CRAIG-HALLUM
CAPITAL GROUP LLC

ALPHA SELECT LIST

Sunshine Heart, Inc. — BUY

(SSH - $6.61) Price Target: $18.00

Early Stage Med Device Company Well Positioned To Capture The Immense Class III / IV Heart Failure Market. Initiating Coverage With A BUY Rating And $18 Price Target.

Sunshine Heart is an early-stage medical device company which is focused on treating congestive heart failure.

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Changes	Current
Rating:	Buy
Fundamental Trend:	Improving
Price Target:	$18.00
FY12E Rev M:	$0.0
FY13E Rev M:	$2.0
FY14E Rev M:	$10.3
FY12E EPS**:	($1.69)
FY13E EPS**:	($1.56)
FY14E EPS**:	($1.24)

Profile		
Price:		$6.61
52 Wk Range:	$2.50	- $22.90
Avg Daily Vol:		209,000
Shares Out M*:		9.3
Market Cap M:		$61.8
Insiders Own:		0%
Short Interest:		4.1%
BV/Sh*:		$2.28
Est LT EPS Gr:		NM
Net Cash/Sh*:		$2.40
Debt / Capital*:		0.0%
Year Ends:		Dec

Rev (thousands)	2012E	2013E	2014E
Mar	$0		
Jun	$0		
Sept	$0		
Dec	$0		
FY	$0	$2,003	$10,299

EPS **	2012E	2013E	2014E
Mar	($0.63)		
Jun	($0.39)		
Dec	($0.34)		
Dec	($0.39)		
FY	($1.69)	($1.56)	($1.24)
FY P/E	NA	NA	NA
FY EV/S	NA	19.6x	3.8x

*Pro Forma for the 8/13/12 Equity raise.
** excludes stock comp. & amortization

Management	
CEO	Dave Rosa
CFO	Jeff Mathiesen

OUR CALL

According to the CDC, heart disease is the leading cause of death in the U.S. We estimate that over 900,000 existing severe heart failure (late Class III / early Class IV) patients in the U.S. and Western Europe could benefit from Sunshine Heart's C-Pulse device (a $37B market opportunity) with 130,000 new patients being diagnosed annually ($5B). These patients currently have few options, none of which improve the patient's condition and at best, only slow the progression of the disease. CRT-D device makers' attempts to penetrate this market have been unsuccessful in clinical trials. Thoratec (THOR) gained FDA approval with their LVAD for late Class III but was turned away by CMS for Class IIIb reimbursement.

Sunshine Heart is an early stage company whose C-Pulse device is a minimally invasive, implantable device that we believe has the potential to take over that $37B market. The company completed a 20 patient feasibility trial in April, 2011 and presented strong data that the FDA concluded in March, 2012 met their requirements. Sunshine received their CE mark in Europe in July, 2012. What particularly intrigues us is the following:

- The trial showed that in 50% of the cases, the device actually reversed the progression of heart failure.
- The trial concluded that patients experienced reduced rehospitalization and medication costs. This becomes critically important in October when hospitals will start to be financially penalized for readmissions of patients that were discharged in the past 30 days.
- The C-Pulse device doesn't require anti-clotting drugs, a contrast with some other devices that require patients to use those drugs for the rest of their lives.

The company expects to secure their IDE from the FDA by year end which will allow them to start their pivotal U.S. clinical trial. We expect Sunshine to submit its PMA to the FDA in 2016 and if approved, commercially launch the product in the U.S. in 2017. SSH recently raised $23 million through a secondary offering which will go towards funding their U.S. clinical trial as well as commercialization of the product in Europe starting later this year.

We believe that if data from their pivotal trial is similar to their feasibility trial, this will be enough for the FDA to grant approval for the device. In that case, with such an immense target market, we believe that SSH would be acquired by a larger medical device company whose sales force could more rapidly drive adoption. Numerous other promising early stage med tech companies have been acquired recently with billion dollar price tags and our due diligence has revealed that strategic investors are already highly aware of Sunshine Heart and its C-Pulse device. With a market cap currently below $70 million, we believe investors could be amply rewarded by investing in Sunshine Heart.

Sunshine Heart Senior Management will be meeting with investors at Craig-Hallum's 3rd Annual Alpha Select Conference in New York on Sep. 27, 2012.

STOCK OPPORTUNITY

Valuation of early stage companies is traditionally tied to three things: size of the ***Problem***, elegance of the company's ***Solution***, and quality of ***Management***. We believe Sunshine could potentially be a valuable company because it scores well in each category. A $38 billion problem speaks for itself. The results of the feasibility trial suggest an elegant solution that's clearly superior to existing alternatives, although the patient size was small. We believe that, based upon our due diligence and their previous experience, this management team is up to the task of bringing C-Pulse to the commercialization stage.

