In-process research and development	32,850	32,850
Other intangible assets, net	17,594	17,807
Deferred financing costs, net	4,316	1,552
Long-term investments and other assets	14,340	14,635
Total assets	$ 490,650	$ 423,813
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 11,071	$ 13,322
Other accrued liabilities	32,416	36,589
Total current liabilities	43,487	49,911
Convertible senior notes, net	186,565	114,803
Contingent liabilities – *See* Note 4	48,080	43,740
Other long-term liabilities	4,743	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 June 30, 2015 and December 31, 2014	—	—
Common stock – $.001 par value; 50,000 and 25,000 shares authorized at June 30, 2015 and December 31, 2014, respectively; 17,291 and 17,156 shares issued and outstanding at June 30, 2015 and December 31, 2014, respectively	17	17
Additional paid-in capital	607,077	565,609
Accumulated deficit	(390,647)	(348,719)
Accumulated other comprehensive loss:		
Cumulative translation adjustments	(8,519)	(8,112)
Unrealized loss on investments	(153)	(261)
Total accumulated other comprehensive loss	(8,672)	(8,373)
Total stockholders' equity	207,775	208,534
Total liabilities and stockholders' equity	$ 490,650	$ 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 June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Revenue, net	$ 73,569	$ 70,131	$143,590	$136,603
Cost of revenue	25,228	22,955	47,268	45,870
Gross profit	48,341	47,176	96,322	90,733
Operating expenses:				
Selling, general and administrative	22,247	20,948	44,176	45,180
Research and development	31,702	26,913	62,969	59,504
Change in fair value of contingent consideration	2,240	(13,700)	4,340	(10,560)
Total operating expenses	56,189	34,161	111,485	94,124
(Loss) income from operations	(7,848)	13,015	(15,163)	(3,391)
Other income (expense):				
Foreign exchange gain (loss)	757	18	(2,941)	191
Interest expense	(3,543)	(3,251)	(6,980)	(6,447)
Investment income, net	135	199	281	406
Loss on extinguishment of long-term debt	(16,588)	—	(16,588)	—
Other, net	—	(1,264)	—	(1,264)
(Loss) income before income taxes	(27,087)	8,717	(41,391)	(10,505)
Provision for income taxes	306	353	537	575
Net (loss) income	$(27,393)	$ 8,364	$ (41,928)	$ (11,080)
Net (loss) income per common share:				
Basic	$ (1.59)	$ 0.49	$ (2.43)	$ (0.65)
Diluted	$ (1.59)	$ 0.48	$ (2.43)	$ (0.65)
Weighted average shares outstanding:				
Basic	17,269	16,989	17,232	16,962
Diluted	17,269	17,305	17,232	16,962

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 June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net (loss) income	$ (27,393)	$ 8,364	$ (41,928)	$ (11,080)
Other comprehensive income (loss)				
Foreign currency translation adjustments	(247)	(328)	(407)	(568)
Unrealized (loss) gain on investments	(12)	(59)	108	(26)
Comprehensive (loss) income	$ (27,652)	$ 7,977	$ (42,227)	$ (11,674)

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 in connection with an intellectual property agreement	26	—	2,000	—	—	2,000
Issuance of common stock pursuant to share-based awards	109	—	31	—	—	31
Settlement of conversion feature on convertible debt exchanged	—	—	(19,467)	—	—	(19,467)
Allocation of fair value of equity component of convertible debt	—	—	47,400	—	—	47,400
Allocation of pro-rata portion of convertible debt issuance costs to the equity component of convertible debt	—	—	(1,218)	—	—	(1,218)
Share-based compensation	—	—	12,722	—	—	12,722
Net loss	—	—	—	(41,928)	—	(41,928)
Other comprehensive loss	—	—	—	—	(299)	(299)
Balance, June 30, 2015	17,291	$ 17	$607,077	$ (390,647)	$ (8,672)	$207,775

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)

	Six Months Ended June 30,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (41,928)	$ (11,080)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation of property, plant and equipment	3,377	3,208
Amortization of intangible assets	1,020	810
Impairment of fixed assets	1,118	607
Share-based compensation expense	12,722	10,914
Amortization of premium on investments	579	326
Amortization of discount on convertible senior notes	4,193	3,724
Amortization of deferred financing costs	242	200
Change in fair value of contingent consideration	4,340	(10,560)
Loss on extinguishment of long-term debt	16,588	—
Other	2	1,305
Change in operating assets and liabilities:		
Accounts receivable	1,199	(8,494)
Inventories	1,516	(5,559)
Prepaid expenses and other current assets	(433)	2,912
Accounts payable	(2,400)	(6,102)
Accrued interest on convertible senior notes	324	—
Other accrued liabilities	(4,882)	5,416
Other long-term liabilities	(78)	86
Net cash used in operating activities	(2,501)	(12,287)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(16,225)	(13,485)
Maturities of investments	21,715	14,625
Additions to property, plant and equipment, net	(2,136)	(4,453)
Additions to patents	(806)	(845)
Cash received from security deposits	294	—
Net cash provided by (used in) investing activities	2,842	(4,158)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of convertible debt	79,901	—
Payment of convertible debt issuance costs	(4,261)	—
Repayment of convertible debt	(12)	—
Proceeds from exercise of stock options	31	613
Net cash provided by financing activities	75,659	613
Effect of exchange rate changes on cash and cash equivalents	2,276	(453)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	78,276	(16,285)
CASH AND CASH EQUIVALENTS — BEGINNING OF PERIOD	102,946	162,880
CASH AND CASH EQUIVALENTS — END OF PERIOD	$ 181,222	$ 146,595

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 for the three and six months ended June 30, 2015 and cash flows for the six months ended June 30, 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. In July 2015, the FASB voted to approve the deferral of the effective date of ASU 2014-09 by one year. Therefore, ASU 2014-09 will become effective for us in the first quarter of our fiscal year ending December 31, 2018. Early adoption is permitted, but not earlier than the first quarter of our fiscal year ending December 31, 2017. The ASU allows for either full retrospective or modified retrospective adoption. We have not yet selected a transition method, and we are currently evaluating the effect that ASU 2014-09 will have on our consolidated financial statements and related disclosures.

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 June 30, 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 June 30, 2015, we had approximately $252.0 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 June 30, 2015. At June 30, 2015, we had an accumulated deficit of approximately $390.6 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. At June 30, 2015, one customer had an accounts receivable balance that represented approximately 10% of total accounts receivable. At December 31, 2014, no customer had an accounts receivable balance greater than 10% of total accounts receivable.

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 six months ended June 30, 2015 and 2014:

	2015	2014
	(in thousands)	
Beginning balance	$671	$495
Reversal of expense	(41)	—
Charge-offs	—	—
Ending balance	$630	$495

As of and for the three months ended June 30, 2015, we recorded customer sales allowances totaling $72,000. At December 31, 2014, we did not maintain a sales allowance.

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

Inventories

Components of inventories are as follows:

	June 30, 2015	December 31, 2014
	(in thousands)	
Raw material	$27,474	$ 28,688
Work-in-process	11,408	10,240
Finished goods	11,689	15,118
	$50,571	$ 54,046

Finished goods inventories includes inventory held on consignment at customer sites of approximately $7.0 million at June 30, 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	June 30, 2015	December 31, 2014
		(in thousands)	
Machinery and equipment	1.5 to 7 years	$ 21,729	$ 21,279
Leasehold improvements	3 to 10 years	8,881	9,070
Office equipment, furniture and fixtures	5 to 7 years	2,099	2,206
Purchased software	1 to 7 years	6,890	6,474
		39,599	39,029
Less: accumulated depreciation		(22,594)	(19,993)
		$ 17,005	$ 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 in our condensed consolidated statements of operations.

In the first quarter of 2014, we ceased activities at our facility in Teaneck, New Jersey. 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 in 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 "2013 Note"). Pursuant to the terms of the 2013 Note, on October 7, 2014 (the maturity date), the privately held company elected to convert all unpaid principal and interest on the 2013 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 June 30, 2015 and December 31, 2014.

The fair value of this investment has not been estimated as of June 30, 2015 and December 31, 2014. As of June 30, 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

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

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.

On July 10, 2015, we invested an additional $5 million in this entity in the form of a convertible promissory note (the "2015 Note"). Principal and interest at a rate equal to 6% per annum is due and payable at maturity. Maturity occurs at the earlier of two years or the occurrence of certain events defined in the 2015 Note, including an event of default or a change in control. Principal and interest on the 2015 Note are repayable, at the option of the issuer, in cash or shares of the most recently issued series of preferred stock or a comparable newly issued series of preferred stock.

