



HeartWare International, Inc.

ARBN 132 897 762

and its controlled entities

ASX APPENDIX 4D

HALF-YEAR FINANCIAL REPORT

For the 6 Months Ended

30 JUNE 2010

provided pursuant to ASX Listing Rule 4.2A.

This is the Half-Year Report for the HeartWare Group. The HeartWare Group includes HeartWare International, Inc. (ASX:HIN, NASDAQ:HTWR) and its subsidiaries HeartWare Pty. Limited, HeartWare, Inc., HeartWare (UK) Limited and HeartWare GmbH

The HeartWare Group relies on relief available under ASIC Class Order 98/1418, and as such, will lodge its financial results for the half-year ended 30 June 2010, in the form of United States Securities and Exchange Commission ("SEC") Quarterly Report on Form 10-Q, which includes financial results for the three and six months ended 30 June 2010, prepared in accordance with United States Generally Accepted Accounting Principles, on or before 6 August 2010.

This Half-Year Report does not include all of the commentary, notes and information that are typically found in an annual financial report. Accordingly, this Half-Year Report should be read in conjunction with any public announcements made by the Company during the half-year in accordance with any continuous disclosure obligations arising under the *Corporations Act 2001*.

This Half-Year Report provides information as required by Appendix 4D of the ASX Listing Rules.

All amounts in this report are denominated in United States dollars unless otherwise indicated.



**HEARTWARE INTERNATIONAL, INC. (ARBN 132 897 762)
& CONTROLLED ENTITIES**

RESULTS FOR ANNOUNCEMENT TO THE MARKET

Important information concerning the financial results for the half-year ended 30 June 2010

The HeartWare Group relies on relief available under ASIC Class Order 98/1418, and as such, this report and accompanying financial results on United States Securities and Exchange Commission (“SEC”) Quarterly Report on Form 10-Q (“Form 10-Q”) are prepared in accordance with United States Generally Accepted Accounting Principles.

The financial results set out in this Half-Year Report and the attached Interim Financial Report on SEC Form 10-Q are the consolidated financial results for the HeartWare Group, being HeartWare International, Inc., (“the Company”), HeartWare Pty. Limited, HeartWare, Inc., HeartWare (UK) Limited and HeartWare GmbH.

All amounts in this report are denominated in United States dollars unless otherwise indicated.

Review of Operations and Earnings Results for the Half-Year Ended 30 June 2010

The net loss of the HeartWare Group for the half-year ended 30 June 2010 after providing for income tax was \$14,526,364 (2009:\$13,123,439). The increase in the net loss reflects an increase in overall expenses related to commercial roll out in Europe of the HeartWare Left Ventricular Assist Device, clinical trials in the US and continuing research and development of our circulatory devices or “heart pumps.” These expenses were partly offset by revenue generated for the half-year ended 30 June 2010 for the HeartWare Ventricular Assist System.

| | Half-Year Ended 30 June 2010 US\$ | Half-Year Ended 30 June 2009 US\$ | Increase / (Decrease) US\$ | Increase / (Decrease) % |
|---|--|--|---|--|
| Revenues from ordinary activities | \$20,460,198 | \$4,446,243 | \$16,013,955 | 360% |
| Profit / (Loss) from ordinary activities after tax attributable to members | \$(14,526,364) | \$(13,123,439) | \$1,402,925 | 11% |
| Net profit / (Loss) for the period attributable to members | \$(14,526,364) | \$(13,123,439) | \$1,402,925 | 11% |



NET TANGIBLE ASSETS PER SECURITY

| | Half-Year Ended 30 June 2010 US\$ | Half-Year Ended 30 June 2009 US\$ |
|--|--|--|
| Net tangible assets per share of HeartWare International, Inc. common stock | \$9.53 | \$2.45 |

COMMENTARY TO THE EARNINGS RESULT

A detailed discussion of our earnings results can be found in the section titled “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*” of the attached SEC Form 10-Q.

DIVIDENDS

The Directors do not recommend that a dividend relating to the interim period ended 30 June 2010 be paid. As such, there is no franking or applicable record date.

COMPLIANCE STATEMENT

The attached Interim Financial Report on SEC Form 10-Q is not subject to audit dispute or qualification. This Half-Year Report is based on the attached SEC Form 10-Q and has been subject to review procedures as required by the US Securities and Exchange Commission and includes a Report of Independent Registered Public Accounting Firm provided by Grant Thornton LLP. HeartWare has a formally constituted audit committee.

Please find attached the Company’s SEC Form 10-Q for the six months ended 30 June 2010.

Douglas Godshall
Chief Executive Officer
6 August 2010

**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, 2010**

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

(State of Incorporation)

26-3636023

(I.R.S. Employer Identification No.)

**205 Newbury Street, Suite 101
Framingham, Massachusetts 01701
+1 508 739 0950**

(Address of principal executive offices)
(Registrant's telephone number, including area code)

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

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

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

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

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

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

| Class | Shares Outstanding as of July 30, 2010 |
|---|--|
| Common Stock, \$0.001 Par Value Per Share | 13,726,171 |

| | |
|--|----|
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References

Unless the context requires otherwise, references in this Quarterly Report on Form 10-Q to:

- “HeartWare,” “the Company,” “HeartWare Group,” “we,” “us” and “our” refer to HeartWare International, Inc. and its consolidated subsidiaries, HeartWare Pty. Limited, HeartWare, Inc., HeartWare GmbH and HeartWare (UK) Limited.
- “HeartWare International, Inc.” refers to HeartWare International, Inc., a Delaware corporation incorporated on July 29, 2008.
- “HeartWare Pty. Limited” refers to HeartWare Pty. Limited (formerly known as HeartWare Limited), an Australian proprietary corporation originally incorporated on November 26, 2004.
- “HeartWare, Inc.” refers to HeartWare, Inc., a Delaware corporation incorporated on April 3, 2003. HeartWare, Inc. was acquired by HeartWare Pty. Limited on January 24, 2005.
- HeartWare GmbH refers to HeartWare GmbH, a German corporation established on February 19, 2010.
- HeartWare (UK) Limited refers to HeartWare (UK) Limited, a limited liability corporation established in the United Kingdom on February 19, 2010.

Currency

Unless indicated otherwise in this Quarterly Report on Form 10-Q, all references to “\$”, “US\$” or “dollars” refer to United States dollars, the lawful currency of the United States of America. References to “AU\$” refer to Australian dollars, the lawful currency of the Commonwealth of Australia, and references to “€”, “the Euro” or “Euros” means Euros, the single currency of Participating Member States of the European Union.

Trademarks

HEARTWARE, HVAD and MVAD, KRITON and various company logos are the trademarks of the Company, in the United States, Australia and other countries. 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 expectations with respect to regulatory submissions and approvals, the progress of clinical trials, the commercial success of our products, possible litigation and expected expense and investment trends. We may not actually achieve the plans, projections or expectations disclosed in forward-looking statements, and actual results, developments or events could differ materially from those disclosed in the forward-looking statements. Our management believes that these forward-looking statements are reasonable as and when made. However, you should not place undue reliance on 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 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 filed with the SEC on February 23, 2010, and those described from time to time in our future reports filed with the SEC.

PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**HEARTWARE INTERNATIONAL, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)**

| | June 30, 2010 | December 31, 2009 |
|---|--------------------------|------------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 83,325,971 | \$ 50,834,714 |
| Short-term investments, net | 16,432,420 | — |
| Accounts receivable, net | 7,532,860 | 11,384,647 |
| Inventories, net | 15,628,388 | 8,870,903 |
| Prepaid expenses and other current assets | 2,049,533 | 1,663,157 |
| Total current assets | 124,969,172 | 72,753,421 |
| Property, plant and equipment, net | 5,619,577 | 3,719,415 |
| Other intangible assets, net | 1,427,465 | 1,191,917 |
| Restricted cash | 288,429 | 288,429 |
| Total assets | <u>\$ 132,304,643</u> | <u>\$ 77,953,182</u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 3,471,294 | \$ 3,122,131 |
| Accrued expenses and other current liabilities | 5,192,710 | 3,848,086 |
| Total current liabilities | 8,664,004 | 6,970,217 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Preferred stock — \$.001 par value; 5,000,000 shares authorized; no shares issued and outstanding at June 30, 2010 and December 31, 2009 | — | — |
| Common stock — \$.001 par value; 25,000,000 shares authorized; 13,726,171 and 11,786,173 shares issued and outstanding at June 30, 2010 and December 31, 2009, respectively | 13,726 | 11,786 |
| Additional paid-in capital | 243,988,289 | 176,698,329 |
| Accumulated deficit | (112,398,009) | (97,871,645) |
| Accumulated other comprehensive loss | (7,963,367) | (7,855,505) |
| Total stockholders' equity | <u>123,640,639</u> | <u>70,982,965</u> |
| Total liabilities and stockholders' equity | <u>\$ 132,304,643</u> | <u>\$ 77,953,182</u> |

The accompanying notes are an integral part of these financial statements

HEARTWARE INTERNATIONAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--|-----------------------|--------------------------------------|------------------------|
| | 2010 | 2009 | 2010 | 2009 |
| Revenues, net | \$ 9,757,078 | \$ 2,968,447 | \$ 20,460,198 | \$ 4,446,243 |
| Cost of revenues | <u>4,293,348</u> | <u>1,579,421</u> | <u>9,973,890</u> | <u>2,297,729</u> |
| Gross profit | 5,463,730 | 1,389,026 | 10,486,308 | 2,148,514 |
| Operating expenses: | | | | |
| Selling, general and administrative | 7,688,379 | 4,372,200 | 12,244,801 | 8,571,863 |
| Research and development | <u>7,511,201</u> | <u>2,858,514</u> | <u>12,266,879</u> | <u>6,348,294</u> |
| Total operating expenses | 15,199,580 | 7,230,714 | 24,511,680 | 14,920,157 |
| Loss from operations | (9,735,850) | (5,841,688) | (14,025,372) | (12,771,643) |
| Other income (expense): | | | | |
| Foreign exchange loss | (406,486) | (1,060,206) | (773,500) | (367,658) |
| Interest expense | (971) | — | (971) | — |
| Interest income, net | 161,258 | 11,793 | 273,479 | 18,549 |
| Other, net | <u>—</u> | <u>(655)</u> | <u>—</u> | <u>(2,687)</u> |
| Loss before income taxes | (9,982,049) | (6,890,756) | (14,526,364) | (13,123,439) |
| Provision for income taxes | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> |
| Net loss | <u>\$ (9,982,049)</u> | <u>\$ (6,890,756)</u> | <u>\$ (14,526,364)</u> | <u>\$ (13,123,439)</u> |
| Net loss per common share — basic and diluted | <u>\$ (0.73)</u> | <u>\$ (0.78)</u> | <u>\$ (1.09)</u> | <u>\$ (1.48)</u> |
| Weighted average shares outstanding — basic and diluted | <u>13,682,734</u> | <u>8,876,398</u> | <u>13,322,531</u> | <u>8,871,685</u> |

The accompanying notes are an integral part of these financial statements

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

| | <u>Three Months Ended June 30,</u> | | <u>Six Months Ended June 30,</u> | |
|---|------------------------------------|-----------------------|----------------------------------|------------------------|
| | <u>2010</u> | <u>2009</u> | <u>2010</u> | <u>2009</u> |
| Net loss | \$ (9,982,049) | \$ (6,890,756) | \$(14,526,364) | \$(13,123,439) |
| Foreign currency translation adjustments | (139,455) | 1,340,919 | (62,738) | 754,359 |
| Unrealized loss on short-term investments | (21,332) | — | (45,124) | — |
| Comprehensive loss | <u>\$ (10,142,836)</u> | <u>\$ (5,549,837)</u> | <u>\$ (14,634,226)</u> | <u>\$ (12,369,080)</u> |

The accompanying notes are an integral part of these financial statements

HEARTWARE INTERNATIONAL, INC.
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(unaudited)

| | <u>Common Shares</u> | | <u>Additional</u> | <u>Accumulated</u> | <u>Accumulated</u> | <u>Other</u> | <u>Total</u> |
|---|----------------------|------------------|----------------------|------------------------|-----------------------|--------------|----------------------|
| | <u>Shares</u> | <u>Amount</u> | <u>Paid-In</u> | <u>Deficit</u> | <u>Comprehensive</u> | <u>Loss</u> | |
| | <u>Issued</u> | | <u>Capital</u> | | <u>Loss</u> | | |
| Balance, December 31, 2009 | 11,786,173 | \$ 11,786 | \$176,698,329 | \$ (97,871,645) | \$ (7,855,505) | | \$ 70,982,965 |
| Issuance of common stock pursuant to public offering, net of offering costs | 1,767,900 | 1,768 | 58,487,069 | — | — | | 58,488,837 |
| Issuance of common stock pursuant to share-based awards | 172,098 | 172 | 2,803,929 | — | — | | 2,804,101 |
| Share-based compensation expense | — | — | 5,998,962 | — | — | | 5,998,962 |
| Net loss | — | — | — | (14,526,364) | — | | (14,526,364) |
| Accumulated other comprehensive loss: | | | | | | | |
| Foreign currency translation adjustment | — | — | — | — | (62,738) | | (62,738) |
| Unrealized loss on short-term investments | — | — | — | — | (45,124) | | (45,124) |
| Balance, June 30, 2010 | <u>13,726,171</u> | <u>\$ 13,726</u> | <u>\$243,988,289</u> | <u>\$(112,398,009)</u> | <u>\$ (7,963,367)</u> | | <u>\$123,640,639</u> |

The accompanying notes are an integral part of these financial statements

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

| | Six Months Ended June 30, | |
|---|----------------------------------|----------------------------|
| | 2010 | 2009 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net loss | \$ (14,526,364) | \$ (13,123,439) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation | 580,536 | 421,816 |
| Amortization | 47,862 | 34,785 |
| Share-based compensation expense | 5,998,962 | 500,600 |
| Other non-cash expenses | 452,054 | 2,687 |
| Change in operating assets and liabilities: | | |
| Accounts receivable | 3,528,615 | (2,330,059) |
| Inventories | (6,757,485) | (4,845,398) |
| Prepaid expenses and other current assets | (389,974) | 47,602 |
| Accounts payable | 356,854 | 2,451,256 |
| Accrued expenses and other current liabilities | 1,430,473 | 1,745,068 |
| Net cash used in operating activities | (9,278,467) | (15,095,082) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of short-term investments | (16,644,600) | — |
| Additions to property, plant and equipment | (2,497,481) | (335,531) |
| Additions to patents | (283,410) | (286,727) |
| Net cash used in investing activities | (19,425,491) | (622,258) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from issuance of common stock | 62,760,450 | — |
| Payment of offering costs | (4,359,934) | — |
| Proceeds from exercise of stock options | 2,804,101 | 112,062 |
| Net cash provided by financing activities | 61,204,617 | 112,062 |
| Effect of exchange rate changes on cash and cash equivalents | (9,402) | 727,072 |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 32,491,257 | (14,878,206) |
| CASH AND CASH EQUIVALENTS — BEGINNING OF PERIOD | 50,834,714 | 20,803,656 |
| CASH AND CASH EQUIVALENTS — END OF PERIOD | <u>\$ 83,325,971</u> | <u>\$ 5,925,450</u> |

The accompanying notes are an integral part of these financial statements

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

1. Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) for reporting of interim financial information. Pursuant to such 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 have been condensed or omitted. Accordingly, these statements do not include all the disclosures normally required by accounting principles generally accepted in the United States for annual financial statements and should be read in conjunction with Management’s Discussion and Analysis of Financial Condition and Results of Operations contained in this report and the audited financial statements and notes thereto for the year ended December 31, 2009 included in our Annual Report on Form 10-K. The accompanying condensed consolidated balance sheet as of December 31, 2009 has been derived from our audited financial statements. The condensed consolidated statements of operations for the three and six months ended June 30, 2010 and cash flows for the six months ended June 30, 2010 are not necessarily indicative of the results or operations or cash flows to be expected for any future period or for the year ending December 31, 2010.

