UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2018

☐ **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: 000-33001

NATUS MEDICAL INCORPORATED

(Exact name of registrant as specified in its charter)

Delaware	**77-0154833**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

6701 Koll Center Parkway, Suite 120, Pleasanton, CA 94566
(Address of principal executive offices) (Zip Code)

(925) 223-6700
(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 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 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 such files). Yes ☒ No ☐

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

Large Accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐ (Do not check if a smaller reporting company)	Smaller reporting company	☐
Emerging growth			

company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

The number of issued and outstanding shares of the registrant's Common Stock, $0.001 par value, as ofOctober 31, 2018 was 33,781,323.

NATUS MEDICAL INCORPORATED

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

NATUS MEDICAL INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)
(in thousands, except share and per share amounts)

	September 30, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 54,440	$ 88,950
Accounts receivable, net of allowance for doubtful accounts of $6,303 in 2018 and $8,978 in 2017	121,113	126,809
Inventories	80,586	71,529
Prepaid expenses and other current assets	30,843	18,340
Total current assets	286,982	305,628
Property and equipment, net	21,564	22,071
Intangible assets, net	155,623	172,582
Goodwill	162,995	172,998
Deferred income tax	10,135	10,709
Other assets	16,746	25,931
Total assets	$ 654,045	$ 709,919
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Current liabilities:		
Accounts payable	$ 20,595	$ 25,242
Short-term debt	20,000	—
Accrued liabilities	52,015	51,738
Deferred revenue	16,816	15,157
Total current liabilities	109,426	92,137
Long-term liabilities:		
Other liabilities	21,338	21,995
Long-term debt, net	94,426	154,283
Deferred income tax	18,896	19,407
Total liabilities	244,086	287,822
Stockholders’ equity:		
Common stock, $0.001 par value, 120,000,000 shares authorized; shares issued and outstanding 33,755,514 in 2018 and 33,134,101 in 2017	331,607	316,577
Preferred stock, $0.001 par value; 10,000,000 shares authorized; no shares issued and outstanding in 2018 and 2017	—	—
Retained earnings	113,895	129,115
Accumulated other comprehensive loss	(35,543)	(23,595)
Total stockholders’ equity	409,959	422,097
Total liabilities and stockholders’ equity	$ 654,045	$ 709,919

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

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NATUS MEDICAL INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)
(in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenue	$ 130,638	$ 122,643	$ 389,900	$ 369,531
Cost of revenue	51,583	47,112	159,849	158,615
Intangibles amortization	1,930	1,290	6,235	3,789
Gross profit	77,125	74,241	223,816	207,127
Operating expenses:				
Marketing and selling	33,200	32,537	102,474	95,106
Research and development	15,127	11,632	46,186	38,098
General and administrative	15,799	17,329	56,966	57,501
Intangibles amortization	4,477	3,882	13,434	11,841
Restructuring	11,432	321	14,182	914
Total operating expenses	80,035	65,701	233,242	203,460
Income (loss) from operations	(2,910)	8,540	(9,426)	3,667
Other income (expense), net	(726)	150	(4,944)	(1,268)
Income (loss) before provision for income tax	(3,636)	8,690	(14,370)	2,399
Provision for income tax	1,940	17,203	(3,069)	15,597
Net loss	$ (5,576)	$ (8,513)	$ (11,301)	$ (13,198)
Loss per share:				
Basic	$ (0.17)	$ (0.26)	$ (0.34)	$ (0.41)
Diluted	$ (0.17)	$ (0.26)	$ (0.34)	$ (0.41)
Weighted average shares used in the calculation of loss per share:				
Basic	33,321	32,593	32,982	32,536
Diluted	33,321	32,593	32,982	32,536
Other comprehensive income (loss):				
Unrealized loss on available-for-sale investments	—	—	—	(45)
Foreign currency translation adjustment	(2,312)	5,166	(11,948)	17,370
Total other comprehensive income (loss)	(2,312)	5,166	(11,948)	17,325
Comprehensive income (loss)	(7,888)	(3,347)	(23,249)	4,127

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

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NATUS MEDICAL INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(unaudited)
(in thousands, except per share amounts)

	Common Stock				
	Shares	**Amount**	**Retained Earnings**	**Accumulated Other Comprehensive Loss**	**Stockholders' Equity**
Balances, December 31, 2017	**33,134,101**	**$ 316,577**	**$ 129,115**	**$ (23,595)**	**$ 422,097**
Cumulative-effect adjustment for ASU 2016-16	—	—	(3,919)	—	(3,919)
Vesting of restricted stock units	100	—	—	—	—
Net issuance of restricted stock awards	239,649	—	—	—	—
Stock-based compensation expense	—	2,361	—	—	2,361
Repurchase of company stock	(147,893)	(4,736)	—	—	(4,736)
Taxes paid related to net share settlement of equity awards	(600)	(19)	—	—	(19)
Exercise of stock options	46,173	577	—	—	577
Other comprehensive income	—	—	—	3,617	3,617
Net loss	—	—	(3,148)	—	(3,148)
Balances, March 31, 2018	**33,271,530**	**$ 314,760**	**$ 122,048**	**$ (19,978)**	**$ 416,830**
Vesting of restricted stock units	166	—	—	—	—
Net issuance of restricted stock awards	21,599	—	—	—	—
Employee stock purchase plan	30,971	870	—	—	870
Stock-based compensation expense	—	3,219	—	—	3,219
Repurchase of company stock	(25,652)	(893)	—	—	(893)
Taxes paid related to net share settlement of equity awards	(8,627)	(306)	—	—	(306)
Exercise of stock options	300,350	3,645	—	—	3,645
Other comprehensive income	—	—	—	(13,253)	(13,253)
Net loss	—	—	(2,577)	—	(2,577)
Balances, June 30, 2018	**33,590,337**	**$ 321,295**	**$ 119,471**	**$ (33,231)**	**$ 407,535**
Net issuance of restricted stock awards	2,595	—	—	—	—
Stock-based compensation expense	—	9,737	—	—	9,737
Taxes paid related to net share settlement of equity awards	(151,163)	(4,848)	—	—	(4,848)
Exercise of stock options	313,745	5,423	—	—	5,423
Other comprehensive income	—	—	—	(2,312)	(2,312)
Net loss	—	—	(5,576)	—	(5,576)
Balances, September 30, 2018	**33,755,514**	**$ 331,607**	**$ 113,895**	**$ (35,543)**	**$ 409,959**

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

NATUS MEDICAL INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)
(in thousands)

	Nine Months Ended September 30,	
	2018	2017
Operating activities:		
Net loss	$ (11,301)	$ (13,198)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Provision for losses on accounts receivable	5,871	8,704
Depreciation and amortization	25,652	20,859
Loss on disposal of property and equipment	410	14
Warranty reserve	73	5,307
Share-based compensation	15,446	7,223
Changes in operating assets and liabilities:		
Accounts receivable	2,955	(13,660)
Inventories	(5,183)	6,791
Prepaid expenses and other assets	(14,398)	1,395
Accounts payable	(3,799)	(9,530)
Accrued liabilities	968	(8,537)
Deferred revenue	1,745	(7,890)
Deferred income tax	517	16,770
Net cash provided by operating activities	18,956	14,248
Investing activities:		
Acquisition of businesses, net of cash acquired	151	(142,592)
Purchase of property and equipment	(5,127)	(2,749)
Purchase of intangible assets	(637)	—
Sale of short-term investments	—	34,019
Net cash used in investing activities	(5,613)	(111,322)
Financing activities:		
Proceeds from stock option exercises and Employee Stock Purchase Program purchases	10,515	2,247
Repurchase of common stock	(5,629)	(2,268)
Taxes paid related to net share settlement of equity awards	(5,173)	(3,685)
Payment of contingent consideration related to a business combination	(147)	(2,946)
Proceeds from borrowings	—	60,000
Deferred debt issuance costs	—	(354)
Payments on borrowings	(40,000)	(45,000)
Net cash provided by (used in) financing activities	(40,434)	7,994
Exchange rate changes effect on cash and cash equivalents	(7,419)	7,934
Net decrease in cash and cash equivalents	(34,510)	(81,146)
Cash and cash equivalents, beginning of period	88,950	213,551
Cash and cash equivalents, end of period	$ 54,440	$ 132,405
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 4,426	$ 3,056
Cash paid for income taxes	$ 7,946	$ 4,312
Non-cash investing activities:		
Property and equipment included in accounts payable	$ 82	$ 57
Inventory transferred to property and equipment	$ 754	$ 935

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

NATUS MEDICAL INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

1 - Basis of Presentation and Significant Accounting Policies

The accompanying interim condensed consolidated financial statements of Natus Medical Incorporated ("Natus," or the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Except where noted below within Note 1, the accounting policies followed in the preparation of the interim condensed consolidated financial statements are consistent in all material respects with those presented in Note 1 to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

Interim financial reports are prepared in accordance with the rules and regulations of the Securities and Exchange Commission; accordingly, the reports do not include all of the information and notes required by GAAP for annual financial statements. The interim financial information is unaudited, and reflects all normal adjustments that are, in the opinion of management, necessary for the fair presentation of our financial position, results of operations, and cash flows for the interim periods presented. The consolidated balance sheet as of December 31, 2017 was derived from audited financial statements, but does not include all disclosures required by GAAP. The accompanying financial statements should be read in conjunction with the financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

Operating results for the three and nine months ended September 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018. The accompanying condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

Recent Adopted Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update No. 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09"), which supersedes nearly all existing revenue recognition guidance. The standard's core principle is that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard creates a five-step model to achieve its core principle: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction's price to the separate performance obligations in the contract; and (v) recognize revenue when (or as) the entity satisfies a performance obligation. In addition, entities must disclose sufficient information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Qualitative and quantitative disclosures are required about: (i) the entity's contracts with customers; (ii) the significant judgments, and changes in judgments, made in applying the guidance to those contracts; and (iii) any assets recognized from the costs to obtain or fulfill a contract with a customer.

The Company adopted the new revenue standard on January 1, 2018, without any material impact to its accounting policies or its reported results. The Company utilized the modified retrospective method of transition and applied a practical expedient permitting the Company to not disclose the consideration allocated to the remaining performance obligations or an explanation of when the Company expects to recognize revenue for all reporting periods presented before January 1, 2018, the date of initial application.

In October 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 740). This update is to remove the prohibition in ASC 740 against the immediate recognition of the current and deferred income tax effects of intra-entity transfers of assets other than inventory. Under the ASU, the selling entity is required to recognize any current tax expense or benefit upon transfer of the asset. Similarly, the purchasing entity is required to recognize a deferred tax asset or deferred tax liability, as well as the related deferred tax benefit or expense, upon receipt of the asset. The Company adopted this guidance on a modified retrospective basis on January 1, 2018, recognizing a charge to retained earnings of approximately $3.9 million which reflects the unamortized portion of the deferred tax asset for both the consideration as well as the reserve.