Other Accrued Liabilities

Other accrued liabilities consist of the following:

	June 30, 2015	December 31, 2014
	(in thousands)	
Accrued payroll and other employee costs	$10,601	$ 13,404
Accrued warranty	5,401	4,685
Accrued material purchases	2,643	4,284
Accrued research and development costs	3,464	2,663
Other accrued expenses	10,307	11,553
	$32,416	$ 36,589

Accrued payroll and other employee costs

Accrued payroll and other employee costs included estimated year-end employee bonuses of approximately $4.9 million and $7.9 million at June 30, 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 in 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 six months ended June 30, 2015 and 2014:

	2015	2014
	(in thousands)	
Beginning balance	$ 4,685	$2,498
Accrual for warranty expense	2,097	1,790
Warranty costs incurred during the period	(1,381)	(888)
Ending balance	$ 5,401	$3,400

The accrual for warranty expense in the six months ended June 30, 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 June 30, 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. The following table summarizes the change in product recall liability for the six months ended June 30, 2015 and 2014:

	2015	2014
	(in thousands)	
Beginning balance	$ 1,888	$ —
Accrual for recall costs	470	3,018
Recall costs incurred during the period	(1,746)	—
Ending balance	$ 612	$3,018

During the three months ended June 30, 2014, we established a $3.0 million reserve in connection with our voluntary recall of certain older batteries. Subsequently, through March 31, 2015 we increased our recall estimates by approximately $0.7 million based upon our exchange experience. The recall was implemented to mitigate the potential risks associated with premature battery depletion following our April 2014 field action, which provided information to assist patients and clinicians with monitoring battery performance, recognizing abnormal behaviors and reinforcing proper power management of the HVAD System. We anticipate completing this recall during the third quarter of 2015. The reserve for this recall was $0.1 million as of June 30, 2015.

In December 2014, we established a $1.3 million reserve in connection with our voluntary recall of certain older controllers which did not incorporate later design changes implemented to mitigate susceptibility to electrostatic discharge. We increased the total estimated cost of the field action by approximately $0.4 million during the three months ended March 31, 2015 based upon our exchange experience. We anticipate completing this recall by the end of 2015. The reserve for this recall was $0.5 million as of June 30, 2015.

Accrued Restructuring Costs

The following table summarizes changes in our accrued restructuring costs for the six months ended June 30, 2015:

	Facility Leases	Severance and Related	Contract Termination	Total
		(in thousands)		
Beginning balance	$ 1,266	$ —	$ —	$ 1,266
Restructuring charges	139	598	340	1,077
Payments	(514)	(598)	(340)	(1,452)
Adjustments to estimated obligations	402	—	—	402
Change in fair value	20	—	—	20
Ending balance	$ 1,313	$ —	$ —	$ 1,313

The restructuring obligations reflected above resulted from the following actions:

Facility Closures

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

In the first quarter of 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 first quarter of 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 in our condensed consolidated statements of operations.

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

In the first quarter of 2014, we also relocated our corporate headquarters and ceased activities at our former headquarters in Framingham, Massachusetts. In connection with this action, we recorded a $0.5 million liability equal to the aggregate of the remaining payments on the lease for our former headquarters as of the cease-use date. This amount is included in selling, general and administrative expenses in our condensed consolidated statements of operations.

Severance Agreements

In the first quarter of 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 in our condensed consolidated statements of operations.

In the first quarter of 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 in 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 first quarter of 2015, which is included in research and development expenses in 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 SYNERGY components supplier in Germany. As a result of this termination, we recorded a charge of $0.7 million in the first quarter of 2014, which is included in research and development expenses in 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.

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

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 six months ended June 30, 2015 or 2014.

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 June 30, 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.

			Fair Value Measurements at the Reporting Date Using		
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
			(in thousands)		
As of June 30, 2015					
Assets					
Short-term investments	$ 69,574	$ 69,574	$ —	$ 69,574	$ —
Long-term investments	1,225	1,225	—	1,225	—
Liabilities					
3.5% convertible notes	35,159 (1)	46,240	—	46,240	—
1.75% convertible notes	151,405 (1)	197,527	—	197,527	—
Contingent consideration	48,080	48,080	—	—	48,080
Royalties	886	886	—	—	886
Lease exit costs	1,313	1,313	—	—	1,313

			Fair Value Measurements at the Reporting Date Using		
	Carrying Value	Fair Value	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					
3.5% convertible 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 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 notes. The fair value of our available-for-sale investments and our convertible notes was determined using quoted prices (including trade data) for the instruments in markets that are not active. The fair value of our convertible 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.

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

- **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 September 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 six months ended June 30, 2015:

	Contingent Consideration (in thousands)
Beginning balance	$ 43,740
Payments	—
Change in fair value	4,340
Ending balance	$ 48,080

The change in the fair value of the contingent consideration in the six months ended June 30, 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 in 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 six months ended June 30, 2015:

	Royalties (in thousands)
Beginning balance	$ 962
Payments	(110)
Change in fair value	34
Ending balance	$ 886

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

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

The following table summarizes the change in fair value, as determined by Level 3 inputs, of the lease exit costs for the six months ended June 30, 2015:

	Lease Exit Costs (in thousands)
Beginning balance	$ 1,207
Adjustments	430
Payments	(344)
Change in fair value	20
Ending balance	$ 1,313

The expense associated with changes in the fair value of the lease exit costs is included in selling, general and administrative expenses in our consolidated statements of operations. The change in the fair value of the lease exit costs in the six months ended June 30, 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 June 30, 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 first quarters of 2015 and 2014, we recorded impairment charges of $1.1 million and $0.6 million related to certain property, plant, and equipment in connection with the facility closures discussed in Note 3. No significant impairment charges were recorded in the second quarter of 2015 or 2014. 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.

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

Note 5. Investments

We have cash investment policies that limit investments to investment grade rated securities. At June 30, 2015 and December 31, 2014, all of our investments were classified as available-for-sale and carried at fair value. At June 30, 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 June 30, 2015				
Short-term investments:				
Corporate debt	$ 40,662	$ —	$ (129)	$ 40,533
U.S. government agency debt	20,000	—	(24)	19,976
Certificates of deposit	9,065	—	—	9,065
Total short-term investments	$ 69,727	$ —	$ (153)	$ 69,574
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 and six months ended June 30, 2015 and 2014, we did not have any realized gains or losses on our investments. At June 30, 2015, five of our available-for-sale investments with an aggregate fair value of $10.6 million had been in a continuous loss position for more than twelve months. At June 30, 2015, the gross unrealized loss on these five available-for-sale investments was $40,000 and was deemed to be temporary. At June 30, 2015, 15 individual securities had been in an unrealized loss position for twelve months or less. At December 31, 2014, none of our available-for-sale investments had been in a continuous loss position for more than twelve months, while 22 individual securities had been in an unrealized loss position for twelve months or less.

The unrealized losses noted above were deemed 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.

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

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 six months ended June 30, 2015 and 2014 is as follows:

	2015	2014
	(in thousands)	
Beginning balance	$61,390	$61,596
Additions	—	—
Impairment	—	—
Foreign currency translation impact	(136)	(15)
Ending balance	$61,254	$61,581

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 June 30, 2015 and December 31, 2014:

	June 30, 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:

	June 30, 2015	December 31, 2014
	(in thousands)	
Patents	$ 6,116	$ 5,310
Purchased intangible assets		
Tradenames	3,700	3,700
Customer relationships	1,800	1,800
Acquired technology rights	9,925	9,925
	21,541	20,735
Less: Accumulated amortization – Patents	(1,315)	(1,118)
Less: Accumulated amortization – Purchased intangible assets	(2,632)	(1,810)
	$17,594	$ 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 June 30, 2015 and 2014 was $0.5 million and $0.4 million, respectively. Amortization expense for the six months ended June 30, 2015 and 2014 was $1.0 million and $0.8 million, respectively.

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

Note 7. Debt

At June 30, 2015 and December 31, 2014, we had outstanding convertible debt as follows:

	June 30, 2015	December 31, 2014
	(in thousands)	
Principal amount of the 3.5% convertible senior notes, due 2017	$ 42,471	$ 143,750
Unamortized discount	(7,312)	(28,947)
	$ 35,159	$ 114,803
Equity component	$ 7,629	$ 55,038
Principal amount of the 1.75% convertible senior notes, due 2021	$202,366	$ —
Unamortized discount	(50,960)	—
	$151,406	$ —
Equity component	$ 47,400	$ —

Interest expense related to our convertible debt consisted of contractual 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 and was included in interest expense in our condensed consolidated statements of operations. For the three and six months ended June 30, 2015 and 2014, interest expense related to our convertible debt was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(in thousands)			
Coupon rate	$ 1,284	$ 1,258	$2,542	$2,516
Amortization of discount	2,125	1,890	4,193	3,724
Amortization of deferred financing costs	132	101	242	200
	$ 3,541	$ 3,249	$6,977	$6,440

3.5% Convertible Senior Notes

On December 15, 2010, we completed the sale of 3.5% convertible senior notes due December 15, 2017, unless earlier repurchased by us or converted (the "2017 Notes") for an aggregate principal amount of $143.75 million pursuant to the terms of an Indenture dated December 15, 2010 (the "Indenture"). The 2017 Notes are the senior unsecured obligations of the Company. The 2017 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.