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.

2. Liquidity

As of June 30, 2010, we had approximately \$99.8 million in cash, cash equivalents and short-term investments. The accompanying condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States, which contemplate continuation as a going concern. We have sustained substantial losses from operations since our inception, and such losses have continued through June 30, 2010. At June 30, 2010, we had an accumulated deficit of approximately \$112.4 million.

As discussed in Note 10, in February 2010, we completed a public offering of approximately 1.77 million shares of our common stock, including the underwriters’ exercise of their over-allotment option to purchase 230,595 shares, at an offering price of \$35.50 per share for aggregate gross proceeds of approximately \$62.8 million. After fees and related expenses, net proceeds from the offering were approximately \$58.5 million.

For the remainder of 2010, our cash and cash equivalents are expected to primarily be used to fund our ongoing operations, including expanding our sales and marketing capabilities on a global basis, commencing and conducting a US destination therapy, or DT, clinical study, supporting our continued access protocol US trial for BTB and preparing a pre-market approval submission to the FDA for such trial, purchases of machinery and equipment, continued product development, regulatory and other compliance functions as well as for general working capital. We believe our cash, cash equivalents and investment balances are sufficient to support our planned operations for at least the next twelve months.

3. Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of HeartWare International, Inc., and its subsidiaries HeartWare Pty. Limited, HeartWare, Inc., HeartWare (UK) Limited and HeartWare GmbH. All inter-company balances and transactions have been eliminated in consolidation.

Accounting Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States (“US 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 revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents are recorded in the consolidated balance sheets at cost, which approximates fair value. All highly liquid investments purchased with an original maturity of three months or less are considered to be cash equivalents.

Investments

Our investments classified as available-for-sale are stated at fair value with unrealized gains and losses reported in accumulated other comprehensive loss within stockholders’ equity. We classify our available-for-sale investments as short-term if their remaining time to maturity is beyond three months and less than twenty-four months. Interest on investments classified as available-for-sale is included in interest income.

Receivables

Accounts receivable consists of amounts due from the sale of our HeartWare Ventricular Assist System (the “HeartWare System”) to our customers, which are primarily hospitals and health research institutions. As of June 30, 2010, one customer had an accounts receivable balance representing approximately 22% of our total accounts receivable. As of December 31, 2009, one customer had an accounts receivable balance representing approximately 16% of our total accounts receivable. As of June 30, 2010, we had recorded an allowance for doubtful accounts of approximately \$285,000 and there was no allowance for returns. As of December 31, 2009, there was no allowance for doubtful accounts and no allowance for returns.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined using a first-in, first-out, or FIFO, method. Work-in-process and finished goods includes direct and indirect labor and manufacturing overhead. Finished goods includes product which is ready-for-use and which is held by us or by our customers on a consignment basis. We review our inventory for excess or obsolete inventory and write-down obsolete or otherwise unmarketable inventory to its estimated net realizable value.

Product Warranty

Certain patient accessories sold with the HeartWare 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 revenues” on our condensed consolidated statements of operations. Factors that affect estimated warranty liability include the number of units sold, historical and anticipated rates of warranty claims and cost per claim. We periodically assess the adequacy of our recorded warranty liabilities and adjust the amounts as necessary.

The amount of the reserve recorded is equal to the estimated costs to repair or otherwise satisfy claims made by customers. Accrued warranty expense is included as a component of accrued expenses and other current liabilities on the condensed consolidated balance sheet.

The costs to repair or replace products associated with product recalls and voluntary service campaigns, recorded when they are determined to be probable and reasonably estimable, are recorded as a cost of revenues and are not included in product warranty liability.

The following table summarizes the change in our warranty reserve for the six months ended June 30, 2010 and 2009:

| | Six months ended | |
|---|-------------------------|-------------|
| | June 30, | |
| | 2010 | 2009 |
| Beginning balance | \$ 99,169 | \$ — |
| Accrual for warranties | 97,362 | — |
| Warranty costs incurred during the period | (47,363) | — |
| Ending balance | <u>\$ 149,168</u> | <u>\$ —</u> |

Fair Value Measurements

The carrying amounts reported in the condensed consolidated balance sheets for cash and cash equivalents, accounts receivable, accounts payable and accrued expenses and other current liabilities approximate their fair value based on the short-term maturity of these instruments. Short-term investments are considered available-for-sale as of June 30, 2010 and are carried at fair value. See Note 5 “Fair Value Measurements” for more information.

Vendor Concentration

For the three and six months ended June 30, 2010, we purchased approximately 72.8% and 62.2% of our inventory components and supplies from three vendors. In addition, one of the three vendors supplies consulting services and material used in research and development activities. As of June 30, 2010, the amounts due to these vendors totaled approximately \$1.3 million.

Concentration of Credit Risk

Financial instruments that potentially expose us to concentrations of credit risk consist primarily of cash and cash equivalents, investments and trade accounts receivable. Cash and cash equivalents are primarily on deposit with financial institutions in the United States and these deposits generally exceed the amount of insurance provided by the Federal Deposit Insurance Corporation. The Company has not experienced any historical losses on its deposits of cash and cash equivalents. Our investments consist of investment grade rated US corporate debt.

Concentration of credit risk with respect to our trade accounts receivable from our customers is primarily limited to hospitals and health research institutions. Credit is extended to our customers, based on an evaluation of a customer’s financial condition and collateral is not required. To date, we have not experienced any credit losses.

New Accounting Standards

In October 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2009-14, *Software (Topic 985): Certain Revenue Arrangements That Include Software Elements (a consensus of the FASB Emerging Issues Task Force)*. ASU No. 2009-14 amends ASC 985-605, *Software: Revenue Recognition*, such that tangible products, containing both software and non-software components that function together to deliver the tangible product’s essential functionality, are no longer within the scope of ASC 985-605. It also amends the determination of how arrangement consideration should be allocated to deliverables in a multiple-deliverable revenue arrangement. ASU No. 2009-14 will become effective for us for revenue arrangements entered into or materially modified after our fiscal year ending December 31, 2010. Earlier application is permitted with required transition disclosures based on the period of adoption. Adoption of the provisions of ASU No. 2009-14 is not expected to have a material effect on our consolidated financial position, results of operations or cash flows.

In January 2010, the FASB issued ASU No. 2010-6, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements*. This update requires new disclosures for fair value measurements and provides clarification for existing disclosures requirements. The majority of the new disclosure requirements became effective for us on January 1, 2010. Certain of the disclosure requirements will be effective for us on January 1, 2011. As ASU No. 2010-6 only requires enhanced disclosures, the adoption of ASU No. 2010-6 did not have a material effect on our consolidated financial position, results of operations or cash flows and did not materially expand our financial statement footnote disclosures.

In April 2010, the FASB issued ASU No. 2010-13, *Compensation-Stock Compensation (Topic 718): Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Trades*. ASU No. 2010-13 clarifies that an employee share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity's equity securities trades should not be considered to contain a condition that is not a market, performance, or service condition. Therefore, an entity would not classify such an award as a liability if it otherwise qualifies as equity. The provisions of ASU No. 2010-13 will be effective for us on January 1, 2011. Early adoption is permitted. Adoption of the provisions of ASU No. 2010-13 is not expected to have a material effect on our consolidated financial position, results of operations or cash flows.

4. Investments

We have cash investment policies that limit investments to investment grade securities. At June 30, 2010, all of our investments were classified as available-for-sale and are carried at fair value. All of our investments had maturity dates of less than twenty-four months and were classified as short-term. Such investments consist of US corporate debt securities.

The amortized cost and fair value of our short-term investments, with gross unrealized gains and losses, at June 30, 2010 is as follows:

| | <u>Amortized Cost Basis</u> | <u>Gross Unrealized Gains</u> | <u>Gross Unrealized Losses</u> | <u>Aggregate Fair Value</u> |
|------------------------------|---------------------------------|---------------------------------------|--|---------------------------------|
| US corporate bonds and notes | \$ 16,477,544 | \$ — | \$ (45,124) | \$ 16,432,420 |
| Total short-term investments | <u>\$ 16,477,544</u> | <u>\$ —</u> | <u>\$ (45,124)</u> | <u>\$ 16,432,420</u> |

In the three and six month periods ended June 30, 2010 and 2009 we did not have any realized gains or losses on our investments.

5. 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 June 30, 2010 and December 31, 2009. Accordingly, the estimates presented in these 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.

The fair values of our investments at June 30, 2010, based on the level of inputs are summarized below:

| | <u>Total</u> | Fair Value Measurements at the Reporting Date Using | | |
|------------------------------|---------------|--|----------------|----------------|
| | | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
| US corporate bonds and notes | \$ 16,432,420 | \$ — | \$ 16,432,420 | \$ — |
| Total short-term investments | \$ 16,432,420 | \$ — | \$ 16,432,420 | \$ — |

The fair value of our US corporate bonds and notes was determined using quoted prices for identical or similar instruments in markets that are not active.

6. Inventories, Net

Components of Inventories, net are as follows:

| | <u>June 30, 2010</u> | <u>December 31, 2009</u> |
|-----------------|--------------------------|------------------------------|
| Raw material | \$ 4,946,647 | \$ 2,984,486 |
| Work-in-process | 3,269,034 | 1,497,591 |
| Finished goods | 7,412,707 | 4,388,826 |
| | <u>\$ 15,628,388</u> | <u>\$ 8,870,903</u> |

Finished goods inventories includes inventory held on consignment at customer sites of approximately \$4.3 million and \$3.8 million, at June 30, 2010 and December 31, 2009, respectively.

7. Property, Plant and Equipment, Net

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

| | Estimated Useful Lives | June 30, 2010 | December 31, 2009 |
|--|-----------------------------------|--------------------------|------------------------------|
| Machinery and equipment | 5 to 7 years | \$ 7,006,060 | \$ 5,295,217 |
| Leasehold improvements | 3 to 7 years | 248,874 | 210,570 |
| Office equipment, furniture and fixtures | 5 to 7 years | 311,401 | 278,587 |
| Purchased software | 5 to 7 years | 1,182,817 | 487,388 |
| | | <u>8,749,152</u> | <u>6,271,762</u> |
| Less: accumulated depreciation | | <u>(3,129,575)</u> | <u>(2,552,347)</u> |
| | | <u>\$ 5,619,577</u> | <u>\$ 3,719,415</u> |

8. Other Intangible Assets, Net

The gross carrying amount of intangible assets and the related accumulated amortization for intangible assets subject to amortization are as follows:

| Amortizable Intangible Assets | Weighted Average Life (Years) | June 30, 2010 | | December 31, 2009 | |
|--------------------------------------|--|----------------------------------|-------------------------------------|----------------------------------|-------------------------------------|
| | | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| Patents | 15 | \$ 1,640,055 | \$ (212,590) | \$ 1,356,645 | \$ (164,728) |

Amortization expense for the three months ended June 30, 2010 and 2009 was \$24,636 and \$18,400, respectively. Amortization expense for the six months ended June 30, 2010 and 2009 was \$47,862 and \$34,785, respectively.

9. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consist of the following:

| | June 30, 2010 | December 31, 2009 |
|---|--------------------------|------------------------------|
| Accrued payroll and other employee costs | \$ 2,435,795 | \$ 2,487,066 |
| Accrued material purchases | 603,663 | 370,226 |
| Accrued research and development expenses | 1,319,405 | 344,256 |
| Accrued professional fees | 209,415 | 347,063 |
| Other accrued expenses | 624,432 | 299,475 |
| | <u>\$ 5,192,710</u> | <u>\$ 3,848,086</u> |

Accrued payroll and other employee costs include estimated year-end employee bonuses of approximately \$1.3 million at June 30, 2010 and \$1.7 million of actual costs at December 31, 2009, respectively.

10. Stockholders' Equity

In February 2010, we completed a public offering of approximately 1.77 million shares of our common stock, including the underwriter's exercise of their overallotment to purchase 230,595 shares, at an offering price of \$35.50 per share for aggregate gross proceeds of approximately \$62.8 million. The underwriters for the transaction received a fee of 6% of the gross proceeds. After fees and related expenses, net proceeds from the offering were approximately \$58.5 million.

The offering was completed pursuant to a prospectus supplement, dated January 27, 2010, to a shelf registration statement on Form S-3 that was previously filed with the SEC and which was declared effective on January 20, 2010. 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 of the securities described in the prospectus, up to an aggregate amount of \$100 million.

In the six months ended June 30, 2010, we issued an aggregate of 104,966 shares of our common stock upon the exercise of stock options and an aggregate of 67,132 shares of our common stock upon the vesting of restricted stock units.

11. Share-Based Compensation

We recognize share-based compensation expense for the portion of awards that are ultimately expected to vest using an accelerated accrual method over the vesting period from the date of grant. We estimate forfeitures at the time of grant. We have applied a forfeiture rate of approximately 12.5% to all unvested share-based awards as of June 30, 2010, which represents the portion that we expect will be forfeited over the vesting period. We reevaluate this analysis periodically and adjust the forfeiture rate as necessary. Vesting of share-based awards issued with performance-based vesting criteria must be “probable” before we begin recording share-based compensation expense. At each reporting period, we review the likelihood that these awards will vest and if the vesting is deemed probable, we begin to recognize compensation expense at that time. If ultimately performance goals are not met, for any awards where vesting was previously deemed probable, previously recognized compensation cost will be reversed.

We allocate share-based compensation expense to cost of revenues, selling, general and administrative expense and research and development expense based on the award holders’ employment function. For the three and six months ended June 30, 2010 and 2009, we recorded share-based compensation expense as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|-------------------------------------|--|-------------------|--------------------------------------|-------------------|
| | 2010 | 2009 | 2010 | 2009 |
| Cost of revenues | \$ 207,270 | \$ 63,768 | \$ 475,920 | \$ 79,655 |
| Selling, general and administrative | 3,577,919 | 81,033 | 4,479,977 | 221,250 |
| Research and development | 487,306 | 61,319 | 1,043,065 | 199,695 |
| | <u>\$ 4,272,495</u> | <u>\$ 206,120</u> | <u>\$ 5,998,962</u> | <u>\$ 500,600</u> |

For the three and six months ended June 30, 2010, we experienced an increase in share-based compensation expense due to an annual grant of equity awards to a large group of our employees in the third quarter of 2009 and the recognition of \$1.9 million of share-based compensation expense resulting from an equity award that would have begun vesting in September 2009 but was subject to stockholder approval. Approval was obtained at our annual meeting of stockholders in the second quarter of 2010 resulting in a true-up of share-based compensation expense to coincide with the vesting period.

No tax benefits were attributed to our share-based compensation expense 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.

On August 5, 2008, we adopted the HeartWare International, Inc. 2008 Stock Incentive Plan (“2008 SIP”). The 2008 SIP allows for the issuance of share-based awards to employees, directors and consultants. We have issued options and restricted stock units (“RSU’s”) to employees and directors under the 2008 SIP. The plan allows for the issuance of share-based awards representing up to 13% of the prior fiscal year’s weighted average shares outstanding, less share-based awards outstanding under our other equity plans. At June 30, 2010, there were approximately 337,000 shares available for future awards under the 2008 SIP. Future share-based awards will only be made from the 2008 SIP as awards granted under other plans reduce availability under the 2008 SIP.

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 fair market value 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.

In 2007 and 2008, we granted options with performance-based vesting criteria. These performance-based options vest in four equal tranches contingent upon the achievement of pre-determined corporate milestones related primarily to the development of our products and the achievement of certain prescribed clinical and regulatory objectives. Any performance-based options that have not vested after five years from the date of grant automatically expire.