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805). This update is to

clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisition (or disposals) of assets or businesses. The definition of a business affected many areas of accounting including acquisitions, disposals, goodwill, and consolidation. The adoption of this guidance prospectively on January 1, 2018 did not have an impact on the Company's consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting. This update provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. The adoption of this guidance prospectively on January 1, 2018 did not have an impact on the Company's consolidated financial statements.

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. This update amends and simplifies existing hedge accounting guidance and allows for more hedging strategies to be eligible for hedge accounting. In addition, the ASU amends disclosure requirements and how hedge effectiveness is assessed. Effective January 1, 2018, the Company elected to early adopt ASU 2017-12. The adoption of this standard did not have an impact on the Company's consolidated financial statements.

In June 2018, the FASB issued ASU 2018-07, Compensation - Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting. This update simplifies the accounting for share-based payments made to nonemployees so the accounting for such payments is substantially the same as those made to employees. Under this ASU, share based awards to nonemployees will be measured at fair value on the grant date of the awards. Entities will need to assess the probability of satisfying performance conditions if any are present, and awards will continue to be classified according to ASC 718 upon vesting. This eliminates the need to reassess classification upon vesting, consistent with awards granted to employees. This ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, and early adoption is permitted. The Company elected to early adopt ASU 2018-07 effective July 1, 2018 and the adoption of this standard did not have an impact on the Company's consolidated financial statements.

Recent Issued Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). This standard requires lease assets and lease liabilities arising from operating leases to be presented in the statement of financial position. Qualitative along with specific quantitative disclosures are required by lessees and lessors to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018 including interim periods within those fiscal years. In July 2018, FASB issued ASU 2018-10, Codification Improvements to Topic 842, Leases, which affects narrow aspects of the guidance issued in the amendments in Update 2016-02. In July 2018, the FASB also issued ASU 2018-11, Targeted Improvements. The amendments in ASU 2018-11 provide additional clarification and implementation guidance on certain aspects of the previously issued ASU 2016-02 and have the same effective and transition requirements as ASU 2016-02. The Company is in the process of evaluating the impact of this standard on its consolidated financial statements. The Company has selected a lease software solution and is in the process of identifying changes to the business processes, systems and controls to support the adoption of this standard. While the Company is still evaluating the impact of this new standard on the consolidated financial statements, it is expected to result in a significant increase in total assets and total liabilities on the balance sheet.

In January 2017, the FASB issued ASU 2017-04, Intangibles - Goodwill and Other (Topic 350). This update modifies the concept of impairment from the condition that exists when the carrying amount of goodwill exceeds its implied fair value to the condition that exists when the carrying amount of a reporting unit exceeds its fair value. An entity no longer will determine goodwill impairment by calculating the implied fair value of goodwill by assigning the fair value of a reporting unit to all of its assets and liabilities as if that reporting unit had been acquired in a business combination. Because these amendments eliminate Step 2 from the goodwill impairment test, they should reduce the cost and complexity of evaluating goodwill for impairment. ASU 2017-04 is effective for the Company's annual and any interim goodwill impairment tests performed on or after January 1, 2020. The Company does not expect the adoption of ASU 2017-04 to have a material impact on its consolidated financial statements.

In February 2018, the FASB issued ASU 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220). This update permits a company to reclassify its disproportionate income tax effects of the Tax Cuts and Jobs Act of 2017 (the “2017 Act”) on items within accumulated other comprehensive income (“AOCI”) to retained earnings (termed “stranded tax effects”). Only the stranded tax effects resulting from the 2017 Act are eligible for reclassification. The ASU also requires certain new disclosures, some of which are applicable for all companies. The ASU is effective for the Company on January 1, 2019. The Company is in the process of evaluating the impact of this standard on its consolidated financial statements.

In July 2018, the FASB issued ASU 2018-09, Codification Improvements. This update makes changes to a variety of topics to clarify, correct errors in, or make minor improvements to the Accounting Standard Codification. The majority of the amendments in ASU 2018-09 will be effective for us in annual periods beginning after December 15, 2018. The Company is in the process of evaluating the impact of this standard on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13 Fair Value Measurement (Topic 813), Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement. This update amends Topic 820 to add, remove, and clarify disclosure requirements related to fair value measurement disclosure. For calendar year-end entities, the update will be effective for annual periods beginning January 1, 2020, and interim periods within those fiscal years. Early adoption of the amendments is permitted, including adoption in any interim period. As the standard relates only to disclosures, the Company does not expect the adoption to have a material impact on the consolidated financial statements and is still evaluating if it will early adopt.

Significant Accounting Policies

Revenue Recognition

Revenue is recognized when obligations under the terms of a contract with a customer are satisfied; generally this occurs with the transfer of control of devices, supplies, or services. Revenue is measured as the amount of consideration the Company expects to receive in exchange for transferring goods or providing services.

For the majority of devices and supplies, the Company transfers control and recognizes revenue when products ship from the warehouse to the customer. The Company generally does not provide rights of return on devices and supplies. Freight charges billed to customers are included in revenue and freight-related expenses are charged to cost of revenue.

Depending on the terms of the arrangement, the Company may also defer the recognition of a portion of the consideration received because it has to satisfy a future obligation (e.g. installation). Judgment is required to determine the standalone selling price (“SSP”) for each distinct performance obligation. The Company uses a single amount to estimate SSP for items that are not sold separately. In instances where SSP is not directly observable, such as when the Company does not sell the product or service separately, the SSP is determined using information that may include market conditions and other observable inputs.

The Company sells separately-priced service contracts that extend maintenance coverages for both medical devices and data management systems beyond the base agreements to customers. The separately priced service contracts range from 12 months to 36 months. The Company receives payment at the inception of the contract and recognizes revenue ratably over the service period.

For products containing embedded software, the Company determined the hardware and software components function together to deliver the products' essential functionality and are considered a combined performance obligation. Revenue recognition policies for sales of these products are substantially the same as for other tangible products.

The following information summarizes the Company's contract assets and liabilities (in thousands):

	September 30, 2018	December 31, 2017
Contract Assets	$ 3,150	$ 2,884
Deferred Revenue	$ 20,866	$ 18,901

Contract assets for the periods presented primarily represent the difference between revenue recognized based on the relative selling price of the related performance obligations and the contractual billing terms in the arrangements. Deferred revenue for the periods presented was primarily related to extended service contracts, installation, and training, for which the service fees are billed up-front. The associated deferred revenue is generally recognized ratably over the extended service period or when installation and training are complete.

The following table summarized the changes in the contract assets and contract liability balances for thenine months ended September 30, 2018:

Unbilled AR, December 31, 2017	$	2,884
Additions		607
Transferred to Trade Receivable		(341)
Unbilled AR, September 30, 2018	$	3,150
Deferred Revenue, December 31, 2017	$	18,901
Additions		14,132
Revenue Recognized		(12,167)
Deferred Revenue, September 30, 2018	$	20,866

At September 30, 2018, the short-term portion of the contract liability of$16.8 million and the long-term portion of $4.0 million were included in deferred revenue and other long term liabilities respectively, in the consolidated balance sheet. As of September 30, 2018, the Company is expected to recognize revenue associated with deferred revenue of approximately$6.3 million for the remainder of 2018, $11.2 million in 2019, $1.8 million in 2020, $0.9 million in 2021, and $0.7 million thereafter.

Financial Instruments and Derivatives

As part of a risk management strategy, the Company may enter into derivative contracts with various counterparts. All derivatives are recognized on the balance sheet at their estimated fair value. On the date a derivative contract is entered into, it is designated as a fair value hedge, a cash flow hedge, a foreign currency fair value or cash flow hedge, a hedge of net investment in a foreign operation, or a trading or non-hedging instrument.

Changes in the estimated fair value of a derivative which is highly effective and that is designated and qualifies as a cash flow hedge, to the extent that the hedge is effective, are initially recorded in other comprehensive income. Subsequently when the variability of cash flows of the hedged transaction affects earnings, it is reclassified into earnings as a component of interest expense. Any hedge ineffectiveness, which represents the amount by which the changes in the estimated fair value of the derivative differ from the variability in the cash flows of the forecasted transaction, is recognized in current-period earnings as a component of interest expense. When an interest rate swap designated as a cash flow hedge no longer qualifies for hedge accounting, changes in estimated fair value of the hedge previously reflected in accumulated other comprehensive income, along with any changes in estimated fair value occurring thereafter, are recognized in earnings. Cash flows from interest rate swap agreements are classified as net cash provided from operating activities on the consolidated statements of cash flows. The Company's accounting policy is to present the cash flows from the hedging instruments in the same category in the consolidated statements of cash flows as the category for the cash flows the hedged items.

2 - Business Combinations

Integra

On October 6, 2017, the Company acquired certain neurosurgery business assets from Integra LifeSciences (“Integra” or “Neurosurgery”) for $46.2 million in cash. As part of the acquisition, the Company acquired a global product line, including the manufacturing facility, it leases from a third party and the U.S. rights related to four other product lines. The total purchase price has been allocated to $13.7 million of tangible assets, $25.7 million of intangible assets with an associated weighted average life of 9 years being amortized on the straight line method, and$8.1 million of goodwill, offset by $1.3 million of net liabilities. Besides pro forma revenue, pro forma

financial information for the Integra acquisition is not presented as certain Integra expense data necessary to present pro forma net income and pro forma earnings per share is not available. Pro forma revenue assuming the acquisition had occurred on January 1, 2017 is $135.6 million and $407.1 million for the three and nine months ended September 30, 2017.

3 - Earnings Per Share

The components of basic and diluted EPS are as follows (in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net loss	$ (5,576)	$ (8,513)	$ (11,301)	$ (13,198)
Weighted average common shares	33,321	32,593	32,982	32,536
Dilutive effect of stock based awards	—	—	—	—
Diluted Shares	33,321	32,593	32,982	32,536
Basic loss per share	$ (0.17)	$ (0.26)	$ (0.34)	$ (0.41)
Diluted loss per share	$ (0.17)	$ (0.26)	$ (0.34)	$ (0.41)
Shares excluded from calculation of diluted EPS	230	507	407	550

4 - Inventories

Inventories consist of the following (in thousands):

	September 30, 2018	December 31, 2017
Raw materials and subassemblies	$ 30,512	$ 44,699
Work in process	3,521	3,788
Finished goods	61,839	43,488
Total inventories	95,872	91,975
Less: Non-current inventories	(15,286)	(20,446)
Inventories, current	$ 80,586	$ 71,529

As of September 30, 2018 and December 31, 2017, the Company has classified $15.3 million and $20.4 million, respectively, of inventories as other assets. This inventory consists primarily of service components used to repair products held by customers pursuant to warranty obligations and extended service contracts, including service components for products the Company no longer sells, inventory purchased for lifetime buys, and inventory impacted by ship holds. The Company believes these inventories will be utilized for their intended purpose.