In May 2015, we entered into separate, privately negotiated, exchange agreements (the "Exchange") with certain holders of our outstanding 2017 Notes. In this transaction, we exchanged $101.3 million aggregate principal amount of the 2017 Notes for $118.2 million principal amount of 1.75% convertible senior notes due 2021 (see further discussion below). We did not receive any proceeds related to the Exchange.

The 2017 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 2017 Notes will be convertible at an initial conversion rate of 10 shares of our common stock per $1,000 principal amount of 2017 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.

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

Prior to June 15, 2017, holders may convert their 2017 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 2017 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 2017 Notes have occurred. On or after June 15, 2017, until the close of business of the business day immediately preceding the date the 2017 Notes mature, holders may convert their 2017 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 2017 Notes prior to maturity. Holders of the 2017 Notes may require us to purchase for cash all or a part of their 2017 Notes at a repurchase price equal to 100% of the principal amount of the 2017 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 2017 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 2017 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 2017 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 2017 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 2017 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 equity component of $55.0 million was recorded in additional paid-in-capital. The measurement of fair value required the Company to make estimates and assumptions to determine the present value of the cash flows of the 2017 Notes, absent the conversion feature. This treatment increased interest expense associated with our 2017 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 2017 Notes using the effective interest method. Additionally, we allocated the costs related to issuance of the 2017 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 2017 Notes using the effective interest method.

Based on the initial conversion rate of 10 shares of our common stock per $1,000 principal amount of 2017 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 2017 Notes is 424,710. The value of these shares, based on the closing price of our common stock on June 30, 2015 of $72.69 per share, was approximately $30.9 million. The fair value of our 2017 Notes as presented in Note 4 was $46.2 million at June 30, 2015.

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

1.75% Convertible Senior Notes

In May 2015, we issued $84.2 million principal amount of 1.75% convertible senior notes due December 15, 2021 (the 2021 Notes), unless earlier repurchased, redeemed or converted. Combined with the 2021 Notes issued in connection with the Exchange described above, the aggregate principal amount issued under the 2021 Notes was $202.4 million. The Exchange resulted in the retirement of outstanding 2017 Notes with a carrying value of $83.1 million, the write-off of unamortized debt issuance costs of $1.0 million and settlement of $10.7 million related to the conversion feature embedded in the 2017 Notes. The 2021 Notes offered in the Exchange had a fair value of $88.0 million, which resulted in a loss on extinguishment of debt of $16.6 million in the three months ended June 30, 2015.

Interest on the 2021 Notes is payable semiannually in arrears on June 15 and December 15, at a rate of 1.75% per annum, beginning on December 15, 2015.

The net proceeds from the issuance of the 2021 Notes amounted to $75.6 million, net of deferred issuance costs paid as of June 30, 2015. In connection with the issuance of the 2021 Notes, we incurred costs of approximately $5.2 million.

The 2021 Notes will mature on December 15, 2021 unless earlier repurchased, redeemed or converted. Prior to the close of business on the business day immediately preceding June 15, 2021, holders may convert their 2021 Notes at their option only under the following circumstances: (1) during any calendar quarter commencing after the calendar quarter ending on June 30, 2015 (and only during such calendar quarter), if the last reported sale price of the common stock for at least 20 trading days (whether or not consecutive) during the period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day; (2) during the five business day period after any five consecutive trading day period (the "measurement period") in which the trading price per $1,000 principal amount of notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of our common stock and the conversion rate on such trading day; (3) upon the occurrence of specified corporate events, or (4) if we call the 2021 Notes for redemption, until the close of business on the business day immediately preceding the redemption date. As of the date of this report on Form 10-Q, none of the events that would allow holders to convert their 2021 Notes have occurred. On or after June 15, 2021 until the close of business on the scheduled trading day immediately preceding the maturity date, holders may convert their 2021 Notes at any time, regardless of whether any of the foregoing conditions has been met. Upon conversion, we will satisfy our conversion obligation by paying or delivering, as the case may be, cash, shares of our common stock or a combination of cash and shares of our common stock, at our election.

We may not redeem the 2021 Notes prior to June 19, 2019. On or after June 19, 2019, we may redeem for cash all or part of the 2021 Notes if the last reported sale price per share of our common stock for at least 20 trading days (whether or not consecutive) during the period of 30 consecutive trading days ending on the trading day immediately preceding the date on which we provide the notice of redemption exceeds 130% of the applicable conversion price for the 2021 Notes on each applicable trading day. The redemption price will equal 100% of the principal amount of the 2021 Notes being redeemed, plus accrued and unpaid interest to, but excluding, the redemption date. No sinking fund is provided for the 2021 Notes.

If we undergo a fundamental change, as defined in the Indenture among the Company and Wilmington Trust, N.A., holders may require us to repurchase for cash all or part of their 2021 Notes at a fundamental change repurchase price equal to 100% of the principal amount of the 2021 Notes to be repurchased, plus accrued and unpaid interest to, but excluding, the fundamental change repurchase date. The fundamental change is primarily triggered by a change of control, liquidation, dissolution or delisting from NASDAQ.

The 2021 Notes are senior unsecured obligations and rank senior in right of payment to our future indebtedness that is expressly subordinated in right of payment to the 2021 Notes; equal in right of payment to our existing and future unsecured indebtedness that is not subordinated; effectively subordinated in right of payment to any of our secured indebtedness to the extent of the value of the assets securing such indebtedness; and structurally subordinated to all existing and future indebtedness and other liabilities of our subsidiaries.

The 2021 Notes will be convertible at an initial conversion rate of 10 shares of our common stock per $1,000 principal amount of 2021 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.

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

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 2021 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 equity component of $47.4 million was recorded in additional paid-in-capital. The measurement of fair value required the Company to make estimates and assumptions to determine the present value of the cash flows of the 2021 Notes, absent the conversion feature. This treatment increased interest expense associated with our 2021 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 1.75% cash coupon rate and the effective interest rate on debt borrowing of approximately 7.2%. The discount is being amortized to interest expense through the December 15, 2021 maturity date of the 2021 Notes using the effective interest method. Additionally, we allocated the costs related to issuance of the 2021 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, 2021 maturity date of the 2021 Notes using the effective interest method.

Based on the initial conversion rate of 10 shares of our common stock per $1,000 principal amount of 2021 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 2021 Notes is 2,023,660. The value of these shares, based on the closing price of our common stock on June 30, 2015 of $72.69 per share, was approximately $147.1 million. The fair value of our 2021 Notes as presented in Note 4 was $197.5 million at June 30, 2015.

Note 8. Stockholders' Equity

At our 2015 Annual Meeting of Stockholders held on June 4, 2015, our stockholders approved an amendment to our Certificate of Incorporation to increase the number of our authorized shares of common stock from 25 million to 50 million. The amendment became effective upon filing with the Secretary of State of the State of Delaware on June 25, 2015.

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 June 30, 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 the fourth quarter of 2014, we were obligated to pay $2.0 million under a certain patent assignment and license agreement. The $2.0 million, which was payable in cash or shares of our common stock, was accrued at December 31, 2014 in other long term liabilities on our condensed consolidated balance sheets. We issued an aggregate of 26,042 shares of our common stock in the second quarter of 2015 to settle this liability.

Following satisfaction of a pre-specified milestone in December 2013, we were obligated to pay an additional $5.0 million under a certain patent assignment and license agreement. The $5.0 million, which was payable in cash or shares of our common stock, was settled through the issuance of 50,330 shares of our common stock in the first quarter of 2014.

In the six months ended June 30, 2015, we issued an aggregate of 1,429 shares of our common stock upon the exercise of stock options and an aggregate of 107,896 shares of our common stock upon the vesting of restricted stock units.

In the six months ended June 30, 2014, we issued an aggregate of 23,571 shares of our common stock upon the exercise of stock options and an aggregate of 42,088 shares of our common stock upon the vesting of restricted stock units.