The fair value of each option is estimated on the date of grant using the Black-Scholes option pricing model using the assumptions established at that time. The following table includes the assumptions used for options issued in the three and six months ended June 30, 2010. There were no options issued in the three and six months ended June 30, 2009.

| | <u>Three Months Ended June 30, 2010</u> | <u>Six Months Ended June 30, 2010</u> |
|----------------------------------|---|---|
| Dividend yield | 0% | 0% |
| Expected volatility | 60.53% | 61.05% |
| Risk-free interest rate | 2.63% | 2.81% |
| Estimated holding period (years) | 6.25 | 6.25 |

Information related to options granted under all of our plans at June 30, 2010 and activity in the six months then ended is as follows (certain amounts in US\$ were converted from AU\$ at the then period-end spot rate):

| | <u>Shares</u> | <u>Weighted Average Exercise Price</u> | <u>Weighted Average Remaining Contractual Life (Years)</u> | <u>Aggregate Intrinsic Value</u> |
|----------------------------------|----------------|--|--|--------------------------------------|
| Outstanding at December 31, 2009 | 520,835 | \$ 27.96 | | |
| Granted | 29,500 | 45.71 | | |
| Exercised | (104,966) | 26.71 | | |
| Forfeited | (6,501) | 25.39 | | |
| Expired | (9,563) | 36.48 | | |
| Outstanding at June 30, 2010 | <u>429,305</u> | \$ 28.19 | 7.19 | \$ 17,980,100 |
| Exercisable at June 30, 2010 | <u>187,885</u> | \$ 29.05 | 6.24 | \$ 7,706,343 |

The aggregate intrinsic values at June 30, 2010 noted in the table above represent the closing price of our common stock traded on NASDAQ, less the weighted average exercise price at period end multiplied by the number of options outstanding and exercisable.

At June 30, 2010, 36,076 of the 241,420 options outstanding that are not yet exercisable are subject to performance-based vesting criteria as described above.

The weighted average grant date fair value per share of options granted in the six months ended June 30, 2010 was \$27.08 per share. There were no options granted in the six months ended June 30, 2009.

The total intrinsic value of options exercised in the six months ended June 30, 2010 was approximately \$2.8 million. Cash received from options exercised in the six months ended June 30, 2010 was approximately \$2.8 million. The total intrinsic value of options exercised in the six months ended June 30, 2009 was approximately \$1.1 million. Cash received from options exercised in the six months ended June 30, 2009 was approximately \$112,000.

At June 30, 2010, there was approximately \$1.7 million of unrecognized compensation cost related to non-vested option awards, including performance-based options not yet deemed probable of vesting. The expense is expected to be recognized over a weighted average period of 1.3 years.

Restricted Stock Units

RSU's issued under the plans 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 RSU's with performance-based vesting criteria vest in tranches contingent upon the achievement of pre-determined corporate milestones. RSU's with performance-based vesting criteria not vested after five years from the date of grant automatically expire. There is no consideration payable on the vesting or exercise of RSU's issued under the plans. Upon vesting, the RSU's are exercised automatically and settled in one share of our common stock.

Information related to RSU's at June 30, 2010 and activity in the six months then ended is as follows:

| | Number of Units | Weighted Average Remaining Contractual Life (Years) | Aggregate Intrinsic Value |
|----------------------------------|----------------------------|--|--------------------------------------|
| Outstanding at December 31, 2009 | 413,135 | | |
| Granted | 145,000 | | |
| Vested/Exercised | (67,132) | | |
| Forfeited | (5,107) | | |
| Expired | — | | |
| Outstanding at June 30, 2010 | <u>485,896</u> | 9.02 | \$ 34,046,733 |
| Exercisable at June 30, 2010 | <u>—</u> | — | \$ — |

The aggregate intrinsic value at June 30, 2010 noted in the table above represents the closing price of our common stock traded on NASDAQ, multiplied by the number of RSU's outstanding.

At June 30, 2010, 58,937 of the 485,896 RSU's outstanding that are not yet exercisable are subject to performance-based vesting criteria as described above.

The total intrinsic value of RSU's vested in the six months ended June 30, 2010 was approximately \$2.6 million. There were no RSU's vested in the six months ended June 30, 2009.

The fair value of each RSU award equals the quoted market value of our common stock on the date of grant. The weighted average grant date fair value per share of RSU's granted in the six months ended June 30, 2010 was \$55.33 per share. There were no RSU's granted in the six months ended June 30, 2009.

At June 30, 2010, there was approximately \$8.4 million of unrecognized compensation cost related to non-vested RSU awards, including awards not yet deemed probable of vesting. The expense is expected to be recognized over a weighted average period of 1.3 years.

12. Net Loss Per Common Share

Basic loss per common share is computed by dividing net loss for the period by the weighted-average number of common shares outstanding during the period. Diluted loss per common share adjusts basic loss per common share for the dilutive effects of convertible securities, options and other potentially dilutive instruments only in the periods in which such effect is dilutive. Due to our net loss for all periods presented, all potentially dilutive instruments were excluded because their inclusion would have been anti-dilutive. The following instruments have been excluded from the calculation of diluted net loss per common share, as their effect would be anti-dilutive.

| | Three and Six Months Ended June 30, | |
|-------------------------------------|--|-------------|
| | 2010 | 2009 |
| Common shares issuable upon: | | |
| Exercise of share-based awards | 915,201 | 765,972 |

13. Business Segment, Geographic Areas and Major Customers

For financial reporting purposes, we have one reportable segment which designs, manufactures and markets medical devices for the treatment of advanced heart failure. Products are sold to customers located in the US through our clinical trials, as commercial products to customers in Europe and under special access in Australia.

Product sales by geographic location are as follows:

| (in thousands) | Three Months Ended June 30, | | Six Months Ended June 30, | |
|-----------------------|--|-----------------|--------------------------------------|-----------------|
| | 2010 | 2009 | 2010 | 2009 |
| Domestic | \$ 1,865 | \$ 1,804 | \$ 4,547 | \$ 2,929 |
| International | 7,892 | 1,164 | 15,913 | 1,517 |
| | <u>\$ 9,757</u> | <u>\$ 2,968</u> | <u>\$ 20,460</u> | <u>\$ 4,446</u> |

For the three months ended June 30, 2010, two customers exceeded 10% of product sales individually and accounted for approximately 30% of product sales in the aggregate. For the six months ended June 30, 2010, two customers exceeded 10% of product sales individually and accounted for approximately 29% of product sales in the aggregate. For the three and six months ended June 30, 2009, three customers exceeded 10% of product sales individually and accounted for approximately 65% and 46% of product sales in the aggregate, respectively.

As the majority of our revenue is generated outside of the US, we are dependent on favorable economic and regulatory environments for our products in Europe and other countries outside of the US. The concentration of customers primarily results from the early stage of market development for commercial sales and a lower proportion of US-based revenue due to the completion of enrollment in our US bridge-to-transplant clinical trial in February 2010 and the timing of commencement for our bridge-to-transplant CAP in late April and the commencement of the US destination therapy clinical trial.

14. Commitments and Contingencies

The following contingent liabilities and commitments resulting from the 2003 acquisition by HeartWare, Inc. of a business that previously held our technology exist as of June 30, 2010:

- a milestone payment of \$1,250,000 within 6 months of the date when the first circulatory assist device is approved for sale in the United States, provided that we have at least \$25,000,000 in cash on hand and, if we do not have \$25,000,000 at that time, then the payment is deferred until such time that we have \$25,000,000 in cash on hand; and
- a special payment of up to \$500,000 upon a sale of our HeartWare, Inc. subsidiary if such sale generates proceeds in excess of the aggregate liquidation preferences of all of HeartWare, Inc.'s then outstanding preferred stock.

We will record the effect of these payment obligations when and if these events occur or are deemed probable of occurring.

At June 30, 2010, we had purchase order commitments of approximately \$12.3 million related to product costs and property, plant and equipment purchases. Many of our materials and supplies require long lead times and as such purchase order commitments reflect materials that may be received up to one year from the date of order.

In addition to the above, we have entered into employment agreements with all of our executive officers, including the Chief Executive Officer and the Chief Financial Officer who is also the Chief Operating Officer. 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 after a change of control, as defined in such agreements.

From time to time we may be involved in litigation arising out of claims in the normal course of business. Except as set forth below, and based on the information presently available, management believes that there are no claims or actions pending or threatened against us, the ultimate resolution of which will have a material adverse effect on our financial position, liquidity or results of operations, although the results of litigation are inherently uncertain and adverse outcomes are possible.

We received a letter from Abiomed, Inc. in September 2009 in which Abiomed suggested that we "may be interested in licensing Abiomed's technology" as it relates to an Abiomed patent concerning bearingless blood pumps. Further, in a subsequent letter received in February 2010, it was stated that Abiomed was "concerned that HeartWare's left ventricular assist rotary blood pump infringes one or more claims" of an Abiomed patent. We received further communications from Abiomed, Inc. through the reporting date. The patent referenced by these letters relates to technology that is potentially material to our business and any litigation in this regard, irrespective of the outcome, may have a material adverse effect on our financial position, liquidity or results of operations. We believe the HeartWare System does not infringe this patent.

On February 24, 2010 we received a letter from two holders of Series A Preferred Stock in HeartWare, Inc., an indirect subsidiary of HeartWare International, Inc., requesting various financial and other information regarding HeartWare, Inc. for the purposes of determining the Company's compliance with their rights as Series A Preferred stockholders, including whether a liquidation event has occurred since inception in 2003. HeartWare, Inc. issued Series A-1 and Series A-2 Preferred Stock to certain creditors of Kriton Medical, Inc. when HeartWare, Inc. purchased substantially all of the assets of Kriton in July 2003. The Series A-1 and Series A-2 Preferred Stock do not have voting or dividend rights but entitle the holders thereof to receive, upon certain liquidation events of HeartWare, Inc. (but not the liquidation of or change of control of HeartWare International, Inc.), an amount equal to \$10 per share of Series A-1 and an amount equal to \$21 per share of Series A-2, which currently represent an aggregate liquidation preference of approximately \$15 million. We do not believe we have abrogated the rights, or in any way failed to satisfy obligations owed to any of our stockholders, including holders of Series A Preferred Stock in HeartWare, Inc. There have been no further communications in this regard.

There can be no certainty that litigation will not arise in relation to the above matters or, if it does arise, whether or not it will be determined in a manner which is favorable to us. As at the date of this report, we are not able to determine the amount, if any, of any costs or damages that could be associated with either of the above matters.

15. Subsequent Events

We have evaluated events and transactions that occurred subsequent to June 30, 2010 through the date the financial statements were issued, for potential recognition or disclosure in the accompanying condensed consolidated financial statements.

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.

Overview

HeartWare is a medical device company focused on developing implantable blood pumps for the treatment of advanced heart failure.

The HeartWare Ventricular Assist System (the "HeartWare System"), which includes a left ventricular assist device, or blood pump, patient accessories and surgical tools, is designed to provide circulatory support for patients with advanced heart failure. The core of the HeartWare 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.

In January 2009, the HeartWare System received Conformance Européenne ("CE") Marking approval, which allows us to market and sell the device in Europe. Our first commercial sale in Europe occurred in March 2009.

In April 2008, we received conditional Investigational Device Exemption ("IDE") approval from the United States Food and Drug Administration ("FDA") to enroll 150 patients in a bridge-to-transplant clinical study in the United States (called "ADVANCE"). Full IDE approval for the HeartWare System was received from the FDA in September 2008 and, in October 2009 we received FDA approval to expand the number of participating sites from 28 to 40 centers.

In August 2008, our first US patient received the HeartWare System at the Washington Hospital Center in Washington, DC, marking the commencement of our ADVANCE trial. In February 2010, we completed enrollment in this trial with 140 patients receiving the HeartWare System. The remaining 10 patients were enrolled but did not receive an implant of the HeartWare System because they failed to meet the trial's inclusion and exclusion criteria after being enrolled.

In April 2010, the FDA approved an IDE Supplement that allows us to enroll up to an additional 54 patients in our ADVANCE trial under a Continued Access Protocol ("CAP"), and we commenced patient enrollment. The CAP makes the HeartWare System available to patients and clinicians while also providing additional data for the FDA to evaluate prior to determining whether or not to approve the HeartWare System. The CAP patients will be enrolled and followed under a modified protocol of the ADVANCE trial. We currently anticipate submission to the FDA of the Premarket Approval application, or PMA, seeking approval of the HeartWare System for the bridge-to-transplant indication by the end of 2010.

In June 2010, we received conditional IDE approval from the FDA to begin enrollment in our destination therapy clinical study for the HeartWare System. Designed to enroll up to 450 patients at 50 US hospitals, the non-inferiority study, which is named "ENDURANCE," is a randomized, controlled, unblinded, multi-center clinical trial to evaluate the use of the HeartWare System as a destination therapy in advanced heart failure patients. The study population will be selected from patients with end-stage heart failure who have not responded to standard medical management and who are ineligible for cardiac transplantation. Patients in the study will be randomly selected to receive either the HeartWare System or, as part of a control group they will be implanted with any alternative LVAD approved by the FDA for destination therapy, in a 2:1 ratio. Each patient receiving the HeartWare System or control LVAD will be followed to the primary endpoint at two years, with a subsequent follow-up period extending to five years post implant. In August 2010, our first patient was implanted as part of the ENDURANCE trial.

Beyond the HeartWare System, we are also evaluating our new miniaturized device, known as the MVAD. The MVAD is based on the same technology platform as the HeartWare System but adopts an axial flow, rather than a centrifugal flow, configuration and is being developed in multiple configurations. The MVAD designs are currently at the preclinical stage and undergoing animal studies focused on less invasive implantation techniques. Each of the MVAD configurations is approximately one-third the size of the HVAD Pump. We believe that the MVAD designs will be implantable by surgical techniques that are even less invasive than those required to implant the HVAD Pump.

We began generating revenue from sales of our product in August 2008 and have incurred net losses in each year since our inception. We expect our losses to continue as we advance and expand our clinical trial activities in the United States, continue to develop commercial markets outside of the United States and expand our research and development into next generation products including the MVAD.

We have financed our operations primarily through the issuance of shares of our common stock. Most recently, in February 2010, we completed a public offering of approximately 1.77 million shares of our common stock, including the underwriter's exercise of their over-allotment option to purchase 230,595 shares, at an offering price of \$35.50 per share for aggregate gross proceeds of approximately \$62.8 million. After fees and related expenses, net proceeds from the offering were approximately \$58.5 million.

We are headquartered in Framingham, Massachusetts. We have an operations and manufacturing facility in Miami Lakes, Florida and a small development and operations facility in Sydney, Australia. As of June 30, 2010 we had 177 employees worldwide.

Critical Accounting Policies and Estimates

We have adopted various accounting policies in preparing the consolidated financial statements in accordance with accounting principles generally accepted in the United States. 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, 2009 ("2009 Annual Report on Form 10-K") filed with the Securities and Exchange Commission on February 23, 2010.

Preparation of our consolidated financial statements in conformity with accounting principles generally accepted in the United States requires us to adopt various accounting policies and to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. On an ongoing basis, we evaluate our estimates and assumptions, including those related to the accounts receivable allowance for doubtful accounts; inventory reserves; warranty liabilities and stock-based compensation. We base our estimates on historical experience and various other assumptions that are believed to be reasonable under the circumstances, and the results form the basis for making judgments about the reported values of assets, liabilities, revenues and expenses. Actual results may differ from these estimates. 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 2009 Annual Report on Form 10-K.

Results of Operations

Three and six months ended June 30, 2010 and 2009

Revenues, net

Revenues are derived from product sales in connection with our US bridge-to-transplant clinical trial and commercial sales outside of the US. For the three months ended June 30, 2010, we generated net revenue of approximately \$9.8 million compared to \$3.0 million for the three months ended June 30, 2009. The increase in revenues is primarily due to increased volume related to the continued commercial expansion outside of the United States partially offset by a decrease in average selling price per unit as a result of changes in foreign currency translation rates. For the three months ended June 30, 2010, approximately 81% of our product sales were derived from commercial sales outside of the United States, predominantly in Europe, compared to approximately 39% for the three months ended June 30, 2009.