5 – Intangible Assets

The following table summarizes the components of gross and net intangible asset balances (in thousands):

	September 30, 2018				December 31, 2017			
	Gross Carrying Amount	Accumulated Impairment	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Impairment	Accumulated Amortization	Net Book Value
Intangible assets with definite lives:								
Technology	$ 111,853	$ (1,044)	$ (48,275)	$ 62,534	$ 101,045	$ (1,058)	$ (42,048)	$ 57,939
Customer related	100,349	(50)	(36,244)	64,055	108,074	(50)	(28,972)	79,052
Trade names	47,450	(3,864)	(17,768)	25,818	49,313	(3,916)	(13,273)	32,124
Internally developed software	16,243	—	(13,650)	2,593	15,610	—	(12,293)	3,317
Patents	2,737	(132)	(2,521)	84	2,778	(133)	(2,495)	150
Service Agreements	1,190	—	(651)	539	—	—	—	—
Definite-lived intangible assets	$ 279,822	$ (5,090)	$ (119,109)	$ 155,623	$ 276,820	$ (5,157)	$ (99,081)	$ 172,582

Finite-lived intangible assets are amortized over their weighted average lives, which are 14 years for technology, 10 years for customer related intangibles, 7 years for trade names, 6 years for internally developed software, 13 years for patents, 2 years for service agreements and 11 years weighted average in total.

Internally developed software consists of $14.0 million relating to costs incurred for development of internal use computer software and $2.2 million for development of software to be sold.

Amortization expense related to intangible assets with definite lives was as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Technology	$ 2,028	$ 1,614	$ 6,405	$ 4,731
Customer related	2,596	2,264	7,779	6,627
Trade names	1,553	1,481	4,635	4,385
Internally developed software	545	504	1,603	1,511
Patents	20	29	64	85
Service Agreements	$ 165	$ —	$ 651	$ —
Total amortization	$ 6,907	$ 5,892	$ 21,137	$ 17,339

The amortization expense amounts shown above include internally developed software not held for sale of $0.5 million and $1.5 million for the three and nine months ended September 30, 2018, respectively. The amortization expense for internally developed software not held for sale is recorded within the Company's income statement as a general and administrative operating expense.

Expected amortization expense related to amortizable intangible assets is as follows (in thousands):

Three months ending December 31, 2018	$ 6,750
2019	26,060
2020	23,580
2021	22,170
2022	18,533
2023	17,511
Thereafter	41,019
Total expected amortization expense	$ 155,623

6 – Goodwill

The carrying amount of goodwill and the changes in the balance are as follows (in thousands):

December 31, 2017	$	172,998
Purchase accounting adjustments		(7,822)
Foreign currency translation		(2,181)
September 30, 2018	$	162,995

The purchase accounting adjustments above include adjustments for the validation of acquired balances, the Company's assessment of the valuation of inventory, and the valuation of acquired intangibles related to the neurosurgery business assets acquired from Integra LifeSciences.

7 - Property and Equipment, net

Property and equipment, net consist of the following (in thousands):

	September 30, 2018	December 31, 2017
Land	$ 1,828	$ 2,815
Buildings	4,900	5,096
Leasehold improvements	4,630	3,295
Equipment and furniture	24,896	25,612
Computer software and hardware	12,647	9,760
Demonstration and loaned equipment	12,397	11,932
	61,298	58,510
Accumulated depreciation	(39,734)	(36,439)
Total	$ 21,564	$ 22,071

Depreciation expense of property and equipment was approximately $2.0 million and $4.4 million for the three and nine months ended September 30, 2018 and approximately $1.1 million and $3.4 million for the three and nine months ended September 30, 2017.

8 - Reserve for Product Warranties

The Company provides a warranty for products that is generally one year in length, but in some cases regulations may require them to provide repair or remediation beyond the typical warranty period. If any of the products contain defects, the Company may incur additional repair and remediation costs. Service for domestic customers is provided by Company-owned service centers that perform all service, repair, and calibration services. Service for international customers is provided by a combination of Company-owned facilities, vendors on a contract basis, and distributors.

A warranty reserve is included in accrued liabilities for the expected future costs of servicing products. Additions to the reserve are based on management’s best estimate of probable liability. The Company considers a combination of factors including material and labor costs, regulatory requirements, and other judgments in determining the amount of the reserve. The reserve is reduced as costs are incurred to honor existing warranty and regulatory obligations.

As of September 30, 2018, the Company had accrued $4.2 million of estimated costs to bring certain products into U.S. regulatory compliance. The Company's estimate of these costs associated with bringing the products into compliance is primarily based upon the number of units outstanding that may require repair, costs associated with shipping, and the assumption the FDA will approve the Company's plan for compliance.

The details of activity in the warranty reserve are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Balance, beginning of period	$ 10,913	$ 14,139	$ 10,995	$ 10,670
Assumed through acquisitions	—	722	—	1,888
Additions charged to expense	792	1,984	3,127	9,437
Utilizations	(945)	(3,616)	(2,003)	(7,977)
Changes in estimate related to product remediation activities	(1,695)	(796)	(3,054)	(1,585)
Balance, end of period	$ 9,065	$ 12,433	$ 9,065	$ 12,433

The estimates the Company uses in projecting future product warranty costs may prove to be incorrect. Any future determination that product warranty reserves are understated could result in increases to cost of sales and reductions in operating profits and results of operations.

9 - Share-Based Compensation

As of September 30, 2018, the Company has two active share-based compensation plans, the 2011 Stock Awards Plan and the 2011 Employee Stock Purchase Plan. The terms of awards granted during the nine months ended September 30, 2018 and the methods for determining grant-date fair value of the awards are consistent with those described in the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2017.

Details of share-based compensation expense are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Cost of revenue	$ 42	$ 52	$ 181	$ 173
Marketing and selling	207	171	603	356
Research and development	278	299	827	1,076
General and administrative	1,056	1,727	4,895	5,618
Restructuring	8,231	—	8,940	—
Total	$ 9,814	$ 2,249	$ 15,446	$ 7,223

As of September 30, 2018, unrecognized compensation expense related to the unvested portion of stock options and other stock awards was approximately $10.0 million, which is expected to be recognized over a weighted average period of2.0 years.

10 - Other Income (Expense), net

Other income (expense), net consists of (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Interest income	$ 318	$ —	$ 324	$ 413
Interest expense	(1,649)	(1,042)	(5,250)	(3,291)
Foreign currency gain (loss)	572	1,123	337	1,591
Other income	33	69	(355)	19
Total other income (expense), net	$ (726)	$ 150	$ (4,944)	$ (1,268)

11 - Income Taxes

The Company's tax provision for interim periods is determined using an estimated annual effective tax rate, adjusted for discrete events arising in each respective quarter. During each interim period, the Company updates the estimated annual effective tax rate which is subject to significant volatility due to several factors, including the Company's ability to accurately predict the income (loss) before provision for income taxes in multiple jurisdictions, the effects of acquisitions, the integration of those acquisitions, and changes in tax law. In circumstances where the Company is unable to predict income (loss) in multiple jurisdictions, the actual year to date effective tax rate may be the best estimate of the annual effective tax rate for purposes of determining the interim provision for income tax.

The Company recorded an expense from income tax of$1.9 million and a benefit from income tax of$3.1 million for the three and nine months ended September 30, 2018, respectively. The effective tax rate was(53.4)% and 21.4% for the three and nine months ended September 30, 2018, respectively.

The Company recorded an expense from income tax of$17.2 million and $15.6 million for the three and nine months ended September 30, 2017, respectively. The effective tax rate was198.0% and 650.4% for the three and nine months ended September 30, 2017, respectively.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (“2017 Act”) was signed into law making significant changes to the Internal Revenue Code. These changes include a federal statutory rate reduction from 35% to 21%, the transition of U.S. international taxation from a worldwide tax system to a territorial system, and a one-time transition tax on the mandatory deemed repatriation of cumulative foreign earnings as of December 31, 2017.

The decrease in the effective tax rate for thethree and nine months ended September 30, 2018 compared with the three and nine months ended September 30, 2017 is primarily attributable to the changes in the valuation allowance position taken in 2017 and certain discrete items. The Company recorded a one-time, non-cash charge to income tax expense in the third quarter of 2017 in the amount of $11.4 million to establish a valuation allowance against its U.S. deferred tax assets balance while in the third quarter of fiscal 2018 the Company recorded an income tax benefit in the amount of $1.3 million to release the valuation allowance recorded against the French deferred tax assets. Additionally, significant excess tax benefits of stock-based compensation was recognized as the Company's former CEO exercised all of his remaining options during the third quarter of 2018. The Company's effective tax rate for the three and nine months ended September 30, 2018 differed from the federal statutory rate of 21% primarily due to the recognition of excess tax benefits of stock-based compensation and Federal and California research and development credits, non-deductible expenses, and the international provisions from the 2017 Act. The changes attributable to the 2017 Act which impacted the effective tax rate directly increased the amount of non-deductible executive compensation and introduced a new type of deemed inclusion related to global intangible low taxed income (“GILTI”). The percentage impact to the tax rate related to the changes from the 2017 Act for the three and nine months ended September 30, 2018 was significantly greater than the impact to the tax rate to shifts in geographical mix and discrete events for the three and nine months ended September 30, 2017.

On December 22, 2017, Staff Accounting Bulletin No. 118 (“SAB 118”) was issued to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the 2017 Act. In the fourth quarter of 2017, the Company recorded a provisional amount of $16.6 million related to the one-time transition tax on the mandatory deemed repatriation of foreign earnings, net of foreign tax credits. The transition tax will be paid in installments over an eight-year period, which started in 2018, and will not accrue interest. For the three and nine months ended September 30, 2018, there were no significant adjustments to this amount although it remains provisional. Additional detailed analysis of the Company's deferred tax assets and liabilities and its historical foreign earnings as well as potential correlative adjustments will be finalized during the fourth quarter of 2018 in accordance with the extended Federal tax return due date. The future issuance of U.S. Treasury Regulations, administrative interpretations or court decisions interpreting the 2017 Act may require further adjustments and changes in the Company's estimate. The final determination of the transition tax and remeasurement of the Company's deferred assets and liabilities will be completed as additional information becomes available, but no later than one year from the enactment of the 2017 Act. Any subsequent adjustment to these amounts will be recorded to current tax expense in the quarter of 2018 when the analysis is complete.

On August 1, 2018, The Department of Treasury and the IRS released proposed regulations under Section 965 ("the proposed 965 regulations"). The proposed 965 regulations provide guidance relating to the one-time transition tax on the mandatory deemed repatriation of foreign earnings from the enactment of the 2017 Act on December 22, 2017. The Company reviewed the proposed 965 regulations to determine the impact, if any, on the one-time transition tax liability and the impact of the clarifying guidance is not material for amounts computed as of September 30, 2018, but further refinements are expected in the fourth quarter as the deemed repatriation calculation is finalized.

For the three and nine months ended September 30, 2018, the Company has calculated its best estimate of the impact of the GILTI in its income tax provision in accordance with its understanding of the Act and guidance available as of the date of this filing. The Company has made a policy election to treat the GILTI as a period cost and does not recognize deferred taxes when basis differences exist that are expected to affect the amount of the GILTI inclusion upon reversal.

The Company recorded $405.0 thousand of net tax benefit related to unrecognized tax benefits for thenine months ended September 30, 2018, primarily due to the lapse of the applicable statute of limitations. Within the next twelve months, it is possible that uncertain tax benefit may change with a range of approximately zero to $3.9 million. The Company's tax returns remain open to examination as follows: U.S Federal, 2015 through 2017, U.S. States, 2013 through 2017, and significant foreign jurisdictions, 2013 through 2017.