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

Note 9. Share-Based Compensation

We allocate share-based compensation expense to cost of revenue, selling, general and administrative expense and research and development expense based on the award holder's employment function. For the three and six months ended June 30, 2015 and 2014, we recorded share-based compensation expense as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(In thousands)			
Cost of revenues	$ 547	$ 662	$ 985	$ 1,109
Selling, general and administrative	3,683	3,665	7,132	6,397
Research and development	2,516	2,230	4,605	3,408
	$ 6,746	$ 6,557	$12,722	$10,914

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. At our 2015 Annual Meeting of Stockholders held on June 4, 2015, our stockholders approved an amendment to the 2012 Plan to increase the number of shares of our common stock available for issuance by 1.1 million shares. Under the terms of the 2012 Plan, as amended, the total number of shares of our common stock reserved for issuance under Awards is 2,475,000, 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 2,375,000. As of June 30, 2015, 220,107 shares have been issued upon vesting of Awards issued under the 2012 Plan and Awards with respect to 720,803 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.

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

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. The following table includes the weighted average assumptions used for options issued in the three and six months ended June 30, 2015 and 2014.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Dividend yield	0%	0%	0%	0%
Expected volatility	37.50%	39.00%	37.50%	39.00%
Risk-free interest rate	1.69%	1.65%	1.69%	1.65%
Estimated holding period (years)	5.00	5.00	5.00	5.00

Information related to options granted under all of our plans at June 30, 2015 and activity in the six 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	7	76.60		
Exercised	(1)	21.42		
Forfeited	—	—		
Expired	—	—		
Outstanding at June 30, 2015	113	$ 49.59	4.28	$ 3,028
Exercisable at June 30, 2015	100	$ 45.39	3.69	$ 3,016

The aggregate intrinsic values at June 30, 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 weighted average grant date fair value per share of options issued in the six months ended June 30, 2015 and 2014 was $27.10 and $32.41 per share, respectively.

The total intrinsic value of options exercised in the six months ended June 30, 2015 and 2014 was approximately $0.1 million and $1.6 million, respectively. Cash received from options exercised in the six months ended June 30, 2015 and 2014 was approximately $0.03 million and $0.6 million, respectively.

At June 30, 2015, there was approximately $0.2 million of unrecognized compensation expense, net of estimated forfeitures, related to non-vested options. This expense is expected to be recognized over a weighted average period of one year.

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

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 June 30, 2015 and activity in the six 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	299		
Vested/Exercised	(108)		
Forfeited	(20)		
Expired	—		
Outstanding at June 30, 2015	760	1.62	$ 55,231

The aggregate intrinsic value at June 30, 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 June 30, 2015, 71,705 of the RSUs outstanding were subject to performance-based vesting criteria as described above.

The total intrinsic value of RSUs vested in the six months ended June 30, 2015 and 2014 was approximately $9.3 million and $4.0 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 six months ended June 30, 2015 and 2014 was $88.96 and $100.57, respectively.

At June 30, 2015, we had approximately $36.3 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 1.6 years.

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

Note 10. Earnings Per Share

Basic earnings per share was computed by dividing net (loss) income for the period by the weighted-average number of common shares outstanding for each respective period. Diluted earnings per share adjusts basic earnings per share for the dilutive effects of share-based awards as determined under the "treasury stock" method, our convertible notes as determined under the "if-converted" method and other potentially dilutive instruments only in the periods in which the effect is dilutive.

The following table sets forth basic and diluted (loss) income per common share for the three and six months ended June 30, 2015 and 2014 (in thousands, except per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Numerator:				
Net (loss) income	$(27,393)	$ 8,364	$(41,928)	$(11,080)
Denominator:				
Basic weighted average shares outstanding	17,269	16,989	17,232	16,962
Dilutive effects of share-based awards	—	316	—	—
Diluted weighted-average shares outstanding	17,269	17,305	17,232	16,962
(Loss) earnings per share:				
Basic	$ (1.59)	$ 0.49	$ (2.43)	$ (0.65)
Diluted	$ (1.59)	$ 0.48	$ (2.43)	$ (0.65)

The following instruments were excluded from the calculation of diluted weighted average shares outstanding, as their effect would be anti-dilutive.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(In thousands)			
Common shares issuable upon:				
Conversion of 3.5% convertible senior notes	425	1,438	425	1,438
Conversion of 1.75% convertible senior notes	2,024	—	2,024	—
Exercise or vesting of share-based awards	873	304	873	840

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

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 June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(in thousands)			
United States	$42,922	$36,945	$ 85,111	$ 70,733
Germany	13,072	17,404	25,813	32,082
International, excluding Germany	17,575	15,782	32,666	33,788
	$73,569	$70,131	$143,590	$136,603

As a significant portion of our revenue is generated outside of the United States, we are dependent on favorable economic and regulatory environments for our products in Europe and other countries outside of the United States. For the three and six months ended June 30, 2015 and 2014, no customer exceeded 10% of product sales individually.

Note 12. Commitments and Contingencies

We received a warning letter from the FDA, dated June 2, 2014, following an inspection of our Miami Lakes, Florida facility conducted in January 2014. The FDA letter cited four categories for us to address: (1) procedures for validating device design, including device labeling; (2) procedures for implementing corrective and preventive action ("CAPA"); (3) maintaining records related to investigations; and (4) validation of computer software used as part of production or quality systems. The warning letter did not require any action by physicians or patients and did not restrict use of 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 June 30, 2015, we had purchase order commitments of approximately $41.5 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

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

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 payable over periods ranging from 8-10 years subsequent to the acquisition date. As of June 30, 2015, the maximum future milestone and royalty payments amounted to $285 million, reduced from the original agreement maximum of $320 million, since certain milestones are no longer achievable. As of June 30, 2015, the fair value of the contingent consideration was estimated to be $48.1 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.

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 June 30, 2015 through the date the financial statements were issued, for potential recognition or disclosure in the accompanying condensed consolidated financial statements. As disclosed in Note 3, on July 10, 2015, we invested $5 million in an early-stage, privately-held company. Except for this investment, we did not identify any events or transactions that should be recognized or disclosed in the accompanying condensed consolidated financial statements.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read together with our unaudited interim condensed consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q. Certain abbreviated key terms have the meanings defined elsewhere in this Quarterly Report on Form 10-Q.

Overview

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

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

In November 2012, we received approval from the United States Food and Drug Administration ("FDA") for the HVAD System as a bridge to heart transplantation in patients with end-stage heart failure. The HVAD System has been available in the European Union since receiving CE marking in 2009. In May 2012, we received an expanded European label for long-term use of the HVAD System in all patients at risk of death from refractory, end-stage heart failure. As of June 30, 2015, there have been approximately 9,000 implants of the HVAD System in patients at over 290 health care sites in 46 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 trial 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 90% 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 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 the 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 for thrombus 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 Pump is a heart pump that supports a wide range of flows to enable circulatory support for patients with advanced heart failure. The MVAD Pump was designed with a low shear stress impeller and optimal blood flow paths, which together are expected to result in improved hemodynamic performance. In addition, the MVAD System incorporates a pulsatility algorithm called the qPulse™ Cycle that allows physicians to customize the device for each patient, providing four pulse settings designed to enhance aortic valve function and reduce chronic bleeding events. The MVAD Pump, which is less than one-half the size of the HVAD Pump, weighs only 78 grams and displaces 22 cc of volume and has a steerable sewing ring, which enables clinicians to position the inflow cannula to facilitate optimal blood flow into the pump. The integrated Pal controller and battery system includes a touch-screen display and two sizes of small, light-weight, snap-on batteries.

In July 2015, we commenced our MVAD System CE Mark international clinical trial. The first patients receiving the MVAD System were implanted at the Freeman Hospital in Newcastle upon Tyne, England, and at the Medical University AKH Vienna in Austria. The MVAD System CE Mark trial is a multicenter, prospective, non-randomized, single-arm trial that evaluates the clinical safety and performance of the MVAD System for the treatment of advanced heart failure. The trial will enroll 70 patients at 11 sites in the United Kingdom, Austria, Australia, France and Germany (pending final regulatory approval from BfArM). In the trial, patients will be implanted with the MVAD Pump via sternotomy or thoracotomy, and the device will be evaluated for short- and long-term use. The primary endpoint is survival at six months.

We have submitted to the FDA an Investigational Device Exemption seeking approval to commence an MVAD System clinical trial in the United States. Health Canada is also reviewing a submission for a 15-patient, three-center study, which is expected to commence later this year.