For the six months ended June 30, 2010, we generated net revenue of approximately \$20.5 million compared to \$4.4 million for the six months ended June 30, 2009. The increase in revenues is primarily due to increased volume related to the continued commercial expansion outside of the United States partially offset by a decrease in average selling price per unit as a result of changes in foreign currency translation rates. For the six months ended June 30, 2010, approximately 78% of our product sales were derived from commercial sales outside of the United States, predominantly in Europe, compared to approximately 22% for the six months ended June 30, 2009.

The increase in the portion of our revenues derived from outside of the United States is due to the continued commercial rollout of the HeartWare System in Europe and the addition of new sites. In addition, due to completion of enrollment in our US bridge-to-transplant clinical trial in February 2010, US-based revenues ceased temporarily. Revenues from US sales recommenced in the second half of the second quarter of 2010 subsequent to FDA approval of a CAP to continue to enroll up to an additional 54 patients in the ADVANCE trial. We expect to generate incremental revenue from our DT trial as trial sites begin implanting. Our revenue may continue to be variable based on timing factors such as the completion and commencement of different clinical trials. In the three and six months ended June 30, 2009, revenues consisted of a limited number of unit sales as we were in the early stages of enrollment in our US bridge-to-transplant clinical trial and we had just begun generating commercial revenue in Europe upon receipt of CE Marking approval for our HeartWare System in January 2009.

Cost of Revenues

Cost of revenues consists of costs associated with the manufacture of our products including labor, material and overhead costs. Cost of revenues totaled approximately \$4.3 million and \$1.6 million in the three months ended June 30, 2010 and 2009, respectively. Cost of revenues totaled approximately \$10.0 million and \$2.3 million in the six months ended June 30, 2010 and 2009, respectively.

Gross profit and gross margin percentage are as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|-----------------------------|--------------------------------|----------|------------------------------|----------|
| | 2010 | 2009 | 2010 | 2009 |
| Gross profit (in thousands) | \$ 5,464 | \$ 1,389 | \$ 10,486 | \$ 2,149 |
| Gross margin % | 56% | 47% | 51% | 48% |

Gross margins for the three months ended June 30, 2010 increased compared to the three months ended June 30, 2009 as a result of lower per unit costs primarily due to increased production volume and improved manufacturing processes. Gross margins for the six months ended June 30, 2010 also increased for similar reasons. However, the increase was not as significant due in part to the costs incurred in connection with the voluntary field corrective action we initiated in April 2010, for which we accrued approximately \$390,000 in the first quarter of 2010. The action was taken as a result of a limited number of reported issues related to the volume of alarm notifications and will result in the repair or replacement of controllers in inventory, including controllers held on consignment at customer sites, and units previously distributed through clinical trials or sold to customers. The total cost of the repairs and replacements is estimated at approximately \$420,000 and is included as part of cost of revenues.

We use a standard costing method for determining costs of inventory based on limited historical data, therefore, our actual results may differ from standards. As a result, gross margins have been and may continue to be inconsistent from quarter to quarter.

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, depreciation of fixed assets, travel, 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 revenues.

Selling, general and administrative expenses were as follows:

| | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|---|------------------------------------|-------------|---------------|----------------------------------|-------------|---------------|
| | 2010 | 2009 | Change | 2010 | 2009 | Change |
| | (in thousands) | | | (in thousands) | | |
| Total selling, general and administrative | \$ 7,688 | \$ 4,372 | 75.8% | \$ 12,245 | \$ 8,572 | 42.8% |

The increase for the three months ended June 30, 2010 was primarily a result of an increase in salaries and related employee costs of approximately \$4.5 million, primarily due to increased headcount to build our sales and marketing and administrative functions to support expected future growth and an increase in non-cash share-based compensation expense of approximately \$3.5 million. The increase in share-based compensation expense is due to an annual grant of equity awards to our employees in the third quarter of 2009 and the recognition of approximately \$1.9 million of share-based compensation expense related to a grant with a vesting period that would have begun in September 2009 but was subject to stockholder approval, which was obtained at our annual meeting of stockholders in the second quarter of 2010.

We also experienced increases in travel and marketing expenses of approximately \$416,000, bad debt expense of \$285,000 and consulting fees of \$158,000. However, increases in these areas were partially offset by a reduction in legal fees of approximately \$2.5 million as compared to the equivalent prior year period which included significant legal fees associated with the terminated merger with Thoratec Corporation.

The increase for the six months ended June 30, 2010 was primarily a result of an increase in salaries and related employee costs of approximately \$5.9 million, primarily due to increased headcount and an increase in share-based compensation of approximately \$4.3 million. We also experienced increases in travel and marketing expenses of approximately \$741,000, consulting and professional services fees of \$372,000 and bad debt expense of \$285,000. However, increases in these areas were significantly offset by a reduction in legal fees of approximately \$4.3 million for the reasons stated above.

In the three months ended June 30, 2010, selling, general and administrative expenses were approximately 51% of operating expenses compared to 60% of operating expenses in the same period in the prior year. In the six months ended June 30, 2010, selling, general and administrative expenses were approximately 50% of operating expenses compared to 57% of operating expenses in the same period in the prior year.

Research and Development

Research and development expenses are the direct and indirect costs associated with developing our products prior to commercialization 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 and clinical and regulatory staff, external research and development costs, materials and expenses associated with clinical trials. Additional costs include travel, facilities and overhead allocations.

| | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|---|-----------------------------|----------|--------|---------------------------|----------|--------|
| | 2010 | 2009 | Change | 2010 | 2009 | Change |
| | (in thousands) | | | (in thousands) | | |
| Total research and development expenses | \$ 7,511 | \$ 2,859 | 162.7% | \$ 12,267 | \$ 6,348 | 93.2% |

The increase for the three months ended June 30, 2010 was primarily a result of an increase in salaries and related employee costs of approximately \$1.3 million, primarily due to increased headcount and heightened activities in connection with preparation for the Company's PMA submission and expansion of the Company's efforts on its next generation of pumps, together with an increase in share-based compensation of approximately \$426,000. We also experienced increased expenses related to existing and next generation research projects and on-going clinical trials and regulatory activities aggregating approximately \$3.2 million.

The increase for the six months ended June 30, 2010 was primarily a result of an increase in salaries and related employee costs of approximately \$2.2 million primarily due to increased headcount and heightened activities in connection with preparation for the Company's PMA submission and expansion of the Company's efforts on its next generation of pumps, together with an increase in share-based compensation of approximately \$843,000. We also experienced increased expenses related to existing and next generation research projects and on-going clinical trials and regulatory activities aggregating approximately \$3.5 million.

We expect that research and development expenses will continue to represent a significant portion of our operating expenses for the foreseeable future related to clinical trials in the US for the HeartWare System and new product development, including costs related to the development of the MVAD and preparation for the Company's PMA submission for a bridge-to-transplant indication.

Foreign Exchange

Foreign exchange losses totaled approximately \$406,000 and \$774,000 in the three and six month periods ended June 30, 2010, respectively, compared to losses of approximately \$1.1 million and \$368,000 in the same periods in the prior year, respectively. In 2010, the majority of our foreign exchange losses were experienced upon the collection of certain accounts receivable that were denominated in foreign currencies, primarily the Euro. In 2009, the majority of our foreign exchange losses were due to remeasurement of our cash holdings denominated in US dollars held by our Australian subsidiary as a result of movements in the exchange rate between the Australian dollar and the US dollar. During the first half of 2009, we maintained the majority of our cash and cash equivalents in Australia, denominated in both Australian and US dollars. However, throughout the remainder of 2009 and at June 30, 2010, the majority of our cash and cash equivalents were in US dollars on deposit with banks located in the United States.

Interest Income, net

Interest income is primarily derived from short-term investments and cash and short-term deposit accounts held in the US. The amortization of premium on our short-term investments is also included in interest income, net. Interest income, net was approximately \$161,000 and \$273,000 in the three and six months ended June 30, 2010, respectively, compared to \$12,000 and \$19,000 in the same periods in the prior year, respectively. The increase in interest income was primarily due to higher average daily cash balances during the 2010 period resulting from the capital raises completed in the second half of 2009 and February 2010. However, we experienced lower interest rates in 2010 compared to 2009.

Income Taxes

We are subject to taxation in the United States as well as jurisdictions outside of the United States. These jurisdictions have different marginal tax rates. While we have incurred losses since inception, 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 as such a 100% valuation allowance has been recorded against our net deferred tax assets.

As of June 30, 2010, we did not have revenues or profit which would be sufficient to allow any portion of our deferred tax assets to be recorded so there is no tax provision provided on our consolidated income statement. We intend to closely consider whether to record a deferred tax asset as we further expand the commercialization of our products.

Liquidity and Capital Resources

As of June 30, 2010, we had approximately \$99.8 million in cash, cash equivalents and investments, compared to \$50.8 million at December 31, 2009. The increase is primarily a result of the cash proceeds from our public offering of common stock, which closed in February 2010.

Following is a summary of our cash flow activities:

| | Six Months Ended June 30, | |
|--|----------------------------------|------------------------|
| | 2010 | 2009 |
| Net cash used in operating activities | \$ (9,278,467) | \$ (15,095,082) |
| Net cash used in investing activities | (19,425,491) | (622,258) |
| Net cash provided by financing activities | 61,204,617 | 112,062 |
| Effect of exchange rate changes on cash and cash equivalents | (9,402) | 727,072 |
| Net increase (decrease) in cash and cash equivalents | <u>\$ 32,491,257</u> | <u>\$ (14,878,206)</u> |

Cash Used in Operating Activities

Cash used in operating activities in the six months ended June 30, 2010 included a net loss of approximately \$14.5 million, non-cash adjustments to net loss of approximately \$7.1 million and changes in assets and liabilities of \$1.8 million. Non-cash adjustments primarily consisted of share-based compensation of approximately \$6.0 million and \$628,000 of depreciation and amortization. Changes in assets and liabilities included a use of cash of approximately \$6.8 million for the purchase and manufacture of inventories partially offset by \$3.5 million in accounts receivable collections. We expect inventory purchases and increases in accounts receivable to be a significant use of cash for the remainder of 2010 as we continue to enroll patients in clinical trials in the United States and increase our international commercial sales.

Cash used in operating activities in the six months ended June 30, 2009 included a net loss of \$13.1 million and non-cash adjustments to net income of approximately \$1.0 million, which primarily consisted of \$457,000 of depreciation and amortization and \$501,000 of share-based compensation. Changes in assets and liabilities used cash of approximately \$2.9 million, including a \$2.3 million increase in accounts receivable and \$4.8 million for the purchase and manufacture of inventories.

Cash Used in Investing Activities

In the six months ended June 30, 2010 we utilized approximately \$16.6 million for the purchase of investments. These investments consist of investment grade US corporate debt. Other investing activities in the six months ended June 30, 2010 and 2009 used cash of approximately \$2.8 million and \$622,000, respectively, for the purposes of acquiring property, plant and equipment and for capitalized patent costs. In the six months ended June 30, 2010, we had significant purchases of machinery, equipment and software to support our expanding operations and research and development programs.

Cash Provided by Financing Activities

In February 2010, we completed a public offering of approximately 1.77 million shares of our common stock, including the underwriter's exercise of their over-allotment option to purchase 230,595 shares, at an offering price of \$35.50 per share for aggregate gross proceeds of approximately \$62.8 million. After fees and expenses, net proceeds from the offering were approximately \$58.5 million. The offering was completed pursuant to a prospectus supplement, dated January 27, 2010, to a shelf registration statement previously filed with the SEC and which was declared effective on January 20, 2010. 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 of the securities described in the prospectus, up to an aggregate amount of \$100 million. The exercise of stock options in the six months ended June 30, 2010 and 2009 resulted in cash proceeds of approximately \$2.8 million and \$112,000, respectively.

We began generating revenue in August 2008 with the commencement of our US clinical trial. Continued revenue is contingent upon, among other things, market acceptance of our products among physicians, competitive clinical outcomes, patients, health care payers or the medical community as well as our capacity to successfully and efficiently manufacture our products. We expect to continue to incur significant spending due to increased selling and marketing costs, on-going regulatory and compliance requirements, increased clinical trial costs associated with our US clinical trials and additional operating expenses related to continued corporate growth.

For the remainder of 2010, our cash and cash equivalents are expected to primarily be used to fund our ongoing operations, including continuing to expand our sales and marketing capabilities on a global basis, supporting the Continued Access Program for our bridge-to-transplant clinical trial, commencing and conducting a US destination therapy clinical study, purchases of machinery and equipment, continued product development, regulatory and other compliance functions as well as for general working capital. We believe our cash, cash equivalents and investments as of June 30, 2010 are sufficient to support our planned operations for at least the next twelve months.

Contractual Obligations

In the three and six months ended June 30, 2010, there were no material changes to our contractual obligations reported in our Annual Report on Form 10-K filed with the SEC on February 23, 2010, outside our normal course of business.

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

The primary objective of our investment activities is to preserve our capital to fund operations. We also seek to maximize income from our investments without assuming significant risk. Our investment portfolio is made up of marketable investments in money market funds and debt instruments of high quality corporate issuers. All investments are carried at fair value and are treated as available-for-sale. Investments with maturities beyond one year may be classified as short-term based on their highly liquid nature and because such marketable securities represent the investment of cash that is available for current operations. If interest rates rise, the market value of our investments may decline, which could result in a loss if we were forced to sell an investment before its scheduled maturity. We do not presently use derivative financial instruments in our investment portfolio.

Foreign Currency Rate Fluctuations

We conduct business in foreign countries. We generate a substantial proportion of our revenue and collect receivables in foreign currencies. Fluctuations in the exchange rate of the US dollar against the Euro, British Pound and the Australian dollar can result in foreign currency exchange gains and losses that may significantly impact our financial results and our overall cash position. We do not currently utilize foreign currency contracts to mitigate the gains and losses generated by the remeasurement of non-functional currency assets and liabilities but do hold cash reserves in currencies in which those reserves are anticipated to be expended.

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

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, 2010. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of June 30, 2010, 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 has been no change in our internal control over financial reporting during the three months ended June 30, 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1A. RISK FACTORS

In addition to the information set forth in this report you should carefully consider the risk factors discussed in Item 1A — Risk Factors in our Annual Report on Form 10-K.

The following risk factor reflects a material change to the Risk Factors set forth in our 2009 Annual Report on Form 10-K.

Recently adopted healthcare reform legislation may impact our profitability.

On March 23, 2010, the Patient Protection and Affordable Care Act (“PPACA”) was signed into law by President Obama. On March 30, 2010, a companion bill, the Health Care and Education Reconciliation Act of 2010 (the “Reconciliation Act”) was also signed into law by President Obama. Among other things, the PPACA and the Reconciliation Act (collectively, the “Acts”), when taken together, impose a 2.3% excise tax on the sale of certain medical devices that will take effect in 2013. In addition, it is possible that standard setters or regulators may address certain unique aspects of the accounting for the Acts in the future. In light of the inherent uncertainty of how these Acts and other companion legislation, if any, will be implemented and applied, we are unable to fully predict the actual impact on our financial statements.

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

On February 2, 2010, we completed an underwritten public offering of 1,767,900 shares of our common stock (including 230,595 shares issued as a result of the full exercise of an overallotment option by the underwriter) at a price to the public of \$35.50 per share, or an aggregate offering price of \$62.8 million. The offer and sales of the shares in the offering were registered under the Securities Act of 1933 pursuant to a shelf registration statement on Form S-3 (File No. 333-164004), which became effective on January 20, 2010 and which registered up to \$100 million of our common stock. The offering did not terminate before all of the securities offered were sold. J.P. Morgan acted as sole book-running manager of the offering.