12 - Debt and Credit Arrangements

The Company has a Credit Agreement with JP Morgan Chase Bank ("JP Morgan") and Citibank, NA (“Citibank”). The Credit Agreement provides for an aggregate $225.0 million of secured revolving credit facility. The Credit Agreement contains covenants, including covenants relating to maintenance of books and records, financial reporting and notification, compliance with laws, maintenance of properties and insurance, and limitations on guaranties, investments, issuance of debt, lease obligations and capital expenditures, and is secured by virtually all of the Company's assets. The Credit Agreement provides for events of default, including failure to pay any principal or interest when due, failure to perform or observe covenants, bankruptcy or insolvency events and the occurrence of a material adverse effect. The Company has no other significant credit facilities.

In addition to the customary restrictive covenants listed above, the Credit Agreement also contains financial covenants that require the Company to maintain a certain leverage ratio and fixed charge coverage ratio, each as defined in the Credit Agreement:

- Leverage Ratio, as defined, to be no higher than2.75 to 1.00.
- Interest Coverage Ratio, as defined, to be at least1.75 to 1.00 at all times.

At September 30, 2018, the Company was in compliance with the Leverage Ratio at1.99 to 1.00 and the Interest Coverage Ratio at 5.22 to 1.00.

At September 30, 2018, the Company had $115.0 million outstanding under the Credit Agreement.

Pursuant to the terms of the Credit Agreement, the outstanding principal balance will bear interest at either (a) a fluctuating rate per annum equal to the Applicable Rate, as defined in the Credit Agreement, depending on our leverage ratio plus the higher of (i) the federal funds rate plus one-half of one percent per annum; (ii) the prime rate in effect on such a day; and (iii) the LIBOR rate plus one percent, or (b) a fluctuating rate per annum of LIBOR Rate plus the Applicable Rate, which ranges between 1.75% to 2.75%. The effective interest rate during thenine months ended September 30, 2018 was 4.38%. The Credit Agreement matures on September 23, 2021, at which time all principal amounts outstanding under the Credit Agreement will be due and payable.

Long-term debt consists of (in thousands):

	September 30, 2018	December 31, 2017
Revolving credit facility	$ 115,000	$ 155,000
Debt issuance costs	(574)	(717)
Less: current portion of long-term debt	20,000	—
Total long-term debt	$ 94,426	$ 154,283

As of September 30, 2018, the carrying value of total debt approximated fair market value.

13 - Financial Instruments and Derivatives

The Company uses interest rate swap derivative instruments to manage earnings and cash flow exposure resulting from changes in interest rates. These interest rate swaps apply a fixed interest rate on a portion of the Company's expected LIBOR-indexed floating-rate borrowings. The Company held the following interest rate swaps as of September 30, 2018 (in thousands):

Hedged Item	Current Notional Amount	Designation Date	Effective Date	Termination Date	Fixed Interest Rate	Floating Rate	Estimated Fair Value
1-month USD LIBOR Loan	$ 40,000	May 31, 2018	June 1, 2018	September 23, 2021	2.611%	1-month USD LIBOR	$ (130)
Total interest rate derivatives designated as cash flow hedge	$ 40,000						$ (130)

The Company designated these derivative instruments as cash flow hedges. The Company assesses the effectiveness of these derivative instruments and records the change in the fair value of a derivative instrument designated as a cash flow hedge as unrealized gains or losses in accumulated other comprehensive income (“AOCI”), net of tax. Once the hedged item affects earnings, the effective portion of any gain or loss will be reclassified to earnings. If the hedged cash flow does not occur, or if it becomes probable that it will not occur, the Company will reclassify the amount of any gain or loss on the related cash flow hedge to interest expense at that time.

As of September 30, 2018, the Company expects that approximately $11.0 thousand of losses associated with the cash flow hedge, net of tax, could be reclassified from AOCI into earnings within the next twelve months.

14 - Segment, Customer and Geographic Information

The Company operates in one reportable segment in which the Company provides healthcare products and services used for the screening, detection, treatment, monitoring and tracking of common medical ailments.

End-user customer base includes hospitals, clinics, laboratories, physicians, audiologists, and governmental agencies. Most of the Company's international sales are to distributors who resell products to end users or sub-distributors.

Revenue and long-lived asset information are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Consolidated Revenue:				
United States	$ 77,980	$ 68,697	$ 222,135	$ 200,506
International	52,658	53,946	167,765	169,025
Totals	$ 130,638	$ 122,643	$ 389,900	$ 369,531

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenue by End Market:				
Neurology Products				
Devices and Systems	$ 50,662	$ 42,207	$ 147,024	$ 121,982
Supplies	16,406	14,151	50,113	44,220
Services	2,722	3,010	9,025	8,753
Total Neurology Revenue	69,790	59,368	206,162	174,955
Newborn Care Products				
Devices and Systems	15,324	16,785	45,275	58,387
Supplies	10,831	10,988	29,978	33,733
Services	5,055	5,893	15,935	16,288
Total Newborn Care Revenue	31,210	33,666	91,188	108,408
Otometrics Products				
Devices and Systems	28,346	19,820	85,686	63,719
Supplies	1,292	9,789	6,864	22,449
Total Otometrics Revenue	29,638	29,609	92,550	86,168
Total Revenue	$ 130,638	$ 122,643	$ 389,900	$ 369,531

	September 30, 2018	December 31, 2017
Property and equipment, net:		
United States	$ 10,398	$ 10,128
Canada	4,427	5,068
Ireland	3,926	3,178
Argentina	1,003	1,591
Denmark	996	1,158
Other countries	814	948
Totals	$ 21,564	$ 22,071

During the three and nine months ended September 30, 2018 and 2017, no single customer or country outside the United States contributed to more than 10% of consolidated revenue.

15 - Fair Value Measurements

ASC 820 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Fair value is defined under ASC 820 as the exit price associated with the sale of an asset or transfer of a liability in an orderly transaction between market participants at the measurement date. ASC 820 establishes the following three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value:

Level 1 - Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets and liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs that are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

The derivative financial instruments described in Note 13 are measured at fair value on a recurring basis and are presented on the consolidated balance sheets at fair value. The table below presents the fair value of the derivative financial instruments as well as the classification on the consolidated balance sheet (in thousands):

	December 31, 2017	Additions	Payments	Adjustments	September 30, 2018
Liabilities:					
Interest Rate Swap	$ —	$ (130)	$ —	$ —	$ (130)
Total	$ —	$ (130)	$ —	$ —	$ (130)

The Company estimates the fair value of the interest rate swaps by calculating the present value of the expected future cash flows of each swap. The calculation incorporated the contractual terms of the derivatives, observable market interest rates which are considered to be Level 2 inputs, and credit risk adjustments, if any, to reflect the counterpart's as well as the Company's nonperformance risk. As of September 30, 2018, there have been no events of default under the interest rate swap agreement.

The following financial instruments are not measured at fair value on the Company’s consolidated balance sheet as of September 30, 2018 and December 31, 2017, but require disclosure of their fair values: cash and cash equivalents, accounts receivable, and accounts payable. The carrying value of these financial instruments approximates fair values because of their relatively short maturity.

In the third quarter of 2014, the Company listed its facility in Mundelein, Illinois for sale. This asset was thereafter measured at fair value less cost to sell and was classified as a Level 2 asset. On August 6, 2018, the Company sold the Mundelein facility for the carrying value of $1.2 million.

In the second quarter of 2018, the Company listed a portion of vacant land located in Canada for sale. The Company plans to sell 1.5 acres of the vacant land. This asset is measured at fair value less cost to sell based on market price information and is classified as a Level 2 asset. The book value of this asset on September 30, 2018 was $0.9 million, which is the amount in other current assets on the accompanying condensed consolidated balance sheet.

The Company also has contingent consideration associated with earn-outs from acquisitions. Contingent consideration liabilities are classified as Level 3 liabilities, as the Company uses unobservable inputs to value them, which is a probability-based income approach. Contingent consideration is classified as accrued liabilities on the condensed consolidated balance sheet. Subsequent changes in the fair value of contingent consideration liabilities are recorded within the Company's income statement as an operating expense.

Contingent considerations are as follows (in thousands):

	December 31, 2017	Additions	Payments	Adjustments	September 30, 2018
Liabilities:					
Contingent consideration	$ 147	$ —	$ (147)	$ —	$ —
Total	$ 147	$ —	$ (147)	$ —	$ —

The significant unobservable inputs used in the fair value measurement of contingent consideration related to the acquisitions are annualized revenue forecasts developed by the Company’s management and the probability of achievement of those revenue forecasts. Significant changes in these unobservable inputs may result in a significant impact to the fair value measurement.

ITEM 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Overview

The following Management Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) supplements the MD&A in the Annual Report on Form 10-K for the year ended December 31, 2017 of Natus Medical Incorporated. MD&A should be read in conjunction with our condensed consolidated financial statements and accompanying footnotes, the risk factors referred to in Part II, Item 1A of this report, our Annual Report filed on Form 10-K for the year ended December 31, 2017 and the cautionary information regarding forward-looking statements at the end of this section.

Our Business

Natus is a leading provider of newborn care, neurology, and hearing and balance assessment healthcare products and services used for the screening, diagnosis, detection, treatment, monitoring and tracking of common medical ailments in newborn care, hearing impairment, neurological dysfunction, epilepsy, sleep disorders, neuromuscular diseases and balance and mobility disorders.

We have completed a number of acquisitions since 2003, consisting of either the purchase of a company, substantially all of the assets of a company, or individual products or product lines. In January 2017 we acquired Otometrics and in October 2017 we acquired the neurocritical care and neurosurgical product lines from Integra.

End Markets

Our products address the below end markets:

- Neurology - Includes products and services for diagnostic electroencephalography and long term monitoring, Intensive Care Unit monitoring, electromyography, sleep analysis or polysomnography, intra-operative monitoring, diagnostic and monitoring transcranial doppler ultrasound technology, and neurocritical and neurosurgical solutions.
- Newborn Care - Includes products and services for newborn care including video streaming, hearing screening, brain injury, thermoregulation, jaundice management, retinopathy of prematurity, and various disposable products, as well as products for diagnostic hearing assessment for children through adult populations, and products to diagnose and assist in treating balance and mobility disorders.
- Otometrics - Includes products such as computer-based audiological, otoneurologic and vestibular instrumentation and sound rooms for hearing and balance care professionals worldwide. Otometrics has a complete product and brand portfolio known for its sophisticated design technology in the hearing and balance assessment markets. Global brands include Aurical®, ICS®, and Madsen®.

Segment and Geographic Information

We operate in one reportable segment, which we have presented as the aggregation of our Neuro, Newborn Care, and Otometrics product families. Within this reportable segment we are organized on the basis of the healthcare products and services we provide which are used for the screening, detection, treatment, monitoring, and tracking of common medical ailments in newborn care, hearing impairment, neurological dysfunction, epilepsy, and sleep disorders.