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

We issued a voluntary Urgent Medical Device Correction on May 11, 2015, describing different types of complaints reviewed as part of our ongoing product performance monitoring. The notice provides information to reinforce proper performance and safe use of the HVAD System to help reduce the potential occurrence of avoidable patient injury and specifically addresses maintaining continuous power supply, worn alignment guides, planned software improvements, driveline outer sheath discoloration and cracking, and driveline pulling and snagging. These field actions are not expected to have a material effect on our financial position, liquidity or results of operations.

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.

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.

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.

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.

Summary of Recent Financial Performance

Total revenue increased 5%, to $73.6 million for the quarter ended June 30, 2015 compared to $70.1 million during the second quarter of 2014. Currency changes negatively impacted total revenue growth by approximately $6.0 million, or 9%, during the second quarter of 2015 compared to the second quarter of 2014. Both U.S. and International trends were favorable with unit sales improving by 16% and 14%, respectively, compared to the second quarter of 2014. We added four new U.S. customer sites and ten new international customer sites during the second quarter of 2015, modestly contributing to our results. A record total of 773 HVAD Systems were sold during the second quarter of 2015, including 391 U.S. units and 382 international units.

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 June 30, 2015, the Company had 120 customers in the United States and 175 customers internationally.

We realized a decrease in gross margin percentage, to 65.7% in the second quarter compared to 68.5% in first quarter of 2015 and 67.3% in the second quarter of 2014. This decrease was primarily a result of unfavorable foreign exchange rates, customer and geographic mix, and to a lesser extent limited competitive pricing pressures in a handful of indirect markets.

Combined selling, general, administrative, research and development expenses in the second quarter of 2015 increased slightly to $53.9 million, compared to $53.2 million in the first quarter of 2015.

We completed a refinancing of approximately $101.3 million principal value of our 3.5% convertible senior notes due in 2017, in exchange for $118.2 million principal value of new 1.75% convertible senior notes due in 2021. In addition, we raised $75.6 million of net cash proceeds through the additional issuance of $84.2 million of the 1.75% convertible senior notes due in 2021, net of discounts and issuance 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 six months ended June 30, 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 and six months ended June 30, 2015 and 2014

Revenue, net

In the three and six months ended June 30, 2015 and 2014, we generated revenue through commercial sales and clinical trials.

	Three Months Ended June 30,			Six Months Ended June 30,		
	2015	2014	Change	2015	2014	Change
	(in thousands)			(in thousands)		
United States	$ 42,922	$ 36,945	16%	$ 85,111	$ 70,733	20%
International	30,647	33,186	(8)%	58,479	65,870	(11)%
Total	$ 73,569	$ 70,131	5%	$143,590	$136,603	5%

The following table presents our HVAD pump unit sales by geography for the three and six months ended June 30, 2015 and 2014:

	Three Months Ended June 30,			Six Months Ended June 30,		
	2015	2014	Change	2015	2014	Change
United States	391	338	16%	772	651	19%
International	382	336	14%	714	688	4%
Total	773	674	15%	1,486	1,339	11%

Revenue growth in the United States, where our HVAD System is labeled for bridge-to-transplantation, reflected continued strong growth in commercial market acceptance of the HVAD System. The U.S. revenue increase included approximately 45 and 93 HVAD Systems sold under the Company's ENDURANCE2 clinical trial in the three and six months ended June 30, 2015, respectively. International revenue decreased due to the impact of currency fluctuations, which negated the potential benefit from the increased unit sales. The international unit sales expansion was attributable to further adoption of the HVAD System in less penetrated markets.

Currency changes negatively impacted total revenue growth by approximately $6.0 million and $11.0 million, or 9% and 8%, in the three and six months ended June 30, 2015, respectively, compared to the same periods in 2014. In the three and six months ended June 30, 2015, approximately 37% and 36% of our net revenue was denominated in foreign currencies including principally the Euro and British pound compared to 44% and 46% in the same periods of 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. 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.

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 $25.2 million and $23.0 million in the three months ended June 30, 2015 and 2014, respectively. Cost of revenue totaled approximately $47.3 million and $45.9 million in the six months ended June 30, 2015 and 2014, respectively.

Gross profit and gross margin percentage are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(in thousands)		(in thousands)	
Gross profit	$48,341	$47,176	$96,322	$90,733
Gross margin %	65.7%	67.3%	67.1%	66.4%

The decrease in gross margin percentage was primarily a result of unfavorable foreign exchange rates, customer and geographic mix, and to a lesser extent limited competitive pricing pressures in a handful of indirect markets.

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 June 30,			Six Months Ended June 30,		
	2015	2014	Change	2015	2014	Change
	(in thousands)			(in thousands)		
Selling, general and administrative expenses	$22,247	$20,948	6%	$44,176	$45,180	(2)%
% of operating expenses, excluding changes in fair value of contingent consideration	41%	44%		41%	43%	

The increase of $1.3 million for the three months ended June 30, 2015 as compared to the three months ended June 30, 2014 reflects an increase in salaries and related costs associated with headcount growth of $1.1 million, infrastructure-related costs of $0.4 million and other operating expenses of $0.6 million. Decreases included $0.7 million of travel and marketing costs.

The decrease of $1.0 million for the six months ended June 30, 2015 as compared to the six months ended June 30, 2014 includes the elimination of approximately $2.6 million of restructuring charges in 2014 resulting from lease exit costs associated with facilities we vacated in Massachusetts and New Jersey, severance costs and asset impairment charges. Aside from the Massachusetts facility item, these charges related to our acquisition of CircuLite. Offsetting expense increases included salaries and related costs associated with headcount growth of $1.9 million and non-cash share-based compensation expense of $0.7 million.

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 June 30,			Six Months Ended June 30,		
	2015	2014	Change	2015	2014	Change
	(in thousands)			(in thousands)		
Research and development expenses	$31,702	$26,913	18%	$62,969	$59,504	6%
% of operating expenses, excluding changes in fair value of contingent consideration	59%	56%		59%	57%	

The net increase of $4.8 million for the three months ended June 30, 2015 as compared to the three months ended June 30, 2014 resulted primarily from increases in clinical and regulatory expenses of $1.2 million, including outside costs associated with FDA warning letter remediation efforts, overall research and development project expenses of $0.8 million, increased salaries and related costs associated with headcount growth of $1.0 million and infrastructure-related costs of $0.8 million. All other expenses resulted in a net increase of approximately $1.0 million.

The net increase of $3.5 million for the six months ended June 30, 2015 as compared to the six months ended June 30, 2014 resulted primarily from increases in salaries and related costs associated with headcount growth of $1.2 million, non-cash share-based compensation expense of $1.2 million, infrastructure-related costs of $1.6 million and restructuring costs of $1.1 million. All other expenses resulted in a decrease of $1.6 million and were primarily due to lower research and development project costs. The restructuring charges associated with the CircuLite acquisition were $2.2 million and $1.1 million in the six months ended June 30, 2015 and 2014, respectively. The charges recorded in 2015 included fixed asset impairment, contract termination fees and severance costs in connection with our decision to cease activities at our facility in Aachen, Germany. The charges recorded in 2014 included contract termination fees and severance costs.

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 and ENDURANCE2 clinical trials. In addition, we continue to incur substantial costs to remediate warning letter-related observations as well as make improvements to our quality systems.

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 June 30, 2015, we recorded a $2.2 million adjustment for the increase in the estimated fair value of the contingent consideration since March 31, 2015. In the six months ended June 30, 2015, we recorded a $4.3 million adjustment for the increase in the estimated fair value of the contingent consideration since December 31, 2014. The change in the fair value of the contingent consideration in the three and six months ended June 30, 2015 was due to accretion of the liability due to the passage of time.

In the three months ended June 30, 2014, we recorded a $13.7 million adjustment for the decrease in the estimated fair value of the contingent consideration since March 31, 2014. The decrease in the estimated fair value of the contingent consideration was primarily due to a $16.3 million reduction due to the likelihood of not achieving the performance milestone conditions related to the re-launch of the acquired form of the SYNERGY Surgical System following its loss of CE marking in the European Union in March 2014. In addition, we have discontinued development of the SYNERGY micropump and have focused our efforts on a version of our MVAD pump for our partial-assist program. The $16.3 million reduction in fair value was partially offset by an increase of $2.6 million due to accretion of the liability due to the passage of time.

In the six months ended June 30, 2014, we recorded a $10.6 million adjustment for the decrease in the estimated fair value of the contingent consideration. The decrease in the estimated fair value of the contingent consideration was primarily due to a $16.6 million reduction due to the likelihood of not achieving the performance milestone conditions related to the re-launch of the acquired form of the SYNERGY Surgical System as noted above. The $16.6 million reduction in fair value was partially offset by an increase of $6.0 million due to accretion of the liability due to the passage of time.