To arrive at our $18 current fair-value price target we use a discounted, probability-weighted revenue model. We believe that our assumptions are conservative and there is a bias to the upside as the company reaches milestones. The assumptions for our model were:

Market opportunity	$37 billion
Assumed market penetration	5%
Approval/Reimbursement probability	25% US/50% OUS
WACC	25%
Years to achieve our market penetration	12 years U.S./10 years OUS
Terminal EV/Sales multiple	4.0x

Our analysis assumes $30M in additional equity raised in the second half of 2013 to help pay for the U.S. clinical trial and commercialization of the product in Europe.

*** For a copy of our complete model, please contact your Craig-Hallum salesperson.*

THE LARGE UNMET NEED

We believe that the current worldwide addressable market for SSH's C-Pulse device is over 900,000 patients. Below are our prevalence and incidence estimates. Prevalence is the total population that currently exists today and incidence is the amount of new cases that are candidates for the therapy.

Below we show the prevalence and incidence of rates of Class IIIb and IVa heart failure in the U.S. and Western E.U. from which we base our projections of Sunshine's addressable market opportunity.

Prevalence Rates of Class IIIb & IVa Heart Failure in the United States

U.S. Adult Population		210,008,760
HF Prevalence	x	2.4%
		5,040,210
Less: Moderate heart failure/wide QRS/contraindications		4,536,189
Estimated # of adults w/Severe HF		504,021
Less: Those with Terminal Class IV HF		(100,000)
Addressable C-Pulse Patients in U.S.		404,021
ASP for SSH's C-Pulse	x	$59,000
Target C-Pulse Market in the U.S.		$23,837,240,416

Sources:
U.S. Census Bureau, 2012 census, American Heart Association, Journal of Circulation
"Heart Disease and Stroke Statistics- 2012 Update: A Report From the American Heart Association"
pages e105-e106
Industry reports and Craig-Hallum estimates

Incidence Rates of Class IIIb & IVa Heart Failure in the United States

Newly Diagnosed cases of HF		670,000
Less: Moderate heart failure/wide QRS/contraindications		603,000
Estimated # of adults w/Severe HF		67,000
Less: Those with Terminal Class IV HF		(13,293)
Addressable C-Pulse Patients in U.S.		53,707
ASP for SSH's C-Pulse	x	$59,000
Target C-Pulse Market in the U.S.		$3,168,707,319

Sources:
U.S. Census Bureau, 2012 census, American Heart Association, Journal of Circulation
"Heart Disease and Stroke Statistics- 2012 Update: A Report From the American Heart Association"
pages e105-e106
Industry reports and Craig-Hallum estimates

Prevalence Rates of Class IIIb & IVa Heart Failure in the Western EU

Western EU Adult Population		277,888,468
HF Prevalence	x	2.4%
		6,669,323
Less: Moderate heart failure/wide QRS/contraindications		6,002,391
Estimated # of adults w/Severe HF		666,932
Less: Those with Terminal Class IV HF		(132,500)
Addressable C-Pulse Patients in Western EU		534,432
ASP for SSH's C-Pulse	x	$25,000
Target C-Pulse Market in Western EU		$13,360,808,095

Sources:
United Nations Statistics Division, American Heart Association, Journal of Circulation
"Heart Disease and Stroke Statistics- 2012 Update: A Report From the American Heart Association"
pages e105-e106
Industry reports and Craig-Hallum estimates

Incidence Rates of Class IIIb & IVa Heart Failure in the Western EU

Newly Diagnosed cases of HF		1,000,000
Less: Moderate heart failure/wide QRS/contraindications		900,000
Estimated # of adults w/Severe HF		100,000
Less: Those with Terminal Class IV HF		(19,867)
Addressable C-Pulse Patients in Western EU		80,133
ASP for SSH's C-Pulse	x	$25,000
Target C-Pulse Market in Western EU		$2,003,322,919

Sources:
U.S. Census Bureau, 2012 census, American Heart Association, Journal of Circulation
"Heart Disease and Stroke Statistics- 2012 Update: A Report From the American Heart Association"
pages e105-e106
Industry reports and Craig-Hallum estimates

SUNSHINE HEART'S SOLUTION

C-Pulse Heart Assist System

Sunshine Heart created the C-Pulse counter-pulsation system to treat patients with late Class III and ambulatory Class IV heart failure. The scientific principles of the C-Pulse system are founded on the well-established principals of intra-aortic balloon counter-pulsation which has been used for over 50 years. Their device assists the left ventricle by reducing the workload required to pump blood throughout the body, while increasing blood flow to the coronary arteries.

The system consists of an inflatable cuff, sensing lead, battery pack, and other necessary wiring. The inflatable cuff is placed around the descending aorta which is the portion of the heart that helps fill the left ventricle chamber of the heart. The sensing lead attaches to the heart which detects when the heart will contract and communicates with the inflatable cuff.