We raised approximately \$58.5 million in the offering, after deducting underwriting discounts and commissions of \$3.8 million and other estimated offering costs of \$470,000. No payments were made by us to our directors, officers or persons owning ten percent or more of our common stock or to their associates, or to our affiliates. We have used to date approximately \$12.7 million of the net proceeds of the offering, including approximately \$6.0 million for the purchase of inventories, approximately \$4.7 million for general working capital and approximately \$2.0 million for purchases of property, plant and equipment. Approximately \$16.6 million of the cash proceeds were used to purchase short-term investments, which we expect to liquidate from time to time as necessary or desirable.

ITEM 6. EXHIBITS

- 3.1 Certificate of Incorporation of HeartWare International, Inc. (1)
- 3.2 Bylaws of HeartWare International, Inc. (1)
- 10.1 Nonstatutory Stock Option Notice to 2008 Stock Incentive Plan* +
- 10.2 Restricted Stock Units Notice to 2008 Stock Incentive Plan* +
- 31.1 Certification of Chief Executive Officer pursuant to Rule 13A-14(a) or Rule 15d-14(a) of the Securities Exchange Act

- 31.2 Certification of Chief Financial Officer pursuant to Rule 13A-14(a) or Rule 15d-14(a) of the Securities Exchange Act
- 31.1 Certification of 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 of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Filed herewith

(1) Incorporated by reference to the respective exhibits filed with the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 13, 2008.

+ 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 6, 2010

/s/ Douglas Godshall

Douglas Godshall
Chief Executive Officer

Date: August 6, 2010

/s/ David McIntyre

David McIntyre
Chief Financial Officer and Chief Operating Officer

EXHIBIT INDEX

- 10.1 Nonstatutory Stock Option Notice to 2008 Stock Incentive Plan
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- 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002



HEARTWARE INTERNATIONAL, INC.
NONSTATUTORY STOCK OPTION NOTICE

Grant No.: _____

This Notice evidences the award of nonstatutory stock options (each, an “**Option**” or collectively, the “**Options**”) that have been granted to you, [NAME], subject to the terms of the attached Nonstatutory Stock Option Agreement (the “**Agreement**”). The Options entitle you to purchase shares of common stock, par value US\$.001 per share (“**Common Stock**”), of HeartWare International, Inc., a Delaware corporation (the “**Company**”), under the HeartWare International, Inc. 2008 Stock Incentive Plan (the “**Plan**”). The number of shares you may purchase and the exercise price at which you may purchase them are specified below. This Notice constitutes part of and is subject to the terms and provisions of the Agreement and the Plan, which are incorporated by reference herein. **You must return an executed copy of this Notice to the Company within 30 days of the date hereof. If you fail to do so, the Options will be null and void.**

Grant Date: [GRANT DATE]

Number of Shares: [NUMBER]

Exercise Price: [PRICE] per share

Expiration Date: The Options expire at 5:00 p.m. Eastern Time on the last business day coincident with or prior to the 10th anniversary of the Grant Date (the “**Expiration Date**”), unless fully exercised or terminated earlier.

Exercisability Schedule: Subject to the terms and conditions described in the Agreement, the Options become exercisable in accordance with the schedule below:

- (a) 25% of the Options become exercisable on the first anniversary of the Grant Date (the “**Initial Vesting Date**”), and
- (b) 25% of the Options become exercisable on each subsequent anniversary of the Grant Date after the Initial Vesting Date through the fourth anniversary of the Grant Date.

Acceleration Events: The extent to which you may purchase shares under the Options may be accelerated in the following circumstances:

- To the extent not already exercisable or previously terminated, your Options will become 100% exercisable as of the effective date of a Change in Control or liquidation or dissolution of the Company and as of the date of your death or your ceasing to be employed by the Company or an Affiliate by reason of Disability or Retrenchment (as all such foregoing capitalized terms are defined in the Agreement).

HEARTWARE INTERNATIONAL, INC.

By: _____
Date: _____

I acknowledge that I have carefully read the attached Agreement and the prospectus for the Plan and agree to be bound by all of the provisions set forth in those documents. I also consent to electronic delivery of all notices or other information with respect to the Options or the Company.

**Enclosures: Nonstatutory Stock Option Agreement
Prospectus for the HeartWare
International, Inc. 2008 Stock Incentive Plan
Exercise Form**

OPTIONEE

Date:

NONSTATUTORY STOCK OPTION AGREEMENT

UNDER THE

HEARTWARE INTERNATIONAL, INC. 2008 STOCK INCENTIVE PLAN

1. Terminology. Capitalized terms used in this Agreement are defined in the correlating Stock Option Notice and/or the Glossary at the end of the Agreement.

2. Exercise of Options.

(a) Exercisability. The Options will become exercisable in accordance with the Exercisability Schedule set forth in the Stock Option Notice, so long as you are in the Service of the Company from the Grant Date through the applicable exercisability dates. None of the Options will become exercisable after your Service with the Company ceases, unless the Stock Option Notice provides otherwise with respect to exercisability that arises as a result of your cessation of Service.

(b) Right to Exercise. You may exercise the Options, to the extent exercisable, at any time on or before 5:00 p.m. Eastern Time on the Expiration Date or the earlier termination of the Options, unless otherwise provided under applicable law. Notwithstanding the foregoing, if at any time the Administrator determines that the delivery of Shares under the Plan or this Agreement is or may be unlawful under the laws of any applicable jurisdiction, or Federal, state or foreign securities laws, the right to exercise the Options or receive Shares pursuant to the Options shall be suspended until the Administrator determines that such delivery is lawful. Section 3 below describes certain limitations on exercise of the Options that apply in the event of your death, Disability, or termination of Service. The Options may be exercised only in multiples of whole Shares and may not be exercised at any one time as to fewer than one hundred Shares (or such lesser number of Shares as to which the Options are then exercisable). No fractional Shares will be issued under the Options.

(c) Exercise Procedure. In order to exercise the Options, you must provide the following items to the Secretary of the Company or his or her delegate before the expiration or termination of the Options:

- (i) notice, in such manner and form as the Administrator may require from time to time, specifying the number of Shares to be purchased under the Options; and
- (ii) full payment of the Exercise Price for the Shares or properly executed, irrevocable instructions, in such manner and form as the Administrator may require from time to time, to effectuate a broker-assisted cashless exercise, each in accordance with Section 2(d) of this Agreement.

An exercise will not be effective until the Secretary of the Company or his or her delegate receives all of the foregoing items, and such exercise otherwise is permitted under and complies with all applicable federal, state and foreign securities laws.

(d) Method of Payment. You may pay the Exercise Price by:

- (i) delivery of cash, certified or cashier's check, money order or other cash equivalent acceptable to the Administrator in its discretion;

- (ii) a broker-assisted cashless exercise in accordance with Regulation T of the Board of Governors of the Federal Reserve System through a brokerage firm approved by the Administrator;
- (iii) subject to such limits as the Administrator may impose from time to time, tender (via actual delivery or attestation) to the Company of other shares of Common Stock of the Company which have a Fair Market Value on the date of tender equal to the Exercise Price;
- (iv) subject to such limits as the Administrator may impose from time to time and applicable legal, regulatory, listing or other requirements, by authorizing the Company to withhold a number of Shares to be issued upon exercise of the Options which Shares have a Fair Market Value equal to the Exercise Price;
- (v) any other method approved by the Administrator; or
- (vi) any combination of the foregoing.

(e) Issuance of Shares upon Exercise. The Company shall issue to you the Shares underlying the Options you exercise as soon as practicable after the exercise date, subject to the Company's receipt of the aggregate exercise price and the requisite withholding taxes, if any. Notwithstanding the foregoing, in the event that (i) you are subject to the Company's policy permitting officers and directors to sell shares only during certain "window" periods, in effect from time to time or you are otherwise prohibited from selling shares of the Company's Common Stock in the public market and any Shares issuable to you upon the exercise of your Options are scheduled to be issued on a day (the "**Original Distribution Date**") that does not occur during an open "window period" applicable to you, as determined by the Company in accordance with such policy, or does not occur on a date when you are otherwise permitted to sell shares of the Company's Common Stock in the open market, (ii) the Shares issuable upon exercise of your Options are not covered by a contract, instruction or plan that complies with Rule 10b5-1 of the Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), and (iii) the Company elects to satisfy its tax withholding obligations by any of the methods set forth in clause (iii), (iv) or (v) of Section 6 below, then such shares shall not be issued and delivered on such Original Distribution Date and shall instead be issued and delivered on the first business day of the next occurring open "window period" applicable to you pursuant to such policy (regardless of whether you are still providing continuous services at such time) or the next business day when you are not prohibited from selling shares of the Common Stock in the open market, but in no event later than the fifteenth day of the third calendar month of the calendar year following the calendar year in which the Original Distribution Date occurs. In all cases, the issuance and delivery of shares under this Agreement is intended to comply with Treasury Regulation 1.409A-1(b)(4) and shall be construed and administered in such a manner.

Upon issuance of such Shares, the Company may deliver such Shares on your behalf electronically to the Company's designated stock plan administrator or such other broker-dealer as the Company may choose at its sole discretion, within reason, or may retain such Shares in uncertificated book-entry form. Any share certificates delivered will, unless the sale of the Shares is registered or an exemption from registration is available under applicable federal and state law, bear a legend restricting transferability of such Shares.

3. Termination of Service.

(a) Termination of Unexercisable Options. If your Service with the Company ceases for any reason, the Options that are then unexercisable, after giving effect to any exercise acceleration provisions set forth on the Stock Option Notice, will terminate immediately upon such cessation.

(b) Exercise Period Following Termination of Service. If your Service with the Company ceases for any reason other than discharge for Cause, the Options that are then exercisable, after giving effect to any exercise acceleration provisions set forth on the Stock Option Notice, will terminate upon the earliest of:

(i) the expiration of 30 days following such cessation, if your Service ceases on account of (1) your termination by the Company other than a discharge for Cause or Retrenchment, or (2) your voluntary termination other than for Disability or death;

(ii) the expiration of 6 months following such cessation, if your Service ceases on account of your Disability, death or Retrenchment;

(iii) the expiration of 6 months following your death, if your death occurs during the periods described in clauses (i) or (ii) of this Section 3(b), as applicable; or

(iv) the Expiration Date.

In the event of your death, the exercisable Options may be exercised by your executor, personal representative, or the person(s) to whom the Options are transferred by will or the laws of descent and distribution.

(c) Misconduct. The Options will terminate in their entirety, regardless of whether the Options are then exercisable, immediately upon your discharge from Service for Cause, or upon your commission of any of the following acts during the exercise period including following your termination of Service: (i) fraud on or misappropriation of any funds or property of the Company, or (ii) your breach of any provision of any employment, non-disclosure, non-competition, non-solicitation, assignment of inventions, or other similar agreement executed by you for the benefit of the Company, as determined by the Administrator, which determination will be conclusive.

(d) Change in Status. In the event that your Service is with a business, trade or entity that, after the Grant Date, ceases for any reason to be part or an Affiliate of the Company, your Service will be deemed to have terminated for purposes of this Section 3 upon such cessation if your Service does not continue uninterrupted immediately thereafter with the Company or an Affiliate of the Company.

4. Nontransferability of Options. These Options and, before exercise, the underlying Shares are nontransferable otherwise than by will or the laws of descent and distribution and, during your lifetime, the Options may be exercised only by you or, during the period you are under a legal disability, by your guardian or legal representative. Except as provided above, the Options and, before exercise, the underlying Shares may not be assigned, transferred, pledged, hypothecated, subjected to any "put equivalent position," "call equivalent position" (as each preceding term is defined by Rule 16(a)-1 under the Securities Exchange Act of 1934), or short position, or disposed of in any way (whether by operation of law or otherwise) and shall not be subject to execution, attachment or similar process.

5. Nonqualified Nature of the Options. The Options are not intended to qualify as incentive stock options within the meaning of Code section 422, and this Agreement shall be so construed. You hereby acknowledge that, upon exercise of the Options, you will recognize compensation income in an amount equal to the excess of the then Fair Market Value of the Shares over the Exercise Price and must comply with the provisions of Section 6 of this Agreement with respect to any tax withholding obligations that arise as a result of such exercise.

6. **Withholding of Taxes.** At the time the Options are exercised, in whole or in part, or at any time thereafter as requested by the Company, you hereby authorize any required withholding from the Common Stock issuable to you and/or otherwise agree to make adequate provision in cash for any sums required to satisfy the federal, state, local and foreign tax withholding obligations of the Company or any Affiliate which arise in connection with your Options (the "**Withholding Taxes**"). Additionally, the Company may, in its sole discretion, satisfy all or any portion of the Withholding Taxes obligation relating to your Options by any of the following means or by a combination of such means: (i) withholding from any compensation otherwise payable to you by the Company; (ii) causing you to tender a cash payment; (iii) subject to any applicable law, committing to deliver to a broker, determined by the Company in its sole discretion, the number of Shares issued or otherwise issuable to you in connection with the exercise of the Options necessary to cover the amount of Withholding Taxes and any "usual and customary" brokerage commissions (the "**Sale to Cover Shares**") so that the broker can sell such Shares on your behalf on the Australian Securities Exchange or the NASDAQ Stock Market and deliver the proceeds of such sale to the Company to be used to fund the payment of the Withholding Taxes (a "**Sale to Cover Election**"); (iv) permitting you to enter into a "same day sale" commitment with a broker-dealer that is a member of the Financial Industry Regulatory Authority (a "**FINRA Dealer**") whereby you irrevocably elect to sell a portion of the shares to be delivered under the Agreement to satisfy the Withholding Taxes and whereby the FINRA Dealer irrevocably commits to forward the proceeds necessary to satisfy the Withholding Taxes directly to the Company; or (v) withholding shares of Common Stock from the shares of Common Stock issued or otherwise issuable to you in connection with the Options with a Fair Market Value (measured as of the date shares of Common Stock are issued to you pursuant to Section 2(e)) equal to the amount of such Withholding Taxes; provided, however, that the number of such shares of Common Stock so withheld shall not exceed, by more than the Fair Market Value of one share of Common Stock, the amount necessary to satisfy the Company's required tax withholding obligations using the minimum statutory withholding rates for federal, state, local and foreign tax purposes, including payroll taxes, that are applicable to supplemental taxable income. By accepting this award of Options, in the event the Company, in its sole discretion, makes a Sale to Cover Election, you hereby (a) authorize the Company to deliver the Sale to Cover Shares to a brokerage account opened either in your name, the name of the Company as the nominal holder of the Sale to Cover Shares for your benefit or in such manner as is suggested by the broker; (b) authorize the broker to sell, on your behalf, the Sale to Cover Shares on the Australian Securities Exchange or the NASDAQ Stock at the market price per share at the time of such sale under the same or similar methods, terms and conditions as the broker has then agreed to sell other shares of the Common Stock in its capacity as "sales service agent" (or an agent thereof) to the Company and to deliver the proceeds to the Company to be used to fund the payment of the Withholding Taxes; (c) grant to the Company an irrevocable limited power of attorney to: execute, on your behalf, any and all documents that may be required by the broker in connection with the Sale to Cover Election; prepare, file and execute, on your behalf, any Form 144 filings (a "**Form 144 Filing**") or other documents that it believes may be necessary and/or desirable to demonstrate compliance with the "safe harbor" provisions of Rule 144 ("**Rule 144**") promulgated pursuant to the Securities Act of 1933, as amended (the "**Securities Act**"); and prepare, execute and file, on your behalf, any documents that it believes may be necessary or desirable to demonstrate that your sale of the Sale to Cover Shares satisfies the "safe harbor" provisions of Regulation S promulgated pursuant to the Securities Act ("**Regulation S**"); (d) agree to execute as soon as possible upon request any account opening or other documents required by the Company or the broker to evidence your consent to the Sale to Cover Election; (e) agree to promptly furnish to the Company any information that the Company reasonably requests to assist the Company complete any Form 144 Filing; and (f) agree to promptly furnish to the Company any written representations and/or covenants that the Company reasonably requests in order to have removed any restrictive legends affixed to the Sale to Cover Shares. You further agree to take any and all actions required of you by the Company to assist you, the Company, the sales service agent or the broker to demonstrate that your sale of the Sale to Cover Shares satisfies the "safe harbor" provisions of Rule 144, Regulation S and/or any other exemptions from the registration requirements of Section 5 of the Securities Act and

any applicable U.S. state laws. You further acknowledge that the foregoing written instruction is intended to constitute a written instruction pursuant to Rule 10b5-1 of the Exchange Act. You shall be responsible for payment of any brokerage commission relating to the Sale to Cover Shares. By accepting this award of Options, you hereby expressly agree that the Company shall not be liable to you and you agree to indemnify and hold the Company harmless from any acts it takes in furtherance of the consummation of the Sale to Cover Election as generally described above. Unless the tax withholding obligations of the Company and/or any Affiliate are satisfied, the Company shall have no obligation to deliver to you any Common Stock. In the event the Company's obligation to withhold arises prior to the delivery to you of Common Stock or it is determined after the delivery of Common Stock to you that the amount of the Company's withholding obligation was greater than the amount withheld by the Company, you agree to indemnify and hold the Company harmless from any failure by the Company to withhold the proper amount.