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 in 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 and six months ended June 30, 2015, our net foreign exchange gain totaled approximately $0.8 million, primarily due to a modest rebound in the Euro. This compared to a net foreign exchange gain compared to approximately $0.02 million in the same period of 2014. In the six months ended June 30, 2015, our net foreign exchange loss totaled approximately $2.9 million, primarily due to a significant weakening of the Euro during the first quarter of 2015. This loss compared to net foreign exchange gains 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 notes, amortization of the related discount and amortization of the portion of the deferred financing costs allocated to the debt component. The discount on the 3.5% convertible notes and the deferred financing costs are being amortized to interest expense through the December 15, 2017 maturity date of the convertible notes using the effective interest method. The discount on the 1.75% convertible notes and the deferred financing costs are being amortized to interest expense through the December 15, 2021 maturity date of the convertible notes using the effective interest method.

In the three months ended June 30, 2015, interest expense was approximately $3.5 million, which included $1.3 million of interest incurred on the principal amount of the convertible notes at the stated coupon rates and $2.2 million of non-cash amortization of the discount and deferred financing costs. In the three months ended June 30, 2014, interest expense was approximately $3.3 million, which included $1.3 million of interest incurred on the principal amount of the convertible notes at the stated coupon rate and $2.0 million of non-cash amortization of the discount and deferred financing costs.

In the six months ended June 30, 2015, interest expense was approximately $7.0 million, which included $2.6 million of interest incurred on the principal amount of the convertible notes at the stated coupon rates and $4.4 million of non-cash amortization of the discount and deferred financing costs. In the six months ended June 30, 2014, interest expense was approximately $6.4 million, which included $2.5 million of interest incurred on the principal amount of the convertible notes at the stated coupon rate and $3.9 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 and $0.3 million, respectively, in the three and six months ended June 30, 2015, compared to $0.2 million and $0.4 million, respectively, in the same periods in the prior year. We continue to experience low interest rates on our deposits and available-for-sale investments.

Income Taxes

We are subject to taxation in the United States and jurisdictions outside of the United States. These jurisdictions have different marginal tax rates. Foreign earnings are considered to be permanently reinvested in operations outside the U.S. and therefore we have not provided for U.S. income taxes on these unrepatriated foreign earnings. We have incurred significant U.S. losses since inception, however, changes in issued capital and share ownership, as well as other factors, may limit our ability to utilize any net operating loss carry-forwards, and therefore a 100% valuation allowance has been recorded against our net deferred tax assets. For the three and six months ended June 30, 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 June 30, 2015, our cash and cash equivalents combined with short term available-for-sale investments were approximately $251.3 million as compared to $178.5 million at December 31, 2014.

Following is a summary of our cash flow activities for the six months ended June 30, 2015 and 2014:

	Six Months Ended June 30,	
	2015	2014
	(in thousands)	
Net cash used in operating activities	$ (2,501)	$ (12,287)
Net cash provided by (used in) investing activities	2,842	(4,158)
Net cash provided by financing activities	75,659	613
Effect of exchange rate changes on cash and cash equivalents	2,276	(453)
Net increase (decrease) in cash and cash equivalents	$ 78,276	$ (16,285)

Cash Used in Operating Activities

For the six months ended June 30, 2015, cash used in operating activities included a net loss of approximately $41.9 million, adjustments for non-cash items totaling $44.2 million and cash used in working capital of $4.8 million. The net loss was driven by normal operating activities including the sale of the HVAD System in the United States and abroad, the loss on extinguishment of long-term debt, 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 $12.7 million of share-based compensation, $4.4 million of depreciation and amortization on long-lived assets, $4.2 million of amortization of the discount on our convertible notes, $4.3 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 $4.9 million for the decrease in accrued liabilities, $2.4 million for the payment of trade accounts payable, and an increase in prepaid expenses and other assets of $0.4 million. These amounts were partially offset by decreases in accounts receivable and inventory totaling $2.7 million.

For the six months ended June 30, 2014, cash used in operating activities consisted of net loss of $11.1 million, adjustments for non-cash items of $10.5 million and cash used in working capital of $11.7 million. Adjustments for non-cash items primarily consisted of $10.9 million of share-based compensation, $4.0 million of depreciation and amortization

of long-lived assets, $3.7 million for the amortization of the discount on our convertible notes, $1.0 million loss on an equity investment and $0.6 million for the impairment of fixed assets, which were partially offset by an adjustment of $10.6 million from the decrease in fair value of contingent consideration. The decrease in cash from changes in working capital included $8.5 million in increased trade accounts receivable, $5.6 million for the purchase and manufacture of inventories and $6.1 million for the payment of trade accounts payable. These amounts were partially offset by a decrease in prepaid expenses and other assets of $2.9 million and an increase in accrued liabilities of $5.4 million.

Cash Provided By (Used in) Investing Activities

In the six months ended June 30, 2015, net cash provided by investing activities included maturities of available-for-sale securities (net of purchases) aggregating $5.5 million. This amount was partially offset by cash usages of $2.1 million to acquire property, plant and equipment and $0.8 million for intellectual property.

In the six months ended June 30, 2014, net cash used in investing activities included $4.5 million to acquire property, plant and equipment and $0.8 million for intellectual property. These amounts were offset by $1.1 million received upon maturity (net of purchases) of available-for-sale securities.

Cash Provided by Financing Activities

In the six months ended June 30, 2015, cash provided by financing activities was primarily the result of the net cash proceeds from the issuance of our 1.75%, 2021 Notes. In May 2015, we issued our 1.75%, 2021 Notes with an aggregate principal amount of $202.4 million in exchange for a portion of our outstanding 3.5%, 2017 Notes with an aggregate principal amount $101.3 million and net cash proceeds of approximately $75.6 million, after paying offering costs. Interest on the 2021 Notes is payable semiannually in arrears on June 15 and December 15 of each year, beginning on December 15, 2015. The 2021 Notes will mature on December 15, 2021, unless earlier repurchased by the Company or converted.

The exercise of stock options in the six months ended June 30, 2015 and 2014 resulted in cash proceeds of approximately $0.03 million and $0.6 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 the United States;
- continued product development, including refinement of the MVAD pump and Pal controller;
- preclinical and clinical costs relating to 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.

Interest on our convertible notes is 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 notes at June 30, 2015, the semi-annual interest payment due on December 15, 2015 will be approximately $3.0 million each. This amount is expected to be paid from cash on hand.

We believe cash on hand and investment balances as of June 30, 2015 are sufficient to support our planned operations for at least the next twelve months. At June 30, 2015, approximately $6.1 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 May 2015, we amended the lease for our corporate headquarters in Framingham, Massachusetts to include approximately 12,500 square feet of additional office space. This lease is scheduled to expire in March 2021. Annual base rent for the additional space will be approximately $0.3 million, payable monthly starting in March 2016. Annual base rent is subject to periodic increases beginning in 2018.

In May 2015, we issued $202.4 million principal amount of 1.75% convertible senior notes due December 15, 2021 (the “2021 Notes”), unless earlier repurchased, redeemed or converted. This included $118.2 million of 2021 Notes that were issued in exchange for $101.3 million aggregate principal amount of our 3.5% convertible senior notes due December 15, 2017 (the “2017 Notes”). Subsequent to the exchange, the outstanding balance of 2017 Notes is $42.5 million, which is due December 15, 2017, unless the 2017 Notes are earlier repurchased or converted. Interest on the 2021 Notes and 2017 Notes is payable semi-annually in arrears on June 15 and December 15 of each year. Based on the outstanding principal amounts of our 2021 Notes and 2017 Notes at June 30, 2015, annual interest payments will be approximately $5.0 million.

Except as disclosed above, in the six months ended June 30, 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 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 in 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 June 30, 2015. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of June 30, 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 June 30, 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

On May 15, 2015, following the satisfaction of a pre-specified milestone under the terms of a 2012 patent assignment and license agreement, we issued an aggregate of 26,042 unregistered shares of our common stock to the inventor of certain intellectual property in partial consideration of the assignment and license to us of the intellectual property pursuant to the 2012 agreement. The issuance of the shares was exempt from registration under Section 4(a)(2) of the Securities Act of 1933, as amended. Shortly following the issuance of the shares to the assignor, the shares were registered for resale on Form S-3 pursuant to a Prospectus Supplement filed with the SEC on May 15, 2015 in accordance with Rule 424(b)(7). HeartWare did not engage in, nor has engaged in, a general solicitation with respect to the issuance and sale of the shares, and HeartWare did not receive, nor will receive, any proceeds from the sale of the shares.