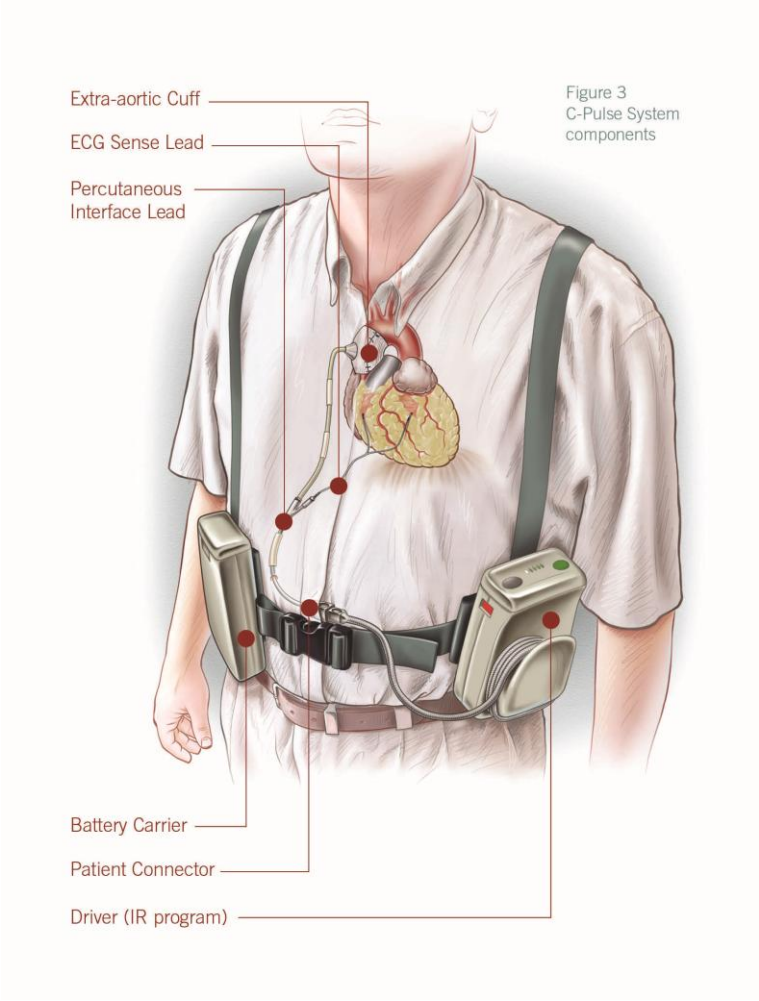


Figure 3
C-Pulse System components

Compelling Data: Patients Using C-Pulse Appear to Improve

Heart failure is a progressive disease and the currently available therapies (pharmaceuticals, brady, CRT-D, and LVAD) only slow the progression of

this disease and do not improve the patient's condition. One of the benefits of the C-Pulse device relative to other available therapies is that the product appears to improve patients' heart failure status.

We believe that the reason that this device improves patients is that it assists the heart muscle while still maintaining its musculature and strength. Pacemakers and CRT-D devices shock the heart to beat but this can fatigue the heart muscle over time. LVAD devices perform the work for the heart which allows the muscle to atrophy, which prevents HF class improvement.

Below are the results from SSH's feasibility trial which showed an improvement of HF status for most patients.

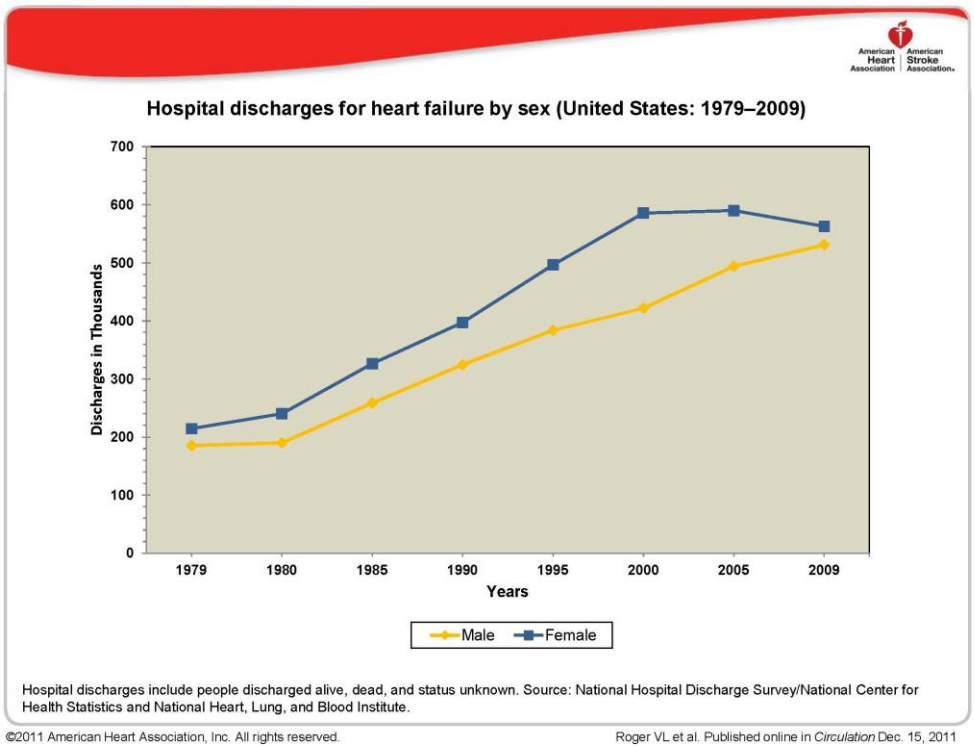
C-Pulse Heart Assist System
NYHA HF Class Improvement from Feasibility Study