7. Adjustments. The Administrator may make various adjustments to your Options, including adjustments to the number and type of securities subject to the Options and the Exercise Price, in accordance with the terms of the Plan. In the event of any transaction resulting in a Change in Control of the Company, the outstanding Options will terminate upon the effective time of such Change in Control unless provision is made in connection with the transaction for the continuation or assumption of such Options by, or for the substitution of the equivalent awards of, the surviving or successor entity or a parent thereof. In the event of such termination, you will be permitted, immediately before the Change in Control, to exercise or convert all portions of such Options that are then exercisable or which become exercisable upon or prior to the effective time of the Change in Control.

8. Non-Guarantee of Employment or Service Relationship. Nothing in the Plan or this Agreement will alter your at-will or other employment status or other service relationship with the Company, nor be construed as a contract of employment or service relationship between you and the Company, or as a contractual right for you to continue in the employ of, or in a service relationship with, the Company for any period of time, or as a limitation of the right of the Company to discharge you at any time with or without Cause or notice and whether or not such discharge results in the failure of any of the Options to become exercisable or any other adverse effect on your interests under the Plan.

9. No Rights as a Stockholder. You shall not have any of the rights of a stockholder with respect to the Shares until such Shares have been issued to you upon the due exercise of the Options. No adjustment will be made for dividends or distributions or other rights for which the record date is prior to the date such Shares are issued.

10. The Company's Rights. The existence of the Options shall not affect in any way the right or power of the Company or its stockholders to make or authorize any or all adjustments, recapitalizations, reorganizations or other changes in the Company's capital structure or its business, or any merger or consolidation of the Company, or any issue of bonds, debentures, preferred or other stocks with preference ahead of or convertible into, or otherwise affecting the Common Stock or the rights thereof, or the dissolution or liquidation of the Company, or any sale or transfer of all or any part of the Company's assets or business, or any other corporate act or proceeding, whether of a similar character or otherwise.

11. Restrictions on Issuance of Shares. The issuance of shares of Common Stock upon exercise of the Options shall be subject to and in compliance with all applicable requirements of federal, state, or foreign law with respect to such securities. No shares of Common Stock may be issued hereunder if the issuance of such shares would constitute a violation of any applicable federal, state, or foreign securities laws or other law or regulations or the requirements of any stock exchange or market system upon which the Common Stock may then be listed. The inability of the Company to obtain from any regulatory body having jurisdiction the authority, if any, deemed by the Company's legal counsel to be necessary to the lawful issuance of any shares subject to the Options shall relieve the Company of any liability in respect of the failure to issue such shares as to which such requisite authority shall not have been obtained. As a condition to the exercise of the Options, the Company may require you to satisfy any qualifications that may be necessary or appropriate, to evidence compliance with any applicable law or regulation, and to make any representation or warranty with respect thereto as may be requested by the Company.

12. Notices. All notices and other communications made or given pursuant to this Agreement shall be given in writing and shall be deemed effectively given upon receipt or, in the case of notices delivered by the Company to you, five (5) days after deposit in the United States mail, postage prepaid, addressed to you at the last address you provided to the Company, or in the case of notices delivered to the Company by you, addressed to the Administrator, care of the Company for the attention of its Secretary at its principal executive office or, in either case, if the receiving party consents in advance, transmitted and received via telecopy or via such other electronic transmission mechanism as may be available to the parties. Notwithstanding the foregoing, the Company may, in its sole discretion, decide to deliver any documents related to participation in the Plan and this award of Options by electronic means or to request your consent to participate in the Plan or accept this award of Options by electronic means. You hereby consent to receive such documents by electronic delivery and, if requested, to agree to participate in the Plan through an on-line or electronic system established and maintained by the Company or another third party designated by the Company.

13. Entire Agreement. This Agreement, together with the correlating Stock Option Notice and the Plan, contain the entire agreement between you and the Company with respect to the Options. Any oral or written agreements, representations, warranties, written inducements, or other communications made prior to the execution of this Agreement with respect to the Options shall be void and ineffective for all purposes.

14. Amendment. This Agreement may be amended from time to time by the Administrator in its discretion; provided, however, that this Agreement may not be modified in a manner that would have a materially adverse effect on the Options or Shares as determined in the discretion of the Administrator, except as provided in the Plan or in a written document signed by you and the Company.

15. Conformity with Plan. This Agreement is intended to conform in all respects with, and is subject to all applicable provisions of, the Plan. Any conflict between the terms of this Agreement and the Plan shall be resolved in accordance with the terms of the Plan. In the event of any ambiguity in this Agreement or any matters as to which this Agreement is silent, the Plan shall govern. A copy of the Plan is available upon request to the Administrator.

16. Section 409A. This Agreement and the Options granted hereunder are intended to comply with, or otherwise be exempt from, Section 409A of the Code. Nothing in the Plan or this Agreement shall be construed as including any feature for the deferral of compensation other than the deferral of recognition of income until the exercise of the Options. Should any provision of the Plan or this Agreement be found not to comply with, or otherwise be exempt from, the provisions of Section 409A of the Code, it may be modified and given effect, in the sole discretion of the Administrator and without requiring your consent, in such manner as the Administrator determines to be necessary or appropriate to comply with, or to effectuate an exemption from, Section 409A of the Code. The foregoing, however, shall not be construed as a guarantee by the Company of any particular tax effect to you.

17. No Obligation to Minimize Taxes. The Company has no duty or obligation to minimize the tax consequences to you of this award of Options and shall not be liable to you for any adverse tax consequences to you arising in connection with this award. You are hereby advised to consult with your own personal tax, financial and/or legal advisors regarding the tax consequences of this award and by signing the Notice, you have agreed that you have done so or knowingly and voluntarily declined to do so.

18. Effect on Other Employee Benefit Plans. The value of the Options subject to this Agreement shall not be included as compensation, earnings, salaries, or other similar terms used when calculating your benefits under any employee benefit plan sponsored by the Company or any Affiliate, except as such plan otherwise expressly provides. The Company expressly reserves its rights to amend, modify, or terminate any of the Company's or any Affiliate's employee benefit plans.

19. Governing Law. The validity, construction, and effect of this Agreement, and of any determinations or decisions made by the Administrator relating to this Agreement, and the rights of any and all persons having or claiming to have any interest under this Agreement, shall be determined exclusively in accordance with the laws of the State of Delaware, without regard to its provisions concerning the applicability of laws of other jurisdictions. Any suit with respect hereto will be brought in the federal or state courts in the district which includes the city or town in which the Company's principal executive office is located, and you hereby agree and submit to the personal jurisdiction and venue thereof.

20. Headings. The headings in this Agreement are for reference purposes only and shall not affect the meaning or interpretation of this Agreement.

21. Electronic Delivery of Documents. By your signing the Notice, you (i) consent to the electronic delivery of this Agreement, all information with respect to the Plan and the Options, and any reports of the Company provided generally to the Company's stockholders; (ii) acknowledge that you may receive from the Company a paper copy of any documents delivered electronically at no cost to you by contacting the Company by telephone or in writing; (iii) further acknowledge that you may revoke your consent to the electronic delivery of documents at any time by notifying the Company of such revoked consent by telephone, postal service or electronic mail; and (iv) further acknowledge that you understand that you are not required to consent to electronic delivery of documents.

22. No Future Entitlement. By your signing the Notice, you acknowledge and agree that: (i) the grant of a stock option award is a one-time benefit which does not create any contractual or other right to receive future grants of stock options, or compensation in lieu of stock options, even if stock options have been granted repeatedly in the past; (ii) all determinations with respect to any such future grants and the terms thereof will be at the sole discretion of the Administrator; (iii) the value of the Options is an extraordinary item of compensation which is outside the scope of your employment contract, if any; (iv) the value of the Options is not part of normal or expected compensation or salary for any purpose, including, but not limited to, calculating any termination, severance, resignation, redundancy, end of service payments or similar payments, or bonuses, long-service awards, pension or retirement benefits; (v) the vesting of the Options ceases upon termination of Service with the Company or transfer of employment from the Company, or other cessation of eligibility for any reason, except as may otherwise be explicitly provided in this Agreement; (vi) the Company does not guarantee any future value of the Options; and (vii) no claim or entitlement to compensation or damages arises if the Options decrease or do not increase in value and you irrevocably release the Company from any such claim that does arise.

23. Personal Data. For the exclusive purpose of implementing, administering and managing the Options, you, by execution of the Notice, consent to the collection, receipt, use, retention and transfer, in electronic or other form, of your personal data by and among the Company and its third party vendors. You understand that personal data (including but not limited to, name, home address, telephone number, employee number, employment status, social security number, tax identification number, date of birth, nationality, job and payroll location, data for tax withholding purposes and Options awarded, cancelled, vested and unvested) may be transferred to third parties assisting in the implementation, administration and management of the Options and you expressly authorize such transfer as well as the retention, use, and the subsequent transfer of the data by the recipient(s). You understand that these recipients may be located in your country or elsewhere, and that the recipient's country may have different data privacy laws and protections than your country. You understand that data will be held only as long as is necessary to implement, administer and manage the Options. You understand that you may, at any time, request a list with the names and addresses of any potential recipients of the personal data, view data, request additional information about the storage and processing of data, require any necessary amendments to data or refuse or withdraw the consents herein, in any case without cost, by contacting in writing the Company's Secretary. You understand, however, that refusing or withdrawing your consent may affect your ability to accept a stock option award.

{Glossary begins on next page}

GLOSSARY

(a) “**Administrator**” means the Board of Directors of HeartWare International, Inc. or such committee or committees appointed by the Board to administer the Plan.

(b) “**Affiliate**” means any entity, whether now or hereafter existing, which controls, is controlled by, or is under common control with, HeartWare International, Inc. For this purpose, “control” means ownership of 50% or more of the total combined voting power or value of all classes of stock or interests of the entity.

(c) “**Cause**” has the meaning ascribed to such term or words of similar import in your written employment or service contract with the Company as in effect at the time at issue and, in the absence of such agreement or definition, means your (i) conviction of, or plea of nolo contendere to, a felony or crime involving moral turpitude; (ii) fraud on or misappropriation of any funds or property of the Company, any affiliate, customer or vendor; (iii) personal dishonesty, incompetence, willful misconduct, willful violation of any law, rule or regulation (other than minor traffic violations or similar offenses) or breach of fiduciary duty which involves personal profit; (iv) willful misconduct in connection with your duties or willful failure to perform your responsibilities in the best interests of the Company; (v) illegal use or distribution of drugs; (vi) violation of any Company rule, regulation, procedure or policy; or (vii) breach of any provision of any employment, non-disclosure, non-competition, non-solicitation or other similar agreement executed by you for the benefit of the Company, all as determined by the Administrator, which determination will be conclusive.

(d) “**Change in Control**” means: a (i) Change in Ownership of the Company, (ii) Change in Effective Control of the Company, or (iii) Change in the Ownership of Assets of the Company, all as described herein and construed in accordance with Code section 409A.

(i) A **Change in Ownership of the Company** shall occur on the date that any one Person acquires, or Persons Acting as a Group acquire, ownership of the capital stock of the Company that, together with the stock held by such Person or Group, constitutes more than 50% of the total fair market value or total voting power of the capital stock of the Company. However, if any one Person is, or Persons Acting as a Group are, considered to own more than 50% of the total fair market value or total voting power of the capital stock of the Company, the acquisition of additional stock by the same Person or Persons Acting as a Group is not considered to cause a Change in Ownership of the Company or to cause a Change in Effective Control of the Company (as described below). An increase in the percentage of capital stock owned by any one Person, or Persons Acting as a Group, as a result of a transaction in which the Company acquires its stock in exchange for property will be treated as an acquisition of stock.

(ii) A **Change in Effective Control of the Company** shall occur on the date a majority of members of the Company’s Board is replaced during any 12-month period by directors whose appointment or election is not endorsed by a majority of the members of the Company’s Board before the date of the appointment or election.

(iii) A **Change in the Ownership of Assets of the Company** shall occur on the date that any one Person acquires, or Persons Acting as a Group acquire (or has or have acquired during the 12-month period ending on the date of the most recent acquisition by such Person or Persons), assets from the Company that have a total gross fair market value equal to or more than 51% of the total gross fair market value of all of the assets of the Company immediately before such acquisition or acquisitions. For this purpose, gross fair market value means the value of the assets of the Company, or the value of the assets being disposed of, determined without regard to any liabilities associated with such assets.

The following rules of construction apply in interpreting the definition of Change in Control:

(A) A Person means any individual, entity or group within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended, other than employee benefit plans sponsored or maintained by the Company and by entities controlled by the Company or an underwriter of the capital stock of the Company in a registered public offering.

(B) Persons will be considered to be Persons Acting as a Group (or Group) if they are owners of a corporation that enters into a merger, consolidation, purchase or acquisition of stock, or similar business transaction with the corporation. If a Person owns stock in both corporations that enter into a merger, consolidation, purchase or acquisition of stock, or similar transaction, such shareholder is considered to be acting as a Group with other shareholders only with respect to the ownership in that corporation before the transaction giving rise to the change and not with respect to the ownership interest in the other corporation. Persons will not be considered to be acting as a Group solely because they purchase assets of the same corporation at the same time or purchase or own stock of the same corporation at the same time, or as a result of the same public offering.

(C) A Change in Control shall not include a transfer to a related person as described in Code section 409A or a public offering of capital stock of the Company.

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

(e) "**Common Stock**" means the common stock, US\$.001 par value per share, of HeartWare International, Inc.

(f) "**Company**" includes HeartWare International, Inc. and its Affiliates, except where the context otherwise requires. For purposes of determining whether a Change in Control has occurred, Company shall mean only HeartWare International, Inc.

(g) "**Disability**" means your permanent inability, by reason of physical condition, mental illness or accident, to perform substantially all of the duties of the position in which you have been employed or appointed (as determined by the Administrator). The Administrator may require such proof of Total and Permanent Disability as the Administrator in its sole discretion deems appropriate and the Administrator's good faith determination as to whether you are totally and permanently disabled will be final and binding on all parties concerned.

(h) "**Fair Market Value**" has the meaning set forth in the Plan. The Plan generally defines Fair Market Value to mean the closing price per share of Common Stock on the relevant date on the principal exchange or market on which the Common Stock is then listed or admitted to trading or, if no sale is reported for that date, the last preceding day on which a sale was reported.

(i) “**Good Reason**” has the meaning ascribed to such term or words of similar import in your written employment or service contract with the Company as in effect at the time at issue. In the absence of such agreement or definition, Good Reason means any requirement that the you relocate, by more than 30 miles, the principal location from which you perform services for the Company as compared to such location immediately prior to the occurrence of the Change in Control.