ITEM 6. EXHIBITS

3.1	Certificate of Incorporation of HeartWare International, Inc. *
3.2	Amendment dated June 25, 2015, to Certificate of Incorporation of HeartWare International, Inc. *
3.3	Bylaws of HeartWare International, Inc. (1)
10.1	Second amendment to Sublease agreement, dated as of October 17, 2013, by and between The TJX Companies, Inc. and HeartWare International, Inc., dated May 1, 2015 *
10.2	HeartWare International, Inc. 2012 Incentive Award Plan (2) +
10.3	Amendment No. 1 to the HeartWare International, Inc. 2012 Incentive Award Plan, dated June 29, 2015 (3) +
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 June 30, 2015, formatted in eXtensible Business Reporting Language (XBRL): (i) Unaudited Condensed Consolidated Balance Sheets as of June 30, 2015 and December 31, 2014, (ii) Unaudited Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2015 and 2014, (iii) Unaudited Condensed Consolidated Statements of Comprehensive (Loss) Income for the three and six months ended June 30, 2015 and 2014, (iv) Unaudited Condensed Consolidated Statement of Stockholders' Equity for the six months ended June 30, 2015, (v) Unaudited Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2015 and 2014, and (vi) Notes to Unaudited Condensed Consolidated Financial Statements.

(1) Incorporated by reference to Exhibit 3.1 filed with the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 13, 2008.
(2) Incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 8, 2012.
(3) Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on June 29, 2015.
* 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: August 3, 2015

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

Date: August 3, 2015

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

EXHIBIT INDEX

3.1	Certificate of Incorporation of HeartWare International, Inc.
3.2	Amendment dated June 25, 2015, to Certificate of Incorporation of HeartWare International, Inc.
10.1	Second amendment to Sublease agreement, dated as of October 17, 2013, by and between The TJX Companies, Inc. and HeartWare International, Inc., dated May 1, 2015
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 June 30, 2015, formatted in eXtensible Business Reporting Language (XBRL): (i) Unaudited Condensed Consolidated Balance Sheets as of June 30, 2015 and December 31, 2014, (ii) Unaudited Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2015 and 2014, (iii) Unaudited Condensed Consolidated Statements of Comprehensive (Loss) Income for the three and six months ended June 30, 2015 and 2014, (iv) Unaudited Condensed Consolidated Statement of Stockholders' Equity for the six months ended June 30, 2015, (v) Unaudited Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2015 and 2014, and (vi) Notes to Unaudited Condensed Consolidated Financial Statements.

Exhibit 3.1

CERTIFICATE OF INCORPORATION
OF
HEARTWARE INTERNATIONAL, INC.

FIRST: The name of the corporation is: HeartWare International, Inc.

SECOND: The address of its registered office in the State of Delaware is 2711 Centerville Road, Suite 400 in the City of Wilmington, County of New Castle. The name of its registered agent at such address is Corporation Service Company.

THIRD: The nature of the business or purposes to be conducted or promoted is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of Delaware.

FOURTH: The corporation is authorized to issue two classes of stock, to be designated "Common Stock," with a par value of $0.001 per share, and "Preferred Stock," with a par value of $0.001 per share. The total number of shares of stock which the Corporation shall have authority to issue is (i) 25,000,000 shares of Common Stock, $0.001 par value; and (ii) 5,000,000 shares of preferred stock, $0.001 par value. The corporation's Board of Directors is authorized, subject to any limitations prescribed by law, to provide for the issuance of the shares of Preferred Stock in series, and by filing a certificate pursuant to the applicable law of the state of Delaware, to establish from time to time the number of shares to be included in each such series, and to fix the designation, powers, preferences and rights of the shares of each such series and any qualifications, limitations or restrictions thereof. The number of authorized shares of any class of capital stock of the corporation may be increased or decreased (but not below the number of shares thereof then outstanding) by the affirmative vote of the holders of a majority of the outstanding Common Stock of the corporation, without the approval of the holders of the Preferred Stock, or of any series thereof, unless the approval of any such holders is required pursuant to the certificate or certificates establishing any series of Preferred Stock.

FIFTH: Effective upon the implementation date of the Implementation Agreement between HeartWare Limited, an Australian company, and the corporation, any action required or permitted to be taken by the stockholders of the corporation must be effected at a duly called annual or special meeting of stockholders of the corporation and may not be effected by any consent in writing by such stockholders.

SIXTH: The business and affairs of the corporation shall be managed by or under the direction of the Board of Directors. The number of directors on the Board of Directors shall initially be set at three (3) until otherwise fixed from time to time exclusively by the Board of Directors pursuant to the Bylaws of the corporation. The Board of Directors shall be divided into three classes, designated Class I, Class II and Class III, which shall be as nearly equal in number as possible. Directors of Class I shall hold office for an initial term expiring at the annual meeting of stockholders to be held in 2009. Directors of Class II shall hold office for an initial term expiring at the annual meeting of stockholders to be held in 2010. Directors of Class III shall hold office for an initial term expiring at the annual meeting of stockholders to be held in 2011. Except as otherwise provided in the Bylaws of the corporation in connection with the

removal of directors and the filling of vacancies on the Board of Directors, at each annual meeting of the stockholders, the respective successors of the directors whose terms are then expiring shall be elected for terms expiring at the annual meeting of stockholders held on the third anniversary thereof. In addition to the powers and authority expressly conferred upon them by statute or by this Certificate of Incorporation or the Bylaws of the corporation, the directors are hereby empowered to exercise all such powers and do all such acts and things as may be exercised or done by the corporation. Election of directors need not be by written ballot, unless the Bylaws of the corporation so provide.

SEVENTH: The Board of Directors is authorized to make, adopt, amend, alter or repeal the Bylaws of the corporation. The stockholders shall also have power to make, adopt, amend, alter or repeal the Bylaws of the corporation.

EIGHTH: The name and mailing address of the incorporator is:

George Yu
DLA Piper US LLP
1251 Avenue of the Americas
New York, NY 10020-1104

NINTH: To the fullest extent permitted by the General Corporation Law of Delaware, as the same exists or may hereafter be amended, a director of the corporation shall not be personally liable to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director. Any repeal or modification of the foregoing provisions of this Article NINTH by the stockholders of the corporation shall not adversely affect any right or protection of a director of the corporation existing at the time of, or increase the liability of any director of the corporation with respect to any acts or omissions occurring prior to, such repeal or modification.

THE UNDERSIGNED, being the incorporator hereinbefore named, for the purpose of forming a corporation pursuant to the General Corporation Law of Delaware, does make this certificate, hereby declaring and certifying that this is my act and deed and the facts herein stated are true, and accordingly have hereunto set my hand this 29th day of July, 2008.

/s/ George Yu
George Yu, Incorporator

Exhibit 3.2

CERTIFICATE OF AMENDMENT
OF THE
CERTIFICATE OF INCORPORATION
OF
HEARTWARE INTERNATIONAL, INC.

HeartWare International, Inc. (the "**Corporation**"), a corporation organized and existing under and by virtue of the provisions of the General Corporation Law of the State of Delaware (the "**General Corporation Law**"),

DOES HEREBY CERTIFY:

1. That the name of the Corporation is HeartWare International, Inc. and that the Corporation filed its Certificate of Incorporation with the Secretary of State of the State of Delaware on July 29, 2008.

2. That the Board of Directors of the Corporation duly adopted resolutions proposing to amend the Certificate of Incorporation of the Corporation, declaring said amendment to be advisable, and authorizing the appropriate officers of the Corporation to solicit the consent of the Corporation's stockholders, which resolution setting forth the proposed amendment was as follows:

RESOLVED, that ARTICLE FOURTH of the Certificate of Incorporation of the Corporation be amended and restated in its entirety as follows:

"**FOURTH**: The Corporation is authorized to issue two classes of stock, to be designated "Common Stock," with a par value of $0.001 per share, and "Preferred Stock," with a par value of $0.001 per share. The total number of shares of stock which the Corporation shall have authority to issue is (i) 50,000,000 shares of Common Stock, $0.001 par value; and (ii) 5,000,000 shares of preferred stock, $0.001 par value. The Board of Directors of the Corporation (the "**Board**") is authorized, subject to any limitations prescribed by law, to provide for the issuance of the shares of Preferred Stock in series, and by filing a certificate pursuant to the applicable law of the State of Delaware, to establish, from time to time, the number of shares to be included in each such series, and to fix the designation, powers, preferences and rights of the shares of each such series and any qualifications, limitations or restrictions thereof. The number of authorized shares of any class of capital stock of the Corporation may be increased or decreased (but not below the number of shares thereof then outstanding) by the affirmative vote of the holders of a majority of the outstanding Common Stock of the Corporation, without the approval of the holders of the Preferred Stock, or of any series thereof, unless the approval of any such holders is required pursuant to the certificate or certificates establishing any series of Preferred Stock."