Follow-up Period	No Change	Reduction of 1 Classification	Reduction of 2 Classifications	Reduction of 3 Classifications	Mean Class Reduction	Std. Deviation of Class Reduction
6 Months (n=15)	3	7	5	0	(1.1)	+/- 0.7
12 Months (n=12)	2	7	2	1	(1.2)	+/- 0.8

Fewer Hospitalizations

Heart failure is the number one cause of hospital readmissions in the U.S. This comes at an enormous cost to the healthcare system. According to the National Center for Health Statistics and the National Heart, Lung, and Blood Institute: "Direct costs related to CHF in 2009 were estimated to be $37.2 billion in the U.S. alone, 54% of which will be due to hospitalization."

Beginning on October 1, 2012, acute care hospitals in the U.S. will be financially penalized for readmissions of patients that were discharged in the past 30 days. Heart failure, heart attack and pneumonia are the three diagnoses that are subject to the 30-day readmission penalty. The financial penalty is high resulting in about 20% of revenues in 2012, escalating to about 50% in 2014. Over time, we believe this will change the tactics that hospitals use to treat heart failure especially considering that according to the MEDAMACS database, 59% of Class III heart failure patients on optimal pharmaceutical therapy are rehospitalized.



Other Measures Improved

In the feasibility trial, the C-Pulse device also showed statistically significant improvement in:

- 50 meter improvement in the 6 minute walk test.
- 25% Quality of Life improvement score
- 1 patient (out of 20) in the trial disconnected permanently from the device due to lack of symptoms.

Anti-Clotting Pharmaceuticals May Not Be Necessary

Unlike LVADs, since the C-Pulse device does not come in contact with the bloodstream, anti-clotting medications are not necessary. This is an attractive aspect to the therapy because patients who start anti-clotting drugs are usually on them for the rest of their lives which can be problematic if they must undergo subsequent surgeries, etc.

Ability For Patients To Disconnect

Unlike the LVAD devices, patients may disconnect their C-Pulse device from the battery packs thereby increasing patient satisfaction (for showering, etc.) and comfort with the device.

Adverse Events & Pivotal Trial Design

We expect that the primary endpoint of their U.S. pivotal trial will be 30-day rehospitalization rate due to worsening heart failure plus all-cause mortality. This will be measured against optimal pharmaceutical therapy (control arm). The trial is powered to show a 30% improvement versus the control arm.

In their feasibility study, 3 patients (15% rate) had to be rehospitalized due to worsening heart failure. There were 3 deaths (15% rate, 1 device-related due to aortic disruption and 2 non-device related). According to a review of prior clinical studies (CardioMEMS, CardiacHF, et al), we believe that the event rate for 30-day rehospitalization plus all-cause mortality, in the optimal pharmaceutical therapy control arm will be 30-40%. Clinicians we have spoken with expect the C-Pulse pivotal trial to show a 20% rate, thereby a 33%-50% benefit versus optimal pharmaceutical therapy.

When starting a pivotal trial, trial design, site selection, patient selection, and patient monitoring are very important factors. We believe that management learned from their feasibility study and will structure this trial (with the FDA) so that they will achieve their endpoint. One improvement that we expect in their pivotal study that was lacking in their feasibility trial was around patient monitoring and infection site risk. In their feasibility trial the patients were followed-up at 1, 3, and 6 months and most of the patients were implanted with a more invasive version of the C-Pulse device. But in their pivotal, patients will be engaged monthly and be implanted with the company's minimally-invasive implant. We believe that these changes will reflect favorably on the clinical outcomes of the pivotal trial.