Our end-user customer base includes hospitals, clinics, laboratories, physicians, nurses, audiologists, and governmental agencies. Most of our international sales are to distributors, who in turn resell our products to end users or sub-distributors.

Information regarding our sales and long-lived assets in the U.S. and in countries outside the U.S. is contained in Note 14 – Segment, Customer and Geographic Information of our condensed consolidated financial statements included in this report and is incorporated in this section by reference.

Revenue by Product Category

We generate our revenue from sales of Devices and Systems, which are generally non-recurring, and from related Supplies and Services, which are generally recurring. The products that are attributable to these categories are described in our Annual Report on Form 10-K for the year ended December 31, 2017. Revenue from Devices and Systems, Supplies, and Services, as a percent of total revenue for the three and nine months ended September 30, 2018 and 2017, is as follows:

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Devices and Systems	72%	65%	72%	66%
Supplies	22%	28%	22%	27%
Services	6%	7%	6%	7%
Total	100%	100%	100%	100%

2018 Third Quarter Overview

Our business and operating results are driven in part by worldwide economic conditions. Our sales are significantly dependent on both capital spending by hospitals in the United States and healthcare spending by ministries of health outside the United States.

Our consolidated revenue increased $8.0 million in the third quarter ended September 30, 2018 to $130.6 million compared to $122.6 million in the third quarter of the previous year. Revenue growth was driven primarily by the addition of our Neurosurgery business last year and organic growth in our Neuro business unit, offset by a decline in Newborn Care driven by non-recurring orders from the prior period and product line rationalization.

Net loss was $5.6 million or $0.17 per share in the three months ended September 30, 2018, compared with net loss of $8.5 million or $0.26 per diluted share in the same period in 2017. The reduction in net loss was primarily due to a higher operating margin in Neurology due to higher revenue driven by the acquisition of Neurosurgery and increased Supplies revenue. Also contributing to reduction in net loss was a decrease in income taxes in the current period partly offset by an increase in amortization and restructuring costs related to the acquisition of Neurosurgery and finalization of the Otometrics intangible valuation.

Application of Critical Accounting Policies

We prepare our financial statements in accordance with accounting principles generally accepted in the United States of America (“GAAP”). In so doing, we must often make estimates and use assumptions that can be subjective, and, consequently, our actual results could differ from those estimates. For any given individual estimate or assumption we make, there may also be other estimates or assumptions that are reasonable.

We believe that the following critical accounting policies require the use of significant estimates, assumptions, and judgments:

- Revenue recognition
- Acquisition accounting
- Income taxes

The use of different estimates, assumptions, or judgments could have a material effect on the reported amounts of assets, liabilities, revenue, expenses, and related disclosures as of the date of the financial statements and during the reporting period. These critical accounting policies are described in more detail in our Annual Report on Form 10-K for the year ended December 31, 2017, under Item 7, *Management’s Discussion and Analysis of Financial Condition and Results of Operations.*

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Results of Operations

The following table sets forth selected consolidated statement of operations data as a percentage of total revenue for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenue	100.0 %	100.0 %	100.0 %	100.0 %
Cost of revenue	39.5 %	38.4 %	41.0 %	42.9 %
Intangibles amortization	1.5 %	1.1 %	1.6 %	1.0 %
Gross profit	59.0 %	60.5 %	57.4 %	56.1 %
Operating expenses:				
Marketing and selling	25.4 %	26.5 %	26.3 %	25.7 %
Research and development	11.6 %	9.5 %	11.8 %	10.3 %
General and administrative	12.1 %	14.1 %	14.6 %	15.6 %
Intangibles amortization	3.4 %	3.2 %	3.4 %	3.2 %
Restructuring	8.8 %	0.3 %	3.6 %	0.2 %
Total operating expenses	61.3 %	53.6 %	59.7 %	55.0 %
Loss from operations	(2.3)%	6.9 %	(2.3)%	1.1 %
Other expense, net	(0.5)%	0.1 %	(1.4)%	(0.3)%
Loss before provision for income tax	(2.8)%	7.0 %	(3.7)%	0.8 %
Provision for income tax	1.5 %	14.0 %	(0.8)%	4.2 %
Net loss	(4.3)%	(7.0)%	(2.9)%	(3.4)%

Revenues

The following table shows revenue by products during thethree and nine months ended September 30, 2018 and September 30, 2017 (in thousands):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2018	2017	Change	2018	2017	Change
Neurology Products						
Devices and Systems	$ 50,662	$ 42,207	20 %	$ 147,024	$ 121,982	21 %
Supplies	16,406	14,151	16 %	50,113	44,220	13 %
Services	2,722	3,010	(10)%	9,025	8,753	3 %
Total Neurology Revenue	69,790	59,368	18 %	206,162	174,955	18 %
Newborn Care Products						
Devices and Systems	15,324	16,785	(9)%	45,275	58,387	(22)%
Supplies	10,831	10,988	(1)%	29,978	33,733	(11)%
Services	5,055	5,893	(14)%	15,935	16,288	(2)%
Total Newborn Care Revenue	31,210	33,666	(7)%	91,188	108,408	(16)%
Otometrics Products						
Devices and Systems	28,346	19,820	43 %	85,686	63,719	34 %
Supplies	1,292	9,789	(87)%	6,864	22,449	(69)%
Total Otometrics Revenue	29,638	29,609	— %	92,550	86,168	7 %
Total Revenue	$ 130,638	$ 122,643	7 %	$ 389,900	$ 369,531	6 %

For the three months ended September 30, 2018, Neurology revenue increased by 18% compared to the same quarter last year. Revenue from sales of Neurology Devices and Systems increased by 20% driven mainly by the addition of revenue from Neurosurgery product lines and, to a lesser extent, growth in electroencephalography (“EEG”) and intra-operative monitoring (“IOM”) sales in our domestic market. Revenue from Supplies increased by 16% mainly in our domestic market and was due in part primarily to the addition of revenue from Neurosurgery products. Revenue from Services decreased by 10% primarily due to a decrease in the number of test days and a decrease in the amount of revenue recognized per test day in the current quarter for our GND Services.

For the three months ended September 30, 2018, Newborn Care revenue decreased by 7% compared to the same quarter last year. The decrease was driven by one-time tender award for Vision imaging products in India, Brazil, Columbia and Mexico in the third quarter of 2017 which totaled $1.5 million, a reduction in Peloton hearing screening service revenue due to reduced collectability per screen, unfavorable foreign exchange rates in Argentina, and end-of-life decisions for certain products that did not have the required scale to remain viable. These factors were partially offset by higher revenue from Balance and Mobility products released from ship hold during the quarter.

For the three months ended September 30, 2018, Otometrics revenue was flat compared to the same period last year. While revenue overall was flat, Otometrics experienced double digit growth in sales domestically and in China during the quarter. This growth was offset by a reduction in sales internationally driven by legal entity name changes as part of our integration efforts and a reduction in distributor sales due to the economic environment in certain countries in the Middle East.

For the nine months ended September 30, 2018, Neurology revenue increased by 18% compared to the same quarter last year. Revenue from sales of Neurology Devices and Systems increased by 21% driven mainly by the addition of revenue from Neurosurgery product lines. Revenue from Supplies increased by 13% mainly in our domestic market and was due in part to the addition of revenue from Neurosurgery products. Revenue from Services increased by 3% due to an increase in the amount of revenue recognized per test day for our GND Services in the current quarter partially offset by a decline in the number of test days completed.

For the nine months ended September 30, 2018, Newborn Care revenue decreased by 16% compared to the same quarter last year. The decrease is primarily due to the recognition of approximately $10.0 million of revenue in the first half of 2017 from our contract with the government of Venezuela which did not reoccur in 2018. We also experienced a one-time shipment of NeoBlue blanket backlog in the first quarter of 2017 and a one-time shipment of hearing devices and supplies to China, Japan, and Australia in the second quarter of 2017. In addition to non-recurring revenue from the prior year, unfavorable foreign exchange rates in Argentina, the lower collection per screen on the Peloton hearing screening service, the ship hold on Balance and Mobility products during the first half of the year and end-of-life decisions for certain products that did not have the required scale to remain viable also contributed to the decline in revenue as of year to date in 2018.

For the nine months ended September 30, 2018, Otometrics revenue increased by 7% compared to the same period last year. This increase was driven by strong growth in international sales in the first six months of 2018, in addition to favorable foreign exchange rates which was partly offset by a decline in domestic sales which was largely attributable to the restructuring of the US sales team.

Revenue from domestic sales increased to $78.0 million for the three months ended September 30, 2018 compared to $68.7 million in the three months ended September 30, 2017. The increase in domestic revenue was driven by the addition of our Neurosurgery business which was partly offset by declines in Newborn Care domestic revenue.

Revenue from international sales decreased to $52.7 million for the three months ended September 30, 2018 compared to $53.9 million in the third quarter of 2017. Decreases in the Newborn Care and Otometrics international revenue was partially offset by the addition of Neurosurgery revenue.

Cost of Revenue and Gross Profit

Cost of revenue and gross profit consists of (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenue	$ 130,638	$ 122,643	$ 389,900	$ 369,531
Cost of revenue	51,583	47,112	159,849	158,615
Intangibles amortization	1,930	1,290	6,235	3,789
Gross profit	77,125	74,241	223,816	207,127
Gross profit percentage	59.0%	60.5%	57.4%	56.1%

For the three months ended September 30, 2018, gross profit as a percentage of revenue decreased 1.5% compared to the same period in the prior year. This decrease was primarily driven by increased device and systems sales which have a lower gross margin than supplies and services. For the nine months ended September 30, 2018, gross profit as a percentage of revenue increased 1.3% compared to the same period in the prior year. This increase was mainly attributable to the improvement in Newborn Care gross profit, which was lower in the prior year due to sales to the government of Venezuela, partially offset by the addition of Neurosurgery products.

Operating Costs

Operating costs consist of (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Marketing and selling	$ 33,200	$ 32,537	$ 102,474	$ 95,106
Percentage of revenue	25.4%	26.5%	26.3%	25.7%
Research and development	$ 15,127	$ 11,632	$ 46,186	$ 38,098
Percentage of revenue	11.6%	9.5%	11.8%	10.3%
General and administrative	$ 15,799	$ 17,329	$ 56,966	$ 57,501
Percentage of revenue	12.1%	14.1%	14.6%	15.6%
Intangibles amortization	$ 4,477	$ 3,882	$ 13,434	$ 11,841
Percentage of revenue	3.4%	3.2%	3.4%	3.2%
Restructuring	$ 11,432	$ 321	$ 14,182	$ 914
Percentage of revenue	8.8%	0.3%	3.6%	0.2%

Marketing and Selling

Marketing and selling expenses increased for the three and nine months ended September 30, 2018 due to higher payroll costs related to the addition of Neurosurgery and higher commissions compared to the same period in 2017.

Research and Development

Research and development expenses increased during the three and nine months ended September 30, 2018 compared to the same periods in 2017. The increase relates to the addition of Neurosurgery products and increased spend on new product development, including Otoscan® and Retcam products.