3. That thereafter, the aforesaid amendment was adopted by the requisite vote of the stockholders of the Corporation at the Corporation's annual meeting of stockholders pursuant to Section 242 of the General Corporation Law.

4. That all other provisions of the Certificate of Incorporation remain in full force and effect.

IN WITNESS WHEREOF, the undersigned has executed this Certificate of Amendment on this 25th day of June, 2015.

HEARTWARE INTERNATIONAL, INC.

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

Exhibit 10.1

SECOND AMENDMENT TO SUBLEASE

This Second Amendment to Sublease (the "Amendment") is dated as of the 1st day of May, 2015 (the "Expansion Effective Date") by and between THE TJX COMPANIES, INC., a Delaware corporation (the "Sublessor") and HEARTWARE INTERNATIONAL, INC., a Delaware corporation (the "Subtenant").

W I T N E S S E T H :

WHEREAS, Sublessor and Subtenant are parties to that certain Sublease dated as of October 17, 2013, as amended (to add three thousand nine hundred (3,900) square feet of Common Area to the Demised Premises) by a First Amendment to Sublease dated November 3, 2014 (collectively, the "Sublease") for certain Demised Premises located within an office park located at 500 Old Connecticut Path in Framingham, Middlesex County, Massachusetts; Capitalized terms used but not defined in this Amendment shall have the same meaning ascribed to such terms in the Sublease; and

WHEREAS, Sublessor and Subtenant have agreed to expand the Demised Premises as further set forth below.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto hereby agree as follows:

1. As of the Expansion Effective Date (defined above), the Demised Premises under the Sublease will be expanded to include an agreed-upon area of twelve thousand four hundred seventy eight (12,478) square feet of floor area (the "Expansion Space"), which is comprised of the sum of (a) ten thousand five hundred seventy five (10,575) square feet located on the north side of the first (1st) floor of Building A and (b) one thousand nine hundred three (1,903) square feet of additional Common Area, in the same building as the Demised Premises described in the Sublease (the "Initial Space"), all as shown on Schedule A attached hereto, and the term "Demised Premises" as used in the Sublease shall collectively refer to both the Initial Space and the Expansion Space. As of the Expansion Effective Date, the plan of the Demised Premises shall be amended by adding Schedule A attached hereto so thereafter all references to the Sublease to the Demised Premises, except where stated otherwise herein, shall be deemed references to both the Expansion Space and the Initial Space. The parties have agreed that neither the Expansion Space nor the Initial Space is subject to remeasurement.

2. The Expansion Space shall be delivered by Sublessor to Subtenant on the Expansion Effective Date. Parent Landlord has provided its consent to this Amendment in form and substance reasonably satisfactory to Sublessor and Subtenant.

3. The Expansion Premises shall be delivered on an "As Is" basis (in the condition on the date of this Amendment). All text in the Sublease regarding Sublessor's Work shall not be applicable to the Expansion Premises. Subtenant acknowledges that it has inspected the Expansion Premises, is fully acquainted with its condition, and agrees to and hereby

accepts the Expansion Premises in its "As Is" condition with no representation or warranty directly or indirectly by Sublessor as to the condition or use of the Expansion Premises or its suitability for Subtenant's proposed improvements thereto, with no promise by Sublessor or its agents to improve or repair the Expansion Premises. To the best of Sublessor's knowledge, the Expansion Premises is free from hazardous materials in excess of legal limits. Subtenant's Work shall be completed in good workmanlike manner using materials that are comparable to the materials in other portions of Building A leased by Sublessor.

4. From and after the Expansion Effective Date until March 1, 2016, no minimum rent shall be due or payable for the Expansion Space. For clarity, following the Expansion Effective Date, Schedule G of the Sublease ('*Minimum Rent*') shall be replaced in its entirety with the amended Schedule G attached hereto and Subtenant shall pay Sublessor minimum rent for the Expansion Space and the Initial Space in accordance with the terms of the amended Schedule G.

5. As of March 1, 2016, Subtenant will pay its proportionate share of real estate taxes and Common Area Maintenance Charges in accordance with Section 6 of the Sublease. Prior to March 1, 2016, Section 6 of the Sublease shall continue to apply only to the Initial Space.

6. Subtenant shall pay for all utilities consumed in the Expansion Space beginning on the Expansion Effective Date.

7. Subtenant shall continue to have a right of first refusal for the remaining space in Building A (in whole or in part, as the case may be) that is offered to other potential subtenants in accordance with Section 35 of the Sublease.

8. For purposes of clarification, the following provisions of the Sublease shall not be applicable to the Expansion Premises: Sections 4(A), 4(C), 4(D), and 4(E). No text in the Sublease regarding Sublessor's Work shall be applicable to this Amendment.

9. Subtenant shall have the right, free of charge and throughout the term of the Sublease, to use all existing furniture, demountable walls, raised floor, under-floor distributed electric, voice-data lines and appliances as existing in the Expansion Space on the date of this Amendment (collectively, the "Sublessor's Property"), which Sublessor grants on an AS IS WHERE IS BASIS without representation or warranty of any kind. On-going maintenance, repair and reconfiguration of such furniture shall be at the sole cost and expense of Subtenant. Subtenant shall maintain the Sublessor's Property in the same order and condition as it was received by Subtenant, reasonable wear and tear excepted, and, with the exception of the furniture and personal property (including without limitation demountable walls, whether or not affixed to the Expansion Space), which Subtenant may keep at Subtenant's option, shall be returned to Sublessor at the expiration or termination of the term of the Sublease in the same order and condition as it was received by Subtenant, reasonable wear and tear excepted.

10. Sublessor shall provide Subtenant with an allowance of Five Thousand Dollars ($5,000.00) to be used for a fit-plan to be performed by Subtenant's architect. Sublessor shall reimburse such amount to Subtenant within thirty (30) days of Sublessor's receipt of an invoice therefor and evidence of such payment to Subtenant's architect by Subtenant.

11. Sublessor shall have the right to add supplemental HVAC for their lab and office requirements, subject to compliance with the applicable provisions of the Sublease and the Parent Lease.

12. Within ten (10) days of the date of this Amendment, Subtenant shall pay to Sublessor a sum equal to the first three (3) months' minimum rent due under this Amendment which shall be added to the existing Security Deposit as security for the payment of all rents and the performance and observance of all agreements and conditions in this Sublease contained on the part of Subtenant to be performed or observed.

13. Sublessor and Subtenant represent and warrant to each other that they have not deal with any brokers in connection with the Sublease other than Transwestern/RBJ and R.W. Holmes (collectively, the "Named Brokers") as brokers in connection with this Amendment, and no other broker or finder is entitled to any commission in connection with this Amendment. The Named Brokers shall be paid by Sublessor in accordance with the terms of a separate brokerage agreement. Sublessor and Subtenant agree to indemnify, defend and hold the other and their employees and agents harmless from and against any claims made by any broker or finder as a result of dealings with the other party other than the Named Brokers for a commission or fee in connection with this Amendment.

14. Except as expressly amended hereby, all of the terms and conditions of the Sublease shall continue in full force and effect. This Amendment shall bind upon and inure to the benefit of each of the parties hereto and their respect successor and assigns. Subtenant warrants, represents and agrees that (i) neither it nor any of its affiliates is currently the subject of any preceding under federal or state bankruptcy, receivership, insolvency or similar laws, (ii) no consents of third parties (including any lender) are necessary for the execution and performance of this Amendment by Subtenant, and (iii) no party other than Subtenant has Subtenant's interest in the Sublease. Subtenant shall defend, indemnify and save harmless Sublessor from and against all losses, claims, demands, damages, liabilities, costs, judgments and reasonable attorneys' fees resulting from a breach of or any inaccuracy in any of the representations, warranties and agreements set forth in this Paragraph 14.

IN WITNESS WHEREOF, each of the parties hereto has executed this Amendment as of the day and year first written above.

THE TJX COMPANIES, INC.,
a Delaware corporation

By: /s/ John Klinger
John Klinger
Senior Vice President, Corporate Controller

By: /s/ Mary B. Reynolds
Mary B. Reynolds
Senior Vice President-Finance And Treasurer

HEARTWARE INTERNATIONAL, INC.,
a Delaware corporation

By: /s/ Peter McAree
Peter F. McAree
Senior Vice President and Chief Financial Officer

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: August 3, 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: August 3, 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 June 30, 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: August 3, 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 June 30, 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: August 3, 2015

/s/ Peter F. McAree

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