(j) “**Plan**” means the HeartWare International, Inc. 2008 Stock Incentive Plan, as amended from time to time.

(k) “**Retrenchment**” means a termination of your employment where the employer company has made a definite decision expressly for the purpose of this provision that the employer no longer wishes the job you have been doing to be done by anyone and this is not due to ordinary or customary turnover of labour or your performance or any breach of your terms of employment, and includes a situation where:

(i) you cease to be employed by the Company because the employer company ceases to be an Affiliate of the Company; or

(ii) the business in which you are engaged is transferred outside the Company and its Affiliates.

(l) “**Service**” means your employment, service as a non-executive director, or other service relationship with the Company and its Affiliates. Your Service will be considered to have ceased with the Company and its Affiliates if, immediately after a sale, merger, or other corporate transaction, the trade, business, or entity with which you are employed or otherwise have a service relationship is not HeartWare International, Inc. or an Affiliate of HeartWare International, Inc.

(m) “**Shares**” mean the shares of Common Stock underlying the Options.

(n) “**Stock Option Notice**” means the written notice evidencing the award of the Options that correlates with and makes up a part of this Agreement.

(o) “**You**”; “**Your**”. “You” or “your” means the recipient of the award of Options as reflected on the Stock Option Notice. Whenever the Agreement refers to “you” under circumstances where the provision should logically be construed, as determined by the Administrator, to apply to your estate, personal representative, or beneficiary to whom the Options may be transferred by will or by the laws of descent and distribution, the word “you” shall be deemed to include such person.

EXERCISE FORM

Administrator of the HeartWare International, Inc. 2008 Stock Incentive Plan
c/o Office of the Corporate Secretary
HeartWare International, Inc.
Suite 101
205 Newbury Street
Framingham, MA 01701

Gentlemen:

I hereby exercise the Options granted to me on _____, _____, by HeartWare International, Inc., a Delaware corporation, subject to all the terms and provisions of the applicable grant agreement and of the HeartWare International, Inc. 2008 Stock Incentive Plan, and notify you of my desire to purchase _____ shares of Common Stock of the Company at a price of \$_____ per share pursuant to the exercise of said Options.

Total Amount Enclosed: \$_____

Date: _____

(Optionee)

Received by HeartWare International, Inc. on

_____, _____

By: _____



**RESTRICTED STOCK UNITS NOTICE
UNDER THE
HEARTWARE INTERNATIONAL, INC.
2008 STOCK INCENTIVE PLAN**

Name of Grantee: _____

This Notice evidences the award of restricted stock units (each, an “*RSU*,” and collectively, the “*RSUs*”) of HeartWare International, Inc., a Delaware corporation (the “*Company*”), that have been granted to you pursuant to the HeartWare International, Inc. 2008 Stock Incentive Plan (the “*Plan*”) and conditioned upon your agreement to the terms of the attached Restricted Stock Units Agreement (the “*Agreement*”). This Notice constitutes part of and is subject to the terms and provisions of the Agreement and the Plan, which are incorporated by reference herein. Each RSU is equivalent in value to one share of the Company’s Common Stock and represents the Company’s commitment to issue one share of the Company’s Common Stock at a future date, subject to the terms of the Agreement and the Plan.

Grant Date: _____

Number of RSUs: _____

Vesting Schedule: All of the RSUs are nonvested and forfeitable as of the Grant Date. So long as your Service (as defined in the Agreement) is continuous from the Grant Date through the applicable date upon which vesting is scheduled to occur:

- 33.3% of the RSUs will vest and become nonforfeitable on the first anniversary of the Grant Date; and
- 33.3% of the RSUs will vest and become nonforfeitable on each subsequent anniversary of the Grant Date through the third anniversary of such date.

To the extent not already vested or previously forfeited, your RSUs will become 100% vested and nonforfeitable as of the effective date of a Change in Control or liquidation or dissolution of the Company and as of the date of your death or your ceasing to be employed by the Company or an Affiliate by reason of Disability or Retrenchment (as all such foregoing capitalized terms are defined in the Agreement). Except in the case of your cessation of Service in connection with a Change in Control or your death, Disability or Retrenchment, none of the RSUs will become vested and nonforfeitable after your Service ceases.

HeartWare International, Inc.

Date

I acknowledge that I have carefully read the Agreement and the prospectus for the Plan. I agree to be bound by all of the provisions set forth in those documents. I also consent to electronic delivery of all notices or other information with respect to the RSUs or the Company.

Signature of Grantee

Date

RESTRICTED STOCK UNITS AGREEMENT
UNDER THE
HEARTWARE INTERNATIONAL, INC.
2008 STOCK INCENTIVE PLAN

1. Terminology. Unless otherwise provided in this Agreement, capitalized terms used herein are defined in the Glossary at the end of this Agreement.

2. Vesting. All of the RSUs are nonvested and forfeitable as of the Grant Date. So long as your Service is continuous from the Grant Date through the applicable date upon which vesting is scheduled to occur, the RSUs will become vested and nonforfeitable in accordance with the vesting schedule set forth in the Notice. Vesting upon achievement of performance criteria, if applicable, requires a declaration by the Company that an RSU has vested, but does not require any action or election by you. The Company will advise you in writing when any of your RSUs have vested. Except for the circumstances, if any, described on the Notice, none of the RSUs will become vested and nonforfeitable after your Service ceases.

3. Termination of Employment or Service. Unless otherwise provided on the Notice, if your Service with the Company ceases for any reason, all RSUs that are not then vested and nonforfeitable will be forfeited to the Company immediately and automatically upon such cessation without payment of any consideration therefore and you will have no further right, title or interest in or to such RSUs or the underlying shares of Common Stock.

4. Restrictions on Transfer. Neither this Agreement nor any of the RSUs may be assigned, transferred, pledged, hypothecated or disposed of in any way, whether by operation of law or otherwise, and the RSUs shall not be subject to execution, attachment or similar process. All rights with respect to this Agreement and the RSUs shall be exercisable during your lifetime only by you or your guardian or legal representative. Notwithstanding the foregoing, the RSUs may be transferred upon your death by last will and testament or under the laws of descent and distribution.

5. Settlement of RSUs.

(a) Manner of Settlement. You are not required to make any monetary payment (other than applicable tax withholding, if required) as a condition to settlement of the RSUs. The Company will issue to you, in settlement of your RSUs and subject to the provisions of Section 6 below, the number of whole shares of Common Stock that equals the number of whole RSUs that become vested, and such vested RSUs will terminate and cease to be outstanding upon such issuance of the shares. Upon issuance of such shares, the Company will determine the form of delivery (e.g., a stock certificate or electronic entry evidencing such shares) and may deliver such shares on your behalf electronically to the Company's designated stock plan administrator or such other broker-dealer as the Company may choose at its sole discretion, within reason. Any share certificates delivered will, unless the sale of the shares is registered or an exemption from registration is available under applicable federal and state law, bear a legend restricting transferability of such shares.

(b) Timing of Settlement. Your RSUs will be settled by the Company, via the issuance of Common Stock as described herein, on the date that the RSUs become vested and nonforfeitable. However, if a scheduled issuance date falls on a Saturday, Sunday or federal holiday, such issuance date shall instead fall on the next following day that the principal executive offices of the Company are open for business. Notwithstanding the foregoing, in the event that (i) you are subject to the Company's policy permitting officers and directors to sell shares only during certain "window" periods, in effect from time to time or you are otherwise prohibited from selling shares of the Company's Common Stock in the public market and any shares covered by your RSUs are scheduled to be issued on a day (the "**Original Distribution Date**") that does not occur during an open "window period" applicable to you, as determined by the Company in accordance with such policy, or does not occur on a date when you are otherwise permitted to sell shares of the Company's Common Stock in the open market, (ii) the shares covered by your RSUs are not covered by a contract, instruction or plan that complies with Rule 10b5-1 of the Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), and (iii) the Company elects to satisfy its tax withholding obligations by any of the

methods set forth in clause (iii), (iv) or (v) of Section 6 below, then such shares shall not be issued and delivered on such Original Distribution Date and shall instead be issued and delivered on the first business day of the next occurring open “window period” applicable to you pursuant to such policy (regardless of whether you are still providing continuous services at such time) or the next business day when you are not prohibited from selling shares of the Company’s Common Stock in the open market, but in no event later than the fifteenth day of the third calendar month of the calendar year following the calendar year in which the Original Distribution Date occurs. In all cases, the issuance and delivery of shares under this Agreement is intended to comply with Treasury Regulation 1.409A-1(b)(4) and shall be construed and administered in such a manner.

6. **Tax Withholding.** On or before the time you receive a distribution of the shares subject to your RSUs, or at any time thereafter as requested by the Company, you hereby authorize any required withholding from the Common Stock issuable to you and otherwise agree to make adequate provision in cash for any sums required to satisfy the federal, state, local and foreign tax withholding obligations of the Company or any Affiliate which arise in connection with your RSUs (the “**Withholding Taxes**”). Additionally, the Company may, in its sole discretion, satisfy all or any portion of the Withholding Taxes obligation relating to your RSUs by any of the following means or by a combination of such means: (i) withholding from any compensation otherwise payable to you by the Company; (ii) causing you to tender a cash payment; (iii) delivering to a broker, determined by the Company in its sole discretion, the number of shares issued or otherwise issuable to you in connection with the RSUs necessary to cover the amount of Withholding Taxes and any “usual and customary” brokerage commissions (the “**Sale to Cover Shares**”) so that the broker can sell such shares on your behalf on the Australian Securities Exchange or the NASDAQ Stock Market and deliver the proceeds of such sale to the Company to be used to fund the payment of the Withholding Taxes (a “**Sale to Cover Election**”); (iv) permitting you to enter into a “same day sale” commitment with a broker-dealer that is a member of the Financial Industry Regulatory Authority (a “**FINRA Dealer**”) whereby you irrevocably elect to sell a portion of the shares to be delivered under the Agreement to satisfy the Withholding Taxes and whereby the FINRA Dealer irrevocably commits to forward the proceeds necessary to satisfy the Withholding Taxes directly to the Company; or (v) withholding shares of Common Stock from the shares of Common Stock issued or otherwise issuable to you in connection with the RSUs with a Fair Market Value (measured as of the date shares of Common Stock are issued to you pursuant to Section 5) equal to the amount of such Withholding Taxes; provided, however, that the number of such shares of Common Stock so withheld shall not exceed, by more than the Fair Market Value of one share of Common Stock, the amount necessary to satisfy the Company’s required tax withholding obligations using the minimum statutory withholding rates for federal, state, local and foreign tax purposes, including payroll taxes, that are applicable to supplemental taxable income. By accepting this award of RSUs, in the event the Company, in its sole discretion, makes a Sale to Cover Election, you hereby (a) authorize the Company to deliver the Sale to Cover Shares to a brokerage account opened either in your name, the name of the Company as the nominal holder of the Sale to Cover Shares for your benefit or in such manner as is suggested by the broker; (b) authorize the broker to sell, on your behalf, the Sale to Cover Shares on the Australian Securities Exchange or the NASDAQ Stock at the market price per share at the time of such sale under the same or similar methods, terms and conditions as the broker has then agreed to sell other shares of the Common Stock in its capacity as “sales service agent” (or an agent thereof) to the Company and to deliver the proceeds to the Company to be used to fund the payment of the Withholding Taxes; (c) grant to the Company an irrevocable limited power of attorney to: execute, on your behalf, any and all documents that may be required by the broker in connection with the Sale to Cover Election; prepare, file and execute, on your behalf, any Form 144 filings (a “**Form 144 Filing**”) or other documents that it believes may be necessary and/or desirable to demonstrate compliance with the “safe harbor” provisions of Rule 144 (“**Rule 144**”) promulgated pursuant to the Securities Act of 1933, as amended (the “**Securities Act**”); and prepare, execute and file, on your behalf, any documents that it believes may be necessary or desirable to demonstrate that your sale of the Sale to Cover Shares satisfies the “safe harbor” provisions of Regulation S promulgated pursuant to the Securities Act (“**Regulation S**”); (d) agree to execute as soon as possible upon request any account opening or other documents required by the Company or the broker to evidence your consent to the Sale to Cover Election; (e) agree to promptly furnish to the Company any information that the Company reasonably requests to assist the Company complete any Form 144 Filing; and (f) agree to promptly furnish to the Company any written representations and/or covenants that the Company reasonably requests in order to have removed any restrictive legends affixed to the Sale to Cover Shares. You further agree to take any and all actions required of you by the Company to assist you, the Company, the sales service agent or the broker to demonstrate that your sale of the Sale to Cover Shares

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satisfies the “safe harbor” provisions of Rule 144, Regulation S and/or any other exemptions from the registration requirements of Section 5 of the Securities Act and any applicable U.S. state laws. You further acknowledge that the foregoing written instruction is intended to constitute a written instruction pursuant to Rule 10b5-1 of the Exchange Act. You shall be responsible for payment of any brokerage commission relating to the Sale to Cover Shares. By accepting this award of RSUs, you hereby expressly agree that the Company shall not be liable to you and you agree to indemnify and hold the Company harmless from any acts it takes in furtherance of the consummation of the Sale to Cover Election as generally described above. Unless the tax withholding obligations of the Company and/or any Affiliate are satisfied, the Company shall have no obligation to deliver to you any Common Stock. In the event the Company’s obligation to withhold arises prior to the delivery to you of Common Stock or it is determined after the delivery of Common Stock to you that the amount of the Company’s withholding obligation was greater than the amount withheld by the Company, you agree to indemnify and hold the Company harmless from any failure by the Company to withhold the proper amount.

7. Adjustments for Corporate Transactions and Other Events.

(a) Stock Dividend, Stock Split and Reverse Stock Split. Upon a stock dividend of, or stock split or reverse stock split affecting, the Common Stock, the number of outstanding RSUs shall, without further action of the Administrator, be adjusted to reflect such event; provided, however, that any fractional RSUs resulting from any such adjustment shall be eliminated. Adjustments under this paragraph will be made by the Administrator, whose determination as to what adjustments, if any, will be made and the extent thereof will be final, binding and conclusive.

(b) Merger, Consolidation and Other Events. If the Company shall be the surviving or resulting corporation in any merger or consolidation and the Common Stock shall be converted into other securities, the RSUs shall pertain to and apply to the securities to which a holder of the number of shares of Common Stock subject to the RSUs would have been entitled. If the stockholders of the Company receive by reason of any distribution in total or partial liquidation or pursuant to any merger of the Company or acquisition of its assets, securities of another entity, or other property (including cash), then the rights of the Company under this Agreement shall inure to the benefit of the Company’s successor, and this Agreement shall apply to the securities or other property (including cash) to which a holder of the number of shares of Common Stock subject to the RSUs would have been entitled, in the same manner and to the same extent as the RSUs.

8. Non-Guarantee of Employment or Service Relationship. Nothing in the Plan or this Agreement shall alter your at-will or other employment status or other service relationship with the Company, nor be construed as a contract of employment or service relationship between the Company and you, or as a contractual right of you to continue in the employ of, or in a service relationship with, the Company for any period of time, or as a limitation of the right of the Company to discharge you at any time with or without cause or notice and whether or not such discharge results in the forfeiture of any nonvested and forfeitable RSUs or any other adverse effect on your interests under the Plan.

9. Rights as Stockholder. You shall not have any of the rights of a stockholder with respect to any shares of Common Stock that may be issued in settlement of the RSUs until such shares of Common Stock have been issued to you. No adjustment shall be made for dividends, distributions, or other rights for which the record date is prior to the date such shares are issued, except as provided in Section 7(d) of the Plan.

10. The Company’s Rights. The existence of the RSUs shall not affect in any way the right or power of the Company or its stockholders to make or authorize any or all adjustments, recapitalizations, reorganizations, or other changes in the Company’s capital structure or its business, or any merger or consolidation of the Company, or any issue of bonds, debentures, preferred or other stocks with preference ahead of or convertible into, or otherwise affecting the Common Stock or the rights thereof, or the dissolution or liquidation of the Company, or any sale or transfer of all or any part of the Company’s assets or business, or any other corporate act or proceeding, whether of a similar character or otherwise.