Upcoming Catalysts

SSH Catalysts

Impact	Event	Date
+	Completion of U.S. feasibility trial	Oct. 2011
+	Nasdaq listing in U.S.	1Q12
+	Feasibility study, single center	6/2/12
+	CE Mark achieved	July 2012
+	Secondary offering	TBD
+	EU Launch- begin post-market trial	3Q12
+	Final IDE criteria set w/FDA	3Q12
+	U.S. Pivotal trial begins	3Q12
	Filing for German reimbursment	Oct. 2012
+	U.S. Pivotal trial enrollment complete	by end 2015
+	12-month follow-up completed	2016
+	PMA submission to FDA	2016
+	Expected commercial launch in U.S.	2017

Source: Sunshine Heart and Craig-Hallum estimates

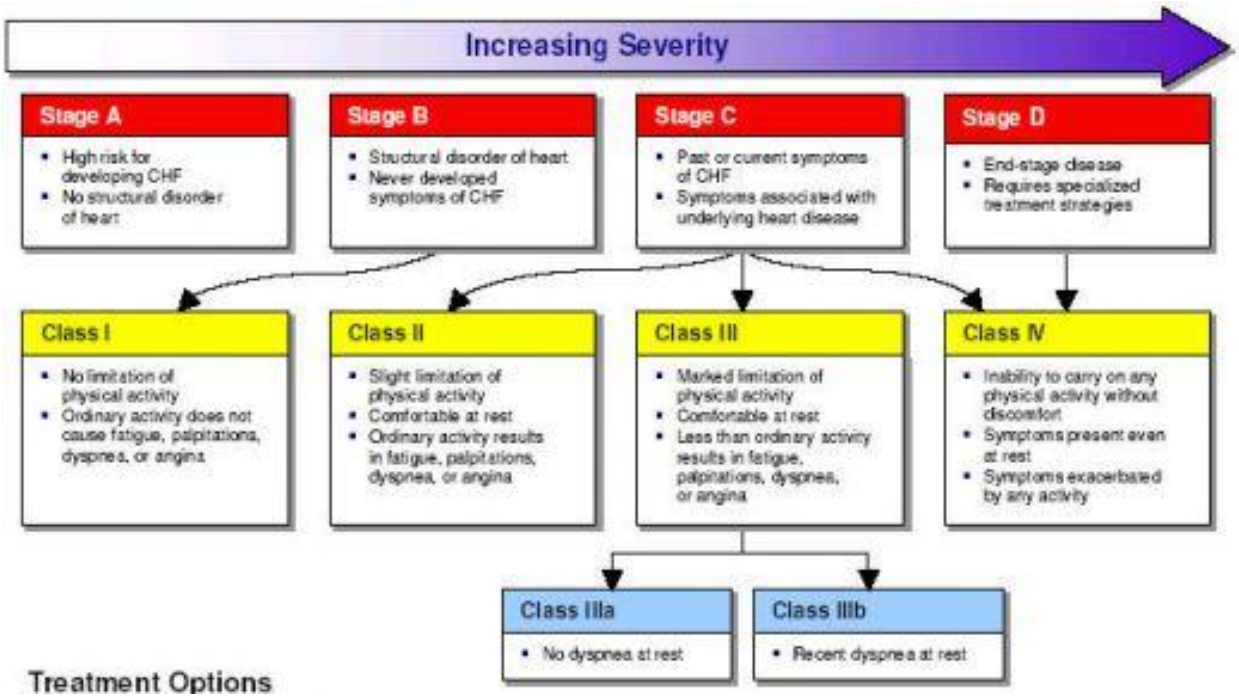
WHAT DO THEY DO

What is Heart Failure?

Heart failure is a progressive disease in which the heart is not properly pumping blood through the body. Symptoms of heart failure commonly include shortness of breath, fatigue, difficulty exercising and swelling of the legs. As heart failure becomes more advanced, the heart becomes weak or rigid and enlarges which makes it harder to pump blood needed for the body to function properly. When a patient is not circulating enough blood through their system, the body becomes deficient in oxygen production and organs (including the brain) operate sub optimally. According to the American Heart Association, this disease affects 2.4% of Americans.

Classes of Heart Failure

There are different stages of heart failure with Class I being the mildest and Class IV being closest to patient death.



Source: NYHA

Class	Functional Capacity: How a patient with cardiac disease feels during physical activity
I	Patients with cardiac disease but resulting in no limitation of physical activity. Ordinary physical activity does not cause undue fatigue, palpitation, dyspnea or anginal pain.
II	Patients with cardiac disease resulting in slight limitation of physical activity. They are comfortable at rest. Ordinary physical activity results in fatigue, palpitation, dyspnea or anginal pain.
III	Patients with cardiac disease resulting in marked limitation of physical activity. They are comfortable at rest. Less than ordinary activity causes fatigue, palpitation, dyspnea or anginal pain.
IV	Patients with cardiac disease resulting in inability to carry on any physical activity without discomfort. Symptoms of heart failure or the anginal syndrome may be present even at rest. If any physical activity is undertaken, discomfort increases.