General and Administrative

General and administrative expense during the three and nine months ended September 30, 2018 decreased when compared to the same periods in the prior year. This decrease was due to a reduction in bad debt expense related to our GND and Peloton businesses. For the nine months ended September 30, 2018 these were partially offset by increased expenses incurred related to our annual stockholders' meeting.

Intangibles Amortization

Intangibles amortization increased during the three and nine months ended September 30, 2018 as compared to the same periods in 2017. This increase was attributable to intangibles acquired in the Neurosurgery assets acquisition during the fourth quarter of 2017.

Restructuring

Restructuring expenses increased during the three and nine months ended September 30, 2018 compared to the same periods in 2017. The large increase was driven by costs associated with the Company's executive management transition which was primarily comprised of accelerated vesting of stock compensation and severance expense.

Other Income (Expense), net

Other income (expense), net consists of investment income, interest expense, net currency exchange gains and losses, and other miscellaneous income and expense. For the three months ended September 30, 2018 we reported $0.7 million of other expense compared to $0.2 million of other income for the same period in 2017. For the nine months ended September 30, 2018 we reported $4.9 million of other expense compared to other expense of $1.3 million for the same period in 2017. This increase in expense in both the three and nine months ended September 30, 2018 was attributable to a higher interest expense due to borrowing to complete the acquisitions of Otometrics and Neurosurgery assets as well as exchange rate fluctuations.

Provision for Income Tax

Our tax provision for interim periods is determined using an estimated annual effective tax rate, adjusted for discrete events arising in each respective quarter. During each interim period, we update the estimated annual effective tax rate which is subject to significant volatility due to several factors, including our ability to accurately predict the income (loss) before provision for income taxes in multiple jurisdictions, the effects of acquisitions, the integration of those acquisitions, and changes in tax law. In circumstances where we are unable to predict income (loss) in multiple jurisdictions, the actual year to date effective tax rate may be the best estimate of the annual effective tax rate for purposes of determining the interim provision for income tax.

We recorded an expense from income tax of $1.9 million and a benefit from income tax of $3.1 million for the three and nine months ended September 30, 2018, respectively. The effective tax rate was (53.4)% and 21.4% for the three and nine months ended September 30, 2018, respectively.

We recorded an expense from income tax of $17.2 million and $15.6 million for the three and nine months ended September 30, 2017, respectively. The effective tax rate was 198.0% and 650.4% for the three and nine months ended September 30, 2017, respectively.

The decrease in the effective tax rate for the three and nine months ended September 30, 2018 compared with the three and nine months ended September 30, 2017 is primarily attributable to the changes in the valuation allowance position taken in 2017 and certain discrete items. We recorded a one-time, non-cash charge to income tax expense in the third quarter of 2017 in the amount of $11.4 million to establish a valuation allowance against our U.S. deferred tax assets balance while in the third quarter of fiscal 2018, we recorded an income tax benefit in the amount of $1.3 million to release the valuation allowance recorded against the French deferred tax assets. Additionally, significant excess tax benefits of stock-based compensation was recognized as the Company's former CEO exercised all of his remaining options during the third quarter of 2018. Our effective tax rate for the three and nine months ended September 30, 2018 differed from the federal statutory rate of 21% primarily due to the recognition of excess tax benefits of stock-based compensation and Federal and California research and development credits, non-deductible expenses, and the international provisions from the Tax Cuts and Jobs Acts of 2017 (“2017 Act”). The changes attributable to the 2017 Act which impacted the effective tax rate directly increased the amount of non-deductible executive compensation and introduced a new type of deemed inclusion related to global intangible low taxed income (“GILTI”). The percentage impact to the tax rate related to the changes from the 2017 Act for the three and nine months ended September 30, 2018 was significantly greater than the impact to the tax rate to shifts in geographical mix and discrete events for the three and nine months ended September 30, 2017.

We recorded $405.0 thousand of net tax benefit related to unrecognized tax benefits for thenine months ended September 30, 2018, primarily due to the lapse of the applicable statute of limitations. Within the next twelve months, it is possible that uncertain tax benefit may change with a range of approximately zero to $3.9 million. Our tax returns remain open to examination as follows: U.S Federal, 2015 through 2017, U.S. States, 2013 through 2017, and significant foreign jurisdictions, 2013 through 2017.

Liquidity and Capital Resources

Liquidity and capital resources consist of (in thousands):

	September 30, 2018	December 31, 2017
Cash and cash equivalents	$ 54,440	$ 88,950
Working capital	177,556	213,491

	Nine Months Ended September 30,	
	2018	2017
Net cash provided by operating activities	$ 18,956	$ 14,248
Net cash used in investing activities	(5,613)	(111,322)
Net cash provided by (used in) financing activities	(40,434)	7,994

We believe that our current cash and cash equivalents and any cash generated from operations will be sufficient to meet our ongoing operating requirements for the foreseeable future.

As of September 30, 2018, we had cash and cash equivalents outside the U.S. in certain of our international subsidiaries of $45.4 million. We intend to permanently reinvest the cash held by our international subsidiaries except for Excel-Tech and Natus Ireland, which we intend to repatriate. If, however, a portion of these funds were needed for and distributed to our operations in the United States, we would be subject to additional U.S. income taxes and foreign withholding taxes depending on facts and circumstances at the time of distribution. The amount of taxes due would depend on the amount and manner of repatriation, as well as the country from which the funds were repatriated.

On September 23, 2016, we entered into a Credit Agreement with JP Morgan Chase Bank and Citibank, NA that provides for an aggregate $150.0 million secured revolving credit facility. On September 15, 2017, we exercised our right to increase the amount available under the facility by $75.0 million, bringing the aggregate revolving credit facility to $225.0 million. The Credit Agreement contains covenants, including covenants relating to maintenance of books and records, financial reporting and notification, compliance with laws, maintenance of properties and insurance, and limitations on guaranties, investments, issuances of debt, lease obligations and capital expenditures. The Credit Agreement provides for events of default, including failure to pay any principal or interest when due, failure to perform or observe covenants, bankruptcy or insolvency events and the occurrence of a material adverse effect. We have no other significant credit facilities. As of September 30, 2018 we had $115.0 million outstanding under the Credit Facility.

During the nine months ended September 30, 2018 cash provided by operating activities of $19.0 million was the result of $11.3 million of net loss, non-cash adjustments to net loss of$47.5 million, and net cash outflows of $17.2 million from changes in operating assets and liabilities. The change in non-cash adjustment to net loss was driven by increased share based compensation from the Company's executive transition and increased depreciation and amortization due to the Neurosurgery assets acquisition. Cash used in investing activities during the period was $5.6 million, driven by cash used to acquire other property and equipment. Cash used in financing activities during the nine months ended September 30, 2018 was $40.4 million and consisted of repayment of borrowing of $40.0 million, $5.6 million for repurchases of common stock under our share repurchase program, $5.2 million for taxes

paid related to net share settlement of equity awards, and$0.1 million for contingent consideration payments, offset by stock option exercises of $10.5 million.

During the nine months ended September 30, 2017 cash provided by operating activities of $14.2 million was the result of $13.2 million of net loss, non-cash adjustments to net loss of$42.1 million, and net cash outflows of$14.7 million from changes in operating assets and liabilities. The change in non-cash adjustment to net loss was driven by increased depreciation and amortization due to the Otometrics acquisition and additional warranty and accounts receivable reserves. Cash used in investing activities during the period was $111.3 million, driven by the acquisition of Otometrics for $142.9 million, offset by the sale of short-term investments of $34.0 million. Cash used to acquire other property and equipment was$2.7 million. Cash provided by financing activities during the nine months ended September 30, 2017 was $8.0 million and consisted of proceeds from borrowing of $60.0 million and stock option exercises of $2.2 million, offset by $45.0 million for payment on borrowings, $3.7 million for taxes paid related to net share settlement of equity awards,$2.9 million for a contingent consideration payment for the Retcam acquisition, and $2.3 million for repurchase of common stock under our share repurchase program.

Our future liquidity and capital requirements will depend on numerous factors, including the:

- Extent to which we make acquisitions;
- Amount and timing of revenue;
- Extent to which our existing and new products gain market acceptance;
- Cost and timing of product development efforts and the success of these development efforts;
- Cost and timing of marketing and selling activities; and
- Availability of borrowings under line of credit arrangements and the availability of other means of financing.

Commitments and Contingencies

In the normal course of business, we enter into obligations and commitments that require future contractual payments. The commitments result primarily from firm, non-cancellable purchase orders placed with contract vendors that manufacture some of the components used in our medical devices and related disposable supply products, as well as commitments for leased office space, and bank debt. The following table summarized our contractual obligations and commercial commitments as of September 30, 2018 (in thousands):

		Payments Due by Period			
	Total	**Less than 1 Year**	**1-3 Years**	**3-5 Years**	**More than 5 Years**
Unconditional purchase obligations	$ 66,988	$ 61,274	$ 5,714	$ —	$ —
Operating lease obligations	27,710	1,746	11,454	7,451	7,059
Bank debt	115,000	—	—	115,000	—
Interest payments	10,160	1,449	7,645	1,066	—
Repatriation tax	$ 11,754	$ 1,078	$ 2,034	$ 2,923	$ 5,719
Total	$ 231,612	$ 65,547	$ 26,847	$ 126,440	$ 12,778

Purchase obligations are defined as agreements to purchase goods or services that are enforceable and legally binding. Included in the purchase obligations category above are obligations related to purchase orders for inventory purchases under our standard terms and conditions and under negotiated agreements with vendors. We expect to receive consideration (products or services) for these purchase obligations. The purchase obligation amounts do not represent all anticipated purchases in the future, but represent only those items for which we are contractually obligated. The table above does not include obligations under employment agreements for services rendered in the ordinary course of business.

The interest payments note above are an estimate of expected interest payments, but could vary materially based on the timing of future loan draws and payments. See Note 12 to these Condensed Consolidated Financial Statements for additional discussion on our debt and credit arrangements.

We are not able to reasonably estimate the timing of any potential payments for uncertain tax positions under ASC 740, *Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement 109.* As a result, the preceding table excludes any potential future payments related to our ASC 740 liability for uncertain tax positions. See Note 11 of our Condensed Consolidated Financial Statements for further discussion on income taxes.

Off Balance Sheet Arrangements

Under our bylaws, we have agreed to indemnify our officers and directors for certain events or occurrences arising as a result of the officer or director serving in such capacity. We have a directors and officers' liability insurance policy that limits our exposure and enables us to recover a portion of any future amounts paid resulting from the indemnification of our officers and directors. In addition, we enter into indemnification agreements with other parties in the ordinary course of business. In some cases we have obtained liability insurance providing coverage that limits our exposure for these other indemnified matters. We have not incurred material costs to defend lawsuits or settle claims related to these indemnification agreements. We believe the estimated fair value of these indemnification agreements is minimal and have not recorded a liability for these agreements. During the nine months ended September 30, 2018, we had no other off-balance sheet arrangements that had, or are reasonably likely to have, a material effect on our condensed consolidated financial condition, results of operations, or liquidity.