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11. Restrictions on Issuance of Shares. The issuance of shares of Common Stock upon settlement of the RSUs shall be subject to and in compliance with all applicable requirements of federal, state, or foreign law with respect to such securities. No shares of Common Stock may be issued hereunder if the issuance of such shares would constitute a violation of any applicable federal, state, or foreign securities laws or other law or regulations or the requirements of any stock exchange or market system upon which the Common Stock may then be listed. The inability of the Company to obtain from any regulatory body having jurisdiction the authority, if any, deemed by the Company's legal counsel to be necessary to the lawful issuance of any shares subject to the RSUs shall relieve the Company of any liability in respect of the failure to issue such shares as to which such requisite authority shall not have been obtained. As a condition to the settlement of the RSUs, the Company may require you to satisfy any qualifications that may be necessary or appropriate, to evidence compliance with any applicable law or regulation, and to make any representation or warranty with respect thereto as may be requested by the Company.

12. Notices. All notices and other communications made or given pursuant to this Agreement shall be given in writing and shall be deemed effectively given upon receipt or, in the case of notices delivered by the Company to you, five (5) days after deposit in the United States mail, postage prepaid, addressed to you at the last address you provided to the Company, or in the case of notices delivered to the Company by you, addressed to the Administrator, care of the Company for the attention of its Secretary at its principal executive office or, in either case, if the receiving party consents in advance, transmitted and received via telecopy or via such other electronic transmission mechanism as may be available to the parties. Notwithstanding the foregoing, the Company may, in its sole discretion, decide to deliver any documents related to participation in the Plan and this award of RSUs by electronic means or to request your consent to participate in the Plan or accept this award of RSUs by electronic means. You hereby consent to receive such documents by electronic delivery and, if requested, to agree to participate in the Plan through an on-line or electronic system established and maintained by the Company or another third party designated by the Company.

13. Entire Agreement. This Agreement, together with the relevant Notice, contain the entire agreement between the parties with respect to the RSUs granted hereunder. Any oral or written agreements, representations, warranties, written inducements, or other communications made prior to the execution of this Agreement with respect to the RSUs granted hereunder shall be void and ineffective for all purposes.

14. Amendment. This Agreement may be amended from time to time by the Administrator in its discretion; provided, however, that this Agreement may not be modified in a manner that would have a materially adverse effect on the RSUs as determined in the discretion of the Administrator, except as provided in the Plan or in a written document signed by each of the parties hereto.

15. 409A Savings Clause. This Agreement and the RSUs granted hereunder are intended to fit within the "short-term deferral" exemption from Section 409A of the Code as set forth in Treasury Regulation Section 1.409A-1(b)(4). In administering this Agreement, the Company shall interpret this Agreement in a manner consistent with such exemption. Notwithstanding the foregoing, if it is determined that the RSUs fail to satisfy the requirements of the short-term deferral rule and are otherwise deferred compensation subject to Section 409A, and if you are a "Specified Employee" (within the meaning set forth Section 409A(a)(2)(B)(i) of the Code) as of the date of your separation from service (within the meaning of Treasury Regulation Section 1.409A-1(h)), then the issuance of any shares that would otherwise be made upon the date of the separation from service or within the first six (6) months thereafter will not be made on the originally scheduled date(s) and will instead be issued in a lump sum on the date that is six (6) months and one day after the date of the separation from service, but if and only if such delay in the issuance of the shares is necessary to avoid the imposition of additional taxation on you in respect of the shares under Section 409A of the Code. Each installment of shares that vests is intended to constitute a "separate payment" for purposes of Section 409A of the Code and Treasury Regulation Section 1.409A-2(b)(2).

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16. No Obligation to Minimize Taxes. The Company has no duty or obligation to minimize the tax consequences to you of this award of RSUs and shall not be liable to you for any adverse tax consequences to you arising in connection with this award. You are hereby advised to consult with your own personal tax, financial and/or legal advisors regarding the tax consequences of this award and by signing the Notice, you have agreed that you have done so or knowingly and voluntarily declined to do so.

17. Conformity with Plan. This Agreement is intended to conform in all respects with, and is subject to all applicable provisions of, the Plan. Inconsistencies between this Agreement and the Plan shall be resolved in accordance with the terms of the Plan. In the event of any ambiguity in this Agreement or any matters as to which this Agreement is silent, the Plan shall govern. A copy of the Plan is available upon request to the Administrator.

18. No Funding. This Agreement constitutes an unfunded and unsecured promise by the Company to issue shares of Common Stock in the future in accordance with its terms. You have the status of a general unsecured creditor of the Company as a result of receiving the grant of RSUs.

19. Effect on Other Employee Benefit Plans. The value of the RSUs subject to this Agreement shall not be included as compensation, earnings, salaries, or other similar terms used when calculating your benefits under any employee benefit plan sponsored by the Company or any Affiliate, except as such plan otherwise expressly provides. The Company expressly reserves its rights to amend, modify, or terminate any of the Company's or any Affiliate's employee benefit plans.

20. Governing Law. The validity, construction, and effect of this Agreement, and of any determinations or decisions made by the Administrator relating to this Agreement, and the rights of any and all persons having or claiming to have any interest under this Agreement, shall be determined exclusively in accordance with the laws of the State of Delaware, without regard to its provisions concerning the applicability of laws of other jurisdictions. Any suit with respect hereto will be brought in the federal or state courts in the district which includes the city or town in which the Company's principal executive office is located, and you hereby agree and submit to the personal jurisdiction and venue thereof.

21. Headings. The headings in this Agreement are for reference purposes only and shall not affect the meaning or interpretation of this Agreement.

22. Electronic Delivery of Documents. By your signing the Notice, you (i) consent to the electronic delivery of this Agreement, all information with respect to the Plan and the RSUs, and any reports of the Company provided generally to the Company's stockholders; (ii) acknowledge that you may receive from the Company a paper copy of any documents delivered electronically at no cost to you by contacting the Company by telephone or in writing; (iii) further acknowledge that you may revoke your consent to the electronic delivery of documents at any time by notifying the Company of such revoked consent by telephone, postal service or electronic mail; and (iv) further acknowledge that you understand that you are not required to consent to electronic delivery of documents.

23. No Future Entitlement. By your signing the Notice, you acknowledge and agree that: (i) the grant of a restricted stock unit award is a one-time benefit which does not create any contractual or other right to receive future grants of restricted stock units, or compensation in lieu of yed stock units, even if restricted stock units have been granted repeatedly in the past; (ii) all determinations with respect to any such future grants and the terms thereof will be at the sole discretion of the Committee; (iii) the value of the restricted stock units is an extraordinary item of compensation which is outside the scope of your employment contract, if any; (iv) the value of the restricted stock units is not part of normal or expected compensation or salary for any purpose, including, but not limited to, calculating any termination, severance, resignation, redundancy, end of service payments or similar payments, or bonuses, long-service awards, pension or retirement benefits; (v) the vesting of the restricted stock units ceases upon termination of Service with the Company or transfer of employment from the Company, or other cessation of eligibility for any reason, except as may otherwise be explicitly provided in this Agreement; (vi) the Company does not guarantee any future value of the restricted stock units; and (vii) no claim or entitlement to compensation or damages arises if the restricted stock units decrease or do not increase in value and you irrevocably release the Company from any such claim that does arise.

24. Personal Data. For the exclusive purpose of implementing, administering and managing the restricted stock units, you, by execution of the Notice, consent to the collection, receipt, use, retention and transfer, in electronic or other form, of your personal data by and among the Company and its third party vendors. You understand that personal data (including but not limited to, name, home address, telephone number, employee number, employment status, social security number, tax identification number, date of birth, nationality, job and payroll location, data for tax withholding purposes and shares awarded, cancelled, vested and unvested) may be transferred to third parties assisting in the implementation, administration and management of the restricted stock units and you expressly authorize such transfer as well as the retention, use, and the subsequent transfer of the data by the recipient(s). You understand that these recipients may be located in your country or elsewhere, and that the recipient's country may have different data privacy laws and protections than your country. You understand that data will be held only as long as is necessary to implement, administer and manage the restricted stock units. You understand that you may, at any time, request a list with the names and addresses of any potential recipients of the personal data, view data, request additional information about the storage and processing of data, require any necessary amendments to data or refuse or withdraw the consents herein, in any case without cost, by contacting in writing the Company's Secretary. You understand, however, that refusing or withdrawing your consent may affect your ability to accept a restricted stock unit award.

{Glossary begins on next page}

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GLOSSARY

(a) “**Administrator**” means the Board of Directors of HeartWare International, Inc. or such committee or committees appointed by the Board to administer the Plan.

(b) “**Affiliate**” means any entity, whether now or hereafter existing, which controls, is controlled by, or is under common control with HeartWare International, Inc. (including but not limited to joint ventures, limited liability companies, and partnerships). For this purpose, “control” means ownership of 50% or more of the total combined voting power or value of all classes of stock or interests of the entity.

(c) “**Agreement**” means this document, as amended from time to time, together with the Plan which is incorporated herein by reference.

(d) “**Change in Control**” means: a (i) Change in Ownership of the Company, (ii) Change in Effective Control of the Company, or (iii) Change in the Ownership of Assets of the Company, all as described herein and construed in accordance with Code section 409A.

(i) A **Change in Ownership of the Company** shall occur on the date that any one Person acquires, or Persons Acting as a Group acquire, ownership of the capital stock of the Company that, together with the stock held by such Person or Group, constitutes more than 50% of the total fair market value or total voting power of the capital stock of the Company. However, if any one Person is, or Persons Acting as a Group are, considered to own more than 50% of the total fair market value or total voting power of the capital stock of the Company, the acquisition of additional stock by the same Person or Persons Acting as a Group is not considered to cause a Change in Ownership of the Company or to cause a Change in Effective Control of the Company (as described below). An increase in the percentage of capital stock owned by any one Person, or Persons Acting as a Group, as a result of a transaction in which the Company acquires its stock in exchange for property will be treated as an acquisition of stock.

(ii) A **Change in Effective Control of the Company** shall occur on the date a majority of members of the Company’s Board is replaced during any 12-month period by directors whose appointment or election is not endorsed by a majority of the members of the Company’s Board before the date of the appointment or election.

(iii) A **Change in the Ownership of Assets of the Company** shall occur on the date that any one Person acquires, or Persons Acting as a Group acquire (or has or have acquired during the 12-month period ending on the date of the most recent acquisition by such Person or Persons), assets from the Company that have a total gross fair market value equal to or more than 51% of the total gross fair market value of all of the assets of the Company immediately before such acquisition or acquisitions. For this purpose, gross fair market value means the value of the assets of the Company, or the value of the assets being disposed of, determined without regard to any liabilities associated with such assets.

The following rules of construction apply in interpreting the definition of Change in Control:

(A) A Person means any individual, entity or group within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended, other than employee benefit plans sponsored or maintained by the Company and by entities controlled by the Company or an underwriter of the capital stock of the Company in a registered public offering.

(B) Persons will be considered to be Persons Acting as a Group (or Group) if they are owners of a corporation that enters into a merger, consolidation, purchase or acquisition of stock, or similar business transaction with the corporation. If a Person owns stock in both corporations that enter into a merger, consolidation, purchase or acquisition of stock, or similar transaction, such shareholder is considered to be acting as a Group with other shareholders only with respect to the ownership in that corporation before the transaction giving rise to the change and not with respect to the ownership interest in the other corporation. Persons will not be considered to be acting as a Group solely because they purchase assets of the same corporation at the same time or purchase or own stock of the same corporation at the same time, or as a result of the same public offering.

(C) A Change in Control shall not include a transfer to a related person as described in Code section 409A or a public offering of capital stock of the Company.

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

(e) “**Code**” means the Internal Revenue Code of 1986, as amended, and the Treasury regulations and other guidance promulgated thereunder.

(f) “**Common Stock**” means the common stock, US\$.001 par value per share, of HeartWare International, Inc.

(g) “**Company**” means HeartWare International, Inc. and its Affiliates, except where the context otherwise requires. For purposes of determining whether a Change in Control has occurred, Company shall mean only HeartWare International, Inc.

(h) “**Disability**” means your permanent inability, by reason of physical condition, mental illness or accident, to perform substantially all of the duties of the position in which you have been employed or appointed (as determined by the Administrator).

(i) “**Fair Market Value**” has the meaning set forth in the Plan. The Plan generally defines Fair Market Value to mean the closing price per share of Common Stock on the relevant date on the principal exchange or market on which the Common Stock is then listed or admitted to trading or, if no sale is reported for that date, the last preceding Business Day on which a sale was reported.

(j) “**Grant Date**” means the effective date of a grant of RSUs made to you as set forth in the relevant Notice.

(k) “**Notice**” means the statement, letter or other written notification provided to you by the Company setting forth the terms of a grant of RSUs made to you.

(l) “**Plan**” means the HeartWare International, Inc. 2008 Stock Incentive Plan, as amended from time to time.

(m) “**Retrenchment**” means a termination of your employment where the employer company has made a definite decision expressly for the purpose of this provision that the employer no longer wishes the job you have been doing to be done by anyone and this is not due to ordinary or customary turnover of labour or your performance or any breach of your terms of employment, and includes a situation where:

(i) you cease to be employed by the Company because the employer company ceases to be an Affiliate of the Company; or

(ii) the business in which you are engaged is transferred outside the Company and its Affiliates.

(n) “**RSU**” means the Company’s commitment to issue one share of Common Stock at a future date, subject to the terms of the Agreement and the Plan.

(o) “**Service**” means your employment, service as a non-executive director, or other service relationship with the Company and its Affiliates. Your Service will be considered to have ceased with the Company and its Affiliates if, immediately after a sale, merger, or other corporate transaction, the trade, business, or entity with which you are employed or otherwise have a service relationship is not HeartWare International, Inc. or an Affiliate of HeartWare International, Inc.

(p) “**You**” or “**Your**” means the recipient of the RSUs as reflected on the applicable Notice. Whenever the word “you” or “your” is used in any provision of this Agreement under circumstances where the provision should logically be construed, as determined by the Administrator, to apply to the estate, personal representative, or beneficiary to whom the RSUs may be transferred by will or by the laws of descent and distribution, the words “you” and “your” shall be deemed to include such person.

{End of Agreement}

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**CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO RULE 13A-14(a) OR RULE 15d-14(a)
OF THE SECURITIES EXCHANGE ACT OF 1934**

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 6, 2010

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

**CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO RULE 13A-14(a) OR RULE 15d-14(a) OF
THE SECURITIES EXCHANGE ACT OF 1934**

I, David McIntyre, 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 6, 2010

/s/ David McIntyre

David McIntyre
Chief Financial Officer
(Principal Financial Officer)

**CERTIFICATION OF 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, 2010 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned 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 6, 2010

/s/ Douglas Godshall

Douglas Godshall
Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION OF 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, 2010 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned 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 6, 2010

/s/ David McIntyre

David McIntyre
Chief Financial Officer
(Principal Financial Officer)



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Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
HeartWare International, Inc.

We have reviewed the accompanying condensed consolidated balance sheet of HeartWare International, Inc. (a Delaware Corporation) as of June 30, 2010, and the related condensed consolidated statements of operations and comprehensive loss for the three-month and six-month periods ended June 30, 2010 and 2009, and the related condensed consolidated statements of shareholders' equity and cash flows for the six-month periods ended June 30, 2010 and 2009. These condensed consolidated financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying condensed consolidated financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of the Company as of December 31, 2009, and the related consolidated statements of operations, comprehensive loss, shareholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated February 23, 2010, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2009, is fairly stated, in all material respects, in relation to the balance sheet from which it has been derived.

Grant Thornton LLP

Fort Lauderdale, Florida
August 6, 2010