Source: American Heart Association

Treatment Options

Heart failure is a progressive disease and depending on which stage the patient is in will determine which medical therapy is prescribed. The C-Pulse device targets patients with dilated cardiomyopathy, short QRS, INTERMACS Level 7, and LVEF between 18-25%. Below is a table which outlines the treatment options:

Source: Industry studies and Craig-Hallum research

Treatment Algorithm for Heart Failure

Therapy	Appropriateness
Optimal drug therapy	NYHA Class I-III patients
Pacemaker/CRT-D	NYHA Class II-IIIa patients, LVEF <35%
C-Pulse Heart Assist System	NYHA Class IIIb/IVa
Left Ventricular Assist Device (LVAD)	NYHA Class IV patients, being used in Class IIIb

Management and Board of Directors

Executive Management

Dave Rosa	CEO	STJ, BSX, A-Med Systems, CR Bard
Jeff Mathiesen	CFO	Zareba, PUR, Osmonics
Will Peters, M.D.	CMO & CTO	founder of Sunshine Heart, Heartport
Jim Yearick	VP Sales & Mktg.	MDT, BSX
Kevin Bassett	VP Operations	Acorn Cardiovascular
Deb Kridner	VP Clin. & Reg.	STJ, MDT, EW

Board of Directors

Nicholas Callinan	Chairman	private equity firms, Cummins Engine Co.
Dave Rosa	Director	STJ, BSX, A-Med Systems, CR Bard
Paul Buckman	Director	Sentreheart, Pathway Medical, Devax, STJ, ev3, Scimed, BSX
Dr. Geoffrey Brooke	Director	GBS Venture Partners
Dr. Mark Harvey	Director	CM Capital, Osprey Medical
Donal O'Dwyer	Director	JNJ Cordis, Baxter Cardiovascular
Will Peters M.D.	Director	founder of Sunshine Heart, Heartport

Cash Flow Forecast

Sunshine Heart- Schedule of Forecasted Cash Flow/Capital

	2H12	1H13	2H13	1H14	2H14	1H15	2H15
Beg. Cash	22,472	15,547	7,255	28,318	20,256	12,647	9,182
EBITDA	(6,925)	(8,292)	(8,938)	(8,061)	(7,610)	(3,465)	(199)
Addl. Funding (est.)			30,000				
Ending Cash	15,547	7,255	28,318	20,256	12,647	9,182	8,983

Source: Public filings and Craig-Hallum estimates

RISKS

We believe an investment in Sunshine Heart involves the following risks:

- **Clinical/Regulatory**

  The company expects that they will receive their IDE from the FDA in the 2H12. If this does not occur or if the conditions of their IDE are too onerous, this may adversely affect the company. Also, if the company has too many adverse events, their clinical trial may be halted by IRBs. If the data does not prove safety or efficacy, their product may not become approved in the U.S.

- **Reimbursement**

  Sunshine Heart received their CE Mark in Europe in July, 2012. In order to receive reimbursement they must receive approval from the specific countries in the EU. They are beginning in Germany, which has asked Sunshine Heart to perform a 50 patient clinical study. We expect that they will next begin in Italy. Reimbursement during their PMA study in the U.S. will be received by those hospitals and payors that agree to do so. We expect Sunshine Heart to seek out these facilities and payors.

- **Operational/ Execution**

  We believe that Sunshine Heart's success will largely be measured by the pace of patient enrollment and the number of clinical sites that are performing procedures using the C-Pulse device. If they are enrolling slower than investor expectations or their projections, the stock may be adversely affected.

- **Financial**

  According to SSH's S-1 document, they anticipate that they will likely require additional funding. Stockholders may suffer dilution if this were to occur.

- **Personnel turnover**

  If some of Sunshine Heart's key opinion leaders or recruiting physicians transfer to another institution, there may be a delay in patient enrollment of their U.S. pivotal trial. If one of their key executives leaves the company this may cause clinical or regulatory disruption for C-Pulse.

CRAIG-HALLUM ALPHA SELECT LIST

The Alpha Select list is an actively researched collection of small, under-followed public companies that we believe have the potential to become much larger. The Alpha Select List will typically consist of sub-$250M market cap companies with attractive business models, above average growth trends, favorable macro/secular themes and management teams that we believe have the ability to take the business to the next level.