Recent Accounting Pronouncements

See Note 1 to our Condensed Consolidated Financial Statements for a discussion of new accounting pronouncements that affect us.

Cautionary Information Regarding Forward Looking Statements

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 about Natus Medical Incorporated. These statements include, among other things, statements concerning our expectations, beliefs, plans, intentions, future operations, financial condition and prospects, and business strategies. The words "may," "will," "continue," "estimate," "project," "intend," "believe," "expect," "anticipate," and other similar expressions generally identify forward-looking statements. Forward-looking statements in this Item 2 include, but are not limited to, statements regarding the following: our expectations regarding our new products, including the timing of the release of our Otoscan® product, our expected repatriation of offshore cash, the sufficiency of our current cash and cash equivalents, and any cash generated from operations to meet our ongoing operating and capital requirements for the foreseeable future, and our intent to acquire additional technologies, products, or businesses.

Forward-looking statements are not guarantees of future performance and are subject to substantial risks and uncertainties that could cause the actual results predicted in the forward-looking statements as well as our future financial condition and results of operations to differ materially from our historical results or currently anticipated results. Investors should carefully review the information contained under the caption "Risk Factors" referred to in Part II, Item 1A of this report for a description of risks and uncertainties. All forward-looking statements are based on information available to us on the date hereof, and we assume no obligation to update forward-looking statements.

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to interest rate risk on our LIBOR-indexed floating-rate debt. We have entered into an interest rate swap agreement to effectively covert a portion of our floating-rate debt to a fixed-rate. The principal

objective of the swap contract is to reduce the variability of future earnings and cash flows associated with our floating-rate debt.

Interest Rate Swap Agreement Designated as Cash Flow Hedge

During 2018, we entered into an interest rate swap agreement with a notional amount of $40.0 million, designated as a cash flow hedge, to hedge the variability of cash flows in interest payments associated with our floating-rate debt. This interest rate swap agreement matures in September 2021 and converts a portion of our LIBOR floating-Rate debt to fixed-rate debt. The fair value of the interest rate swap agreement is based upon inputs corroborated by observable market data. Changes in the fair value of the interest rate swap agreement are recorded as a component of accumulated other comprehensive income (loss) within stockholders' equity and are amortized to interest expense over the term of the related debt.

As of September 30, 2018, accumulated other comprehensive income (loss) related to the interest rate swap agreement included a net unrealized loss of approximately $130 thousand, net of tax, which will be recognized in interest expense after the following 12 months, at the then current values on a pre-tax basis. See Note 13 to these Condensed Consolidated Financial Statements for additional discussion on our financial instruments and derivatives.

Sensitivity Analysis

Our remaining indebtedness is at variable rates of interest. Accordingly, changes in interest rates would impact our results of operations in future periods. Based on a sensitivity analysis on actual rates experienced in the current year, a hypothetical increase in interest rates of 500 basis points would have resulted in increased interest expense of $0.5 million of the nine months ended September 30, 2018.

ITEM 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Under the rules of the Securities and Exchange Commission, “disclosure controls and procedures” are controls and other procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in our reports that we file or submit under the Securities Exchange Act of 1934 is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

At December 31, 2017, our management, with the participation of our Chief Executive Officer and Chief Financial Officer, had evaluated the effectiveness of our disclosure controls and procedures as of the end of that period. Based on that evaluation, our management, including our chief executive officer and chief financial officer, concluded that our disclosure controls and procedures were not effective as of December 31, 2017. That conclusion was based on the material weakness in our internal control over financial reporting further described below.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim consolidated financial statements will not be prevented or detected on a timely basis.

The material weakness identified by our management was due to not performing an effective risk assessment relating to significant acquisitions, and as a result we did not adequately design control activities over the accounting for the acquisition of Otometrics. This material weakness did not result in material misstatements in the consolidated financial statements as of and for the fiscal year ended December 31, 2017. However, the control deficiencies create a reasonable possibility that a future material misstatement will not be prevented or detected on a timely basis.

At September 30, 2018, our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures. Based on that evaluation, our management, including our Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were not effective as of September 30, 2018 due to the material weakness described above that has not yet been remediated.

Changes in Internal Control over Financial Reporting

Other than the actions taken as described below under “Remediation Efforts to Address Material Weakness”, there were no changes in the Company's internal control over financial reporting during the third quarter of 2018, which were identified in connection with management's evaluation required by paragraph (d) of Rules 13a-15 and 15d-15 under the Exchange Act, that have materially affected, or are reasonable likely to materially affect, our internal control over financial reporting.

Remediation Effort to Address Material Weakness

To remediate the material weakness in our internal control over financial reporting described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017, we will operate our redesigned purchase price allocation controls to account for the Integra Asset Acquisition of our Neurosurgery business which we acquired during the fourth quarter of 2017. Our remediation actions will include:

- improving the design of internal controls related to our review of key assumptions and data used to allocate acquisition purchase price by evaluating the specific financial reporting risks associated with each acquisition as they occur;
- improving the design of internal controls related to the evidence and documentation of internal control procedures with respect to the process of determining purchase price allocation; and
- sufficiently distinguishing our internal controls from the process we undertake to allocate purchase price.

With the oversight of senior management and our audit committee, we have completed the steps above to redesign internal controls related purchase accounting and we applied those redesigned controls when finalizing the purchase price allocation for the acquisition of assets from Integra LifeSciences. Although we have completed the purchase accounting, we are still in the process of testing the design and effectiveness of the associated controls and will finalize that testing during the fourth quarter of 2018.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

In January 2017, a putative class action lawsuit (*Badger v. Natus Medical Incorporation, et al*, No. 17-cv-00458-JSW) alleging violations of federal securities laws was filed in the United States District Court for the Northern District of California, naming as defendants the Company and certain officers and a director. In July 2017, plaintiffs filed an amended complaint with a new lead plaintiff (*Costabile v. Natus Medical Incorporation, et al*., No. 17-cv-00458-JSW) alleging violations of federal securities laws based on allegedly false and misleading statements. The defendants moved to dismiss the Amended Complaint, and in February 2018 the motion to dismiss was granted with leave to amend. The plaintiffs re-filed an amended complaint in April 2018 and Natus responded in May 2018. A decision is expected later this year. The Company continues to believe that the plaintiffs’ allegations are without merit, and intends to vigorously defend against the claims.

We currently are, and may from time to time become, a party to various other legal proceedings or claims that arise in the ordinary course of business. Our management reviews these matters if and when they arise and believes that the resolution of any such matters currently known will not have a material effect on our results of operations or financial position.

ITEM 1A. Risk Factors

A description of the risks associated with our business, financial condition and results of operations is set forth in Part 1, Item 1A "Risk Factors" of our Annual Report on Form 10-K for the fiscal year ended December 31, 2017. There have been no material changes in our risks from such description.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table provides information regarding repurchases by the Company of its common stock for the three and nine months ended September 30, 2018.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
July 1, 2018 - July 31, 2018	—	$ —	—	$ 24,383,696
August 1, 2018 - August 31, 2018	—	$ —	—	$ 24,383,696
September 1, 2018 - September 30, 2018	—	$ —	—	$ 24,383,696
Total	—	$ —	—	$ 24,383,696

On February 22, 2018, the Board of Directors authorized the repurchase of up to $30 million in common stock with an expiration date of February 26, 2019.

ITEM 5. Other Information

None

ITEM 6. Exhibits

(a) Exhibits

Exhibit No.	Exhibit	Incorporated By Reference: Filing	Exhibit No.	File Date	Filed Herewith
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				X
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				X
32.1	Certification of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				X
10.17	Form of Employment Agreement between Natus Medical Incorporated and Jonathan A. Kennedy dated August 24, 2018	8-K	99.1	8/29/2018	
10.18	Form of Employment Agreement between Natus Medical Incorporated and Drew Davies dated October 1, 2018				X
101	The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2018, formatted in XBRL (Extensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Operations and Comprehensive Income, (iii) Condensed Consolidated Statements of Cash Flows, and (iv) Notes to Condensed Consolidated Financial Statements.				X

SIGNATURES

Pursuant to 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.

NATUS MEDICAL INCORPORATED

Dated:	November 8, 2018	By:	/s/ Jonathan A. Kennedy
			Jonathan A. Kennedy **President and Chief Executive Officer** **(Principal Executive Officer)**
Dated:	November 8, 2018	By:	/s/ B. Drew Davies
			B. Drew Davies **Executive Vice President and** **Chief Financial Officer** **(Principal Financial and Accounting Officer)**

Exhibit 10.18

NATUS MEDICAL INCORPORATED
DREW DAVIES EMPLOYMENT AGREEMENT

This Agreement is entered into as of October 1, 2018 ("Effective Date"), by and between Natus Medical Incorporated ("Company"), and Drew Davies ("Executive").

1. Duties and Scone of Employment.

(a) Positions and Duties. As of the Effective Date, Executive will serve as Chief Financial Officer and Vice President ("CFO") of the Company. Executive will render such business and professional services in the performance of his duties, consistent with Executive's position within the Company, as shall reasonably be assigned by the Company's Chief Executive Officer ("CEO"). The period of Executive's employment under this Agreement is referred to herein as the "Employment Term."

(b) Obligations. During the Employment Term, Executive will perform his duties faithfully and to the best of his ability and will devote his full business efforts and time to the Company. For the duration of the Employment Term, Executive agrees not to actively engage in any other employment, occupation or consulting activity for any direct or indirect remuneration without the prior approval of the CEO.

2 . At-Will Employment. The parties agree that Executive's employment with the Company will be "at-will" employment and may be terminated at any time with or without cause or notice. Executive understands and agrees that neither his job performance nor promotions, commendations, bonuses or the like from the Company give rise to or in any way serve as the basis for modification, amendment, or extension, by implication or otherwise, of his employment with the Company.

3. Compensation.

(a) Base Salary. During the Employment Term, the Company will pay Executive an annual salary of $450,000 as compensation for his services (the "Base Salary"). The Base Salary will be paid periodically in accordance with the Company's normal payroll practices and be subject to the usual, required withholding. Executive's salary will be subject to review and adjustments will be made based upon the Company's normal performance review practices.

(b) Performance Bonus. Executive shall be eligible to receive a cash bonus pursuant to the Company's Executive Management Incentive Plan ("EMIP"). In 2018, this bonus shall be at 65% of Executive's pro-rated base salary. Thereafter, plan awards will be subject to the then-current EMIP as may be approved by the Company's Board of Directors from time to time.

(c) Equity Awards. Subject to approval by the Board of Directors of the Company, Executive shall receive an initial grant of $850,000.00 worth of restricted stock pursuant to and governed by the terms of the Company's 2011 Stock Awards Plan, which shares shall vest at the rate of 25% on the first anniversary of the grant and 25% on each of the second, third and fourth anniversaries of the grant. Additionally, Executive shall receive performance based restricted stock units ("PSUs") with a target value of $850,000.00, with such PSUs having the terms set forth on Appendix A hereto and as otherwise may be provided in the form of PSU Agreement entered into between the Company and Executive. Final share amount shall be determined based on Executive's date of hire. Executive shall be eligible for future equity awards commencing in 2019 as determined by the Compensation Committee of the Company's Board of Directors.