Financials

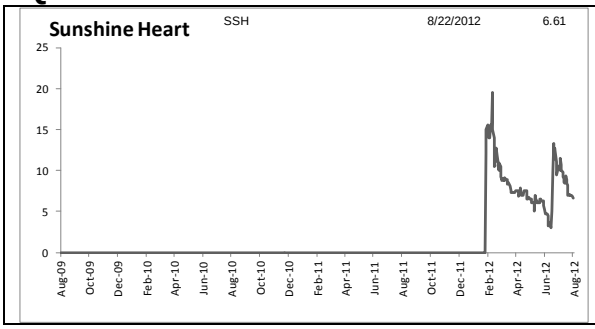
Sunshine Heart, Inc. Financial Model

FISCAL YEAR ENDS DECEMBER

($ thousands)	Fiscal 2009A	Fiscal 2010A	Fiscal 2011A	Mar Q1-12A	Jun Q2-12A	Sep Q3-12E	Dec Q4-12E	Fiscal 2012E	Fiscal 2013E	Fiscal 2014E	Fiscal 2015E
Total Revenues	**224**	**407**	**0**	**0**	**0**	**0**	**0**	**0**	**2,003**	**10,299**	**23,917**
Cost of Sales	**0**	**0**	**0**	0	0	0	46	**46**	**1,073**	**4,810**	**7,670**
Total Gross Margin	**224**	**407**	**0**	0	0	0	(45)	**(45)**	**931**	**5,489**	**16,247**
Operating Expenses											
Selling General & Administrative	**2,232**	**2,598**	**5,363**	1,940	1,569	1,800	1,700	**7,009**	**7,400**	**8,000**	**8,200**
Research and Development	**3,425**	**6,229**	**11,199**	2,166	1,787	1,500	2,000	**7,453**	**11,000**	**13,400**	**11,950**
Total GAAP Operating Expenses	**5,657**	**8,827**	**16,562**	4,106	3,356	3,300	3,700	**14,462**	**18,400**	**21,400**	**20,150**
GAAP Income (Loss) from Operations	**(5,433)**	**(8,420)**	**(16,562)**	**(4,106)**	**(3,356)**	**(3,300)**	**(3,745)**	**(14,507)**	**(17,469)**	**(15,911)**	**(3,904)**
Adj. EBITDA	**(5,155)**	**(8,200)**	**(14,584)**	**(3,408)**	**(2,686)**	**(3,240)**	**(3,685)**	**(13,019)**	**(17,229)**	**(15,671)**	**(3,664)**
Interest income (expense)	**91**	**150**	**251**	25	4	70	0	**99**	**438**	**438**	**438**
Other, net	**0**	**0**	**0**	0	0	0	1	**1**	**0**	**0**	**0**
Pre-tax GAAP Income	**(5,342)**	**(8,270)**	**(16,311)**	**(4,081)**	**(3,352)**	**(3,230)**	**(3,744)**	**(14,407)**	**(17,032)**	**(15,474)**	**(3,466)**
Pre-tax Non-GAAP Income	**(5,203)**	**(8,160)**	**(15,322)**	(3,732)	(3,017)	(3,200)	(3,714)	**(13,663)**	**(16,912)**	**(15,354)**	**(3,346)**
Income Tax (benefit)	**0**	**(670)**	**(115)**	-	(730)	-	-	**(730)**	**0**	**0**	**0**
GAAP Net Income	**(5,342)**	**(7,600)**	**(16,196)**	**(4,081)**	**(2,622)**	**(3,230)**	**(3,744)**	**(13,677)**	**(17,032)**	**(15,474)**	**(3,466)**
Non-GAAP Net Income	**(5,259)**	**(7,534)**	**(15,603)**	(3,872)	(2,421)	(3,212)	(3,726)	**(13,230)**	**(16,960)**	**(15,402)**	**(3,394)**
GAAP EPS	**($0.01)**	**($2.63)**	**($2.98)**	**($0.66)**	**($0.42)**	**($0.35)**	**($0.40)**	**($1.75)**	**($1.57)**	**($1.24)**	**($0.27)**
Non-GAAP EPS (ex Stock Comp. & Amort.)	**($0.01)**	**($2.61)**	**($2.87)**	($0.63)	($0.39)	($0.34)	($0.39)	**($1.69)**	**($1.56)**	**($1.24)**	**($0.26)**
Wtd. Avg. Shares Outstanding DILUTED	**359,686**	**2,885**	**5,442**	6,169	6,277	9,346	9,446	**7,809**	**10,871**	**12,446**	**12,846**
Net income reported	**(5,342)**	**(7,600)**	**(16,196)**	(4,081)	(2,622)	(3,230)	(3,744)	**(13,677)**	**(17,032)**	**(15,474)**	**(3,466)**
Depreciation & Amortization	**11**	**32**	**50**	31	31	30	31	**123**	**120**	**120**	**120**
Stock-based compensation	**128**	**78**	**939**	318	303			**621**	**-**	**-**	**-**
Other	**-**	**-**	**-**	63	-			**63**	**-**	**(21)**	**(48)**
Other adjustments as a % of revenues	**0.00%**	**0.00%**	**NM**	NM	NM	-0.20%	-0.20%	**NM**	**0.00%**	**-0.20%**	**-0.20%**
Changes in working capital	**(607)**	**279**	**2,118**	(1,099)	(1,099)			**(2,198)**	**-**	**(515)**	**(1,196)**
Changes in working capital as a % of revenues	**-271%**	**69%**	**NM**	NM	NM	-5%	-5%	**NM**	**-5%**	**-5%**	**-5%**
Operating Cashflow	**(5,810)**	**(7,211)**	**(13,089)**	(4,768)	(3,387)						
CAPEX and acquisitions	**(3)**	**(7)**	**(451)**	(89)	(88)			**(177)**	**-**	**93**	**215**
CAPEX and acquisitions as a % of revenues	**-1%**	**-2%**	**NM**	NM	NM	NM	0.0%	**NM**	**0.9%**	**0.9%**	**0.9%**
FCF	**(5,813)**	**(7,218)**	**(13,540)**	(4,857)	(3,475)	-	-	**(177)**	**-**	**93**	**215**
FCF per share	**(0.02)**	**(2.50)**	**(2.49)**	(0.79)	(0.55)	-	-	**(0.02)**	**-**	**0.01**	**0.02**
FCF yield (annualized)	**0%**	**-38%**	**-37%**	-47%	-33%	0%	0%	**0%**	**0%**	**0%**	**0%**

Sunshine Heart								
Balance Sheet ($ Thousands)	**Fiscal 2009A**	**Fiscal 2010A**	**Fiscal 2011A**	**Mar Q1-12A**	**Jun Q2-12A**	**Sep Q3-12E**	**Dec Q4-12E**	**Fiscal 2012E**
Total Cash & Investments	**7,028**	**12,350**	**6,563**	3,832	1,772	22,472	-	**-**
Cash and Cash Equivalents	**7,028**	**12,350**	**6,563**	3,832	1,772	22,472		**-**
Short-term investments	**-**	**-**	**-**	-	-			**-**
Accounts receivable	**124**	**247**	**-**	-	-			**-**
Inventories	**-**	**-**	**-**	-	-			**-**
Other Prepaid Expenses and Other Current Assets	**88**	**182**	**346**	645	632	632		**-**
Total Current Assets	**7,240**	**12,779**	**6,909**	4,477	2,404	23,104	-	**-**
Property and Equipment, Net	**145**	**120**	**522**	521	503	503		**-**
Intangible assets, net of amort.	**-**	**-**	**-**	-	-			**-**
Other assets	**-**	**-**	**-**	-	-			**-**
Total Assets	**7,385**	**12,899**	**7,431**	4,998	2,907	23,607	-	**-**
Accounts payable	**230**	**696**	**1,857**	1,647	1,643	1,643		**-**
Accrued Compensation	**84**	**114**	**978**	402	619	619		**-**
Other Accrued liabilities	**-**	**-**	**-**	-	-			**-**
Total Current Liabilities	**314**	**810**	**2,835**	2,049	2,262	2,262	-	**-**
Long Term Debt	**-**	**-**	**-**	-	-			**-**
Other long-term liabilities	**-**	**-**	**-**	-	-			**-**
Total Liabilities	**314**	**810**	**2,835**	2,049	2,262	2,262	-	**-**
DSO	**199**	**218**	**NM**	NM	NM	NM	-	**-**
Working Capital	**6,926**	**11,969**	**4,074**	2,428	142	20,842	-	**-**
Total Stockholders Equity	**7,071**	**12,089**	**4,596**	2,949	645	21,345		**-**
Book Value per share	**0.02**	**4.19**	**0.84**	0.48	0.10	2.28	0.00	**0.00**

REQUIRED DISCLOSURES



Initiate: August 23, 2012 – Rating: Buy – Price Target: $18

Source: Baseline

Ratings definitions:

As of July 1, 2011, we have changed our Ratings definitions. Our previous definitions can be found at www.craig-hallum.com under Ratings Information. New definitions: **Buy** rated stocks generally have twelve month price targets that are more than 20% above the current price. **Hold** rated stocks generally have twelve month price targets near the current price. **Sell** rated stocks generally have no price target and we would sell the stock.

Fundamental trend definitions:
Improving means growth rates of key business metrics are generally accelerating. **Stable** means growth rates of key business metrics are generally steady. **Mixed** means growth rates of some key business metrics are positive but others are negative. **Declining** means growth rates of key business metrics are generally decelerating.

Ratings Distribution (6/30/2012)

Rating	% Of Companies Covered	% With Investment Banking Relationships
Buy	77%	12%
Hold	20%	0%
Sell	3%	0%
Total	100%	9%

Information about valuation methods and risks can be found in the "STOCK OPPORTUNITY" and "RISKS" sections, respectively, of this report.

CHLM makes a market in this security.

CHLM has managed or co-managed an offering of securities for the subject company in the last 12 months. CHLM has received investment banking revenue from the subject company in the last 12 months. CHLM expects to receive or intends to seek compensation for investment banking services from the subject company in the next three months.

Analysts receive no direct compensation in connection with the firm's investment banking business. Analysts may be eligible for bonus compensation based on the overall profitability of the firm, which takes into account revenues from all of the firm's business, including investment banking.

OTHER DISCLOSURES

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I, Charles Haff, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject security and issuer. No part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views contained herein.