4 . Employee Benefits. During the Employment Term, Executive will be entitled to participate in the employee benefit plans currently and hereafter maintained by the Company of general applicability to other employees of the Company, including, without limitation, the Company's group medical, dental, vision, disability, life insurance, and flexible-spending account plans consistent with the terms of such plans. The Company reserves the right to cancel or change the benefit plans and programs it offers to its employees at any time.

5 . Paid Time Off ("PTO"). Executive is entitled to receive no less than four weeks of PTO pursuant to Natus' standard benefit policy currently and hereafter maintained by the Company, and as may be cancelled or changed from time to time.

6. Expenses. The Company will reimburse Executive for reasonable travel, entertainment or other expenses incurred by Executive in the furtherance of or in connection with the performance of Executive's duties hereunder, in accordance with the Company's expense reimbursement policy as in effect from time to time. In addition, Executive is eligible for up to $150,000.00 in documented relocation expenses, to be reimbursed by the Company upon request

of Executive. Any expenses reimbursed by Company shall be repaid to Company if Executive terminates his employment with the Company (other than for "Good Reason" as defined below) within three years of the Effective Date of this Agreement, according to the following formulation: 100% repayment by Executive if Executive terminates his Employment within one year of the Effective Date, 66% repayment by Executive if Executive terminates his Employment after one but before two years of the Effective Date, and 33% repayment by Executive if Executive terminates his Employment after two but before three years of the Effective Date. At the end of the third year from the Effective Date, any repayment obligation for relocation expenses shall expire.

7. Severance.

(a) Involuntary Termination. If Executive's employment with the Company terminates other than for "Cause" (as defined herein), death or disability, and Executive signs and does not revoke a standard release of claims with the Company, then, subject to Section 11, Executive shall be entitled to (i) receive continuing payments of severance pay (less applicable withholding taxes) at a rate equal tohisBase Salary rate, as then in effect, for a period equal to twelve (12) months from the date of Executive's "separation from service" (as defined in Treas. Reg. 1.409A-1(h)) with the Company, to be paid periodically in accordance with the Company's normal payroll policies and commencing with the latest payroll date that is also within seventy (70) days from the date of "separation from service" provided that the required release is effective on such date (with payments that would have been made on earlier payroll dates, but for this provision, cumulated and paid on such payroll date); (ii) the immediate vesting and exercisability of 100% of the shares subject to all of Executive's restricted stock awards (whether currently outstanding or granted in following the Effective Date) outstanding on the date of such termination (the "Stock Awards"); (iii) continued payment by the Company of the group health continuation coverage premiums for Executive and Executive's eligible dependents under Title X of the Consolidated Budget Reconciliation Act of 1985, as amended ("COBRA") as in effect through the lesser of (x) twelve (12) months from the effective date of such termination, (y) the date upon which Executive and Executive's eligible dependents become covered under similar plans, or (z) the date Executive no longer constitutes a "Qualified Beneficiary" (as such term is defined in Section 4980B(g) of the Internal Revenue Code of 1986, as amended (the "Code"); provided, however, that Executive will be solely responsible for electing such coverage within the required time periods.

(b) Voluntary Termination; Termination for Cause. If Executive's employment with the Company terminates voluntarily by Executive (other than as described in subsection (c) below) or for Cause by the Company or due to Executive's death or disability, then (i) all vesting of restricted stock will immediately cease, (ii) all payments of compensation by the Company to Executive hereunder will terminate immediately (except as to amounts already earned), and (iii) Executive will only be eligible for severance benefits, if any, in accordance with the Company's established policies as then in effect.

(c) Change of Control Benefits. If within six (6) months following a "Change of Control" (as defined below) (i) Employee terminates Employee's employment with the Company for Good Reason after providing the Company with written notice within the ninety (90) days after the occurrence of an event constituting Good Reason and an opportunity for the Company to cure such occurrence of not less than thirty (30) days, or (ii) the Company or the successor corporation terminates Employee's employment with the Company for other than Cause, death or disability, then Employee shall be entitled to the benefits provided for in subsection (a) above, except that the amount of the cash payments provided for in (a)(i) above shall be replaced by cash payments equal to the sum of (x) the greater of Employee's Base Salary as in effect immediately prior to the date of the Company's entering into an agreement providing for such Change of Control (or, if no such agreement is entered into, immediately prior to the Change of Control), or Employee's Base Salary as in effect at the time of Employee's termination after the date of the Change of Control, and (y) the greater of Employee's target bonus as most recently established by the Board or Compensation Committee prior to the date of the Company's entering into an agreement providing for such Change of Control (or, if no such agreement is entered into, prior to the date of the Change of Control), or Employee's target bonus as in effect at the time of Employee's termination after the date of the Change of Control. Employee shall only be permitted to receive the benefits provided for in subsection (a) once and shall not be permitted to claim such benefits under both subsection (a) and (c) such that Employee would receive the benefits pursuant to subsection (a) twice. The payment-characterization provisions made under subsection (a) above for purposes of Section 409A of the Code shall apply as well. For the avoidance of doubt, the form of payment (i.e., continuing payments) is intended to be the same for this subsection (c) as the form of payment provided for in subsection (a) above

8. Limitation on Payments. In the event that the severance and other benefits provided for in this Agreement or otherwise payable to the Executive (i) constitute "parachute payments" within the meaning of Section 280G of the

Code and (ii) but for this Section 8, would be subject to the excise tax imposed by Section 4999 of the Code, then the Executive's severance benefits under Section 4(a)(i) shall be either:

- delivered in full,

  or

- delivered as to such lesser extent which would result in no portion of such severance benefits being subject to excise tax under Section 4999 of the Code, whichever of the foregoing amounts, taking into account the applicable federal, state and local income taxes and the excise tax imposed by Section 4999, results in the receipt by Executive on an after-tax basis, of the greatest amount of severance benefits, notwithstanding that all or some portion of such severance benefits may be taxable under Section 4999 of the Code. Unless the Company and Executive otherwise agree in writing, any determination required under this Section 8 shall be made in writing by the Company's independent public accountants immediately prior to Change of Control (the "Accountants"), whose determination shall be conclusive and binding upon Executive and the Company for all purposes. For purposes of making the calculations required by this Section 8, the Accountants may make reasonable assumptions and approximations concerning applicable taxes and may rely on reasonable, good faith interpretations concerning the application of Sections 280G and 4999 of the Code. The Company and Executive shall furnish to the Accountants such information and documents as the Accountants may reasonably request in order to make a determination under this Section. The Company shall bear all costs the Accountants may reasonably incur in connection with any calculations contemplated by this Section 8. If payment is to be in a lesser amount then reduction shall occur in the following order: (i) reduction of payments of cash; and (ii) reduction in equity awards; and in each category reduction shall be pro rata between those payments subject to Section 409A and payments not subject to Section 409A.

9. Definitions.

(a) Cause. For purposes of this Agreement, "Cause" shall mean (i) any act of personal dishonesty taken by Executive in connection with his responsibilities as an Executive and intended to result in substantial personal enrichment of Executive, (ii) Executive's conviction of a felony, (iii) a willful act by Executive which constitutes gross misconduct and which is injurious to the Company, or (iv) continued substantial violations by Executive of Executive's employment duties which are demonstrably willful and deliberate on Executive's part after there has been delivered to Executive a written demand for performance from the Company which specifically sets forth the factual basis for the Company's belief that Executive has not substantially performed Executive's duties.

(b) Change of Control. For purposes of this Agreement, "Change of Control" of the Company is defined as:

(i) any "person" (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended) is or becomes the "beneficial owner" (as defined in Rule 13d-3 under said Act), directly or indirectly, of securities of the Company representing 50% or more of the total voting power represented by the Company's then outstanding voting securities; or

(ii) a change in the composition of the Board occurring within a two-year period, as a result of which fewer than a majority of the directors are Incumbent Directors. "Incumbent Directors" will mean directors who either (A) are directors of the Company as of the date hereof, or (B) are elected, or nominated for election, to the Board with the affirmative votes of at least a majority of the Incumbent Directors at the time of such election or nomination (but will not include an individual whose election or nomination is in connection with an actual or threatened proxy contest relating to the election of directors to the Company); or

(iii) the date of the consummation of a merger or consolidation of the Company with any other corporation that has been approved by the stockholders of the Company, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than forty percent (40%) of the total voting power represented by the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation, or the stockholders of the Company approve a plan of complete liquidation of the Company; or

(iv) the date of the consummation of the sale or disposition by the Company of all or substantially all the Company's assets.

(c) Good Reason. For purposes of this Agreement, "Good Reason" shall mean any of the following actions taken without the Executive's express written consent: (i) the material reduction of the Executive's duties or responsibilities relative to Executive's duties or responsibilities in effect immediately prior to such reduction;

provided, however, that a reduction in duties or responsibilities solely by virtue of the Company being acquired and made part of a larger entity (as, for example, when the Chief Financial Officer of Natus Medical Incorporated remains as such following a Change of Control and is not made the Chief Financial Officer of the acquiring corporation) shall not constitute "Good Reason;" (ii) a material reduction by the Company in Executive's annual Base Salary as in effect immediately prior to such reduction; (iii) a material reduction by the Company in the kind or level of Executive benefits to which Executive is entitled immediately prior to such reduction with the result that Executive's overall benefits package is significantly reduced; (iv) the relocation of Executive's primary place of work to a facility or a location that increases Executive's commute distance by more than 35 miles from Executive's then primary place of work ; or (v) the material breach of this Agreement by the Company (including, but not limited to, failure of the Company to obtain the assumption of this Agreement by any successors contemplated in Section 12).

10. Confidential Information. Executive agrees to enter into the Company's standard Confidential Information and Invention Assignment Agreement (the "Confidential Information Agreement") upon commencing employment hereunder.

11. Conditional Nature of Severance Payments.

(a) Noncompete. Executive acknowledges that the nature of the Company's business is such that if Executive were to become employed by, or substantially involved in, the business of a competitor of the Company following the termination of Executive's employment with the Company, it would be very difficult for Executive not to rely on or use the Company's trade secrets and confidential information. Thus, to avoid the inevitable disclosure of the Company's trade secrets and confidential information, Executive agrees and acknowledges that Executive's right to receive the severance payments set forth in Section 7 (to the extent Executive is otherwise entitled to such payments) shall be conditioned upon Executive not directly or indirectly engaging in (whether as an employee, consultant, agent, proprietor, principal, partner, stockholder, corporate officer, director or otherwise), nor having any ownership interest in or participating in the financing, operation, management or control of, any person, firm, corporation or business that competes with Company or is a customer of the Company. Upon any breach of this section, all severance payments pursuant to this Agreement shall immediately cease.

(b) Non-Solicitation. Until the date eighteen (18) months after the termination of Executive's employment with the Company for any reason, Executive agrees not, either directly or indirectly, to solicit, induce, attempt to hire, recruit, encourage, take away, hire any employee of the Company or cause an employee to leave his or his employment either for Executive or for any other entity or person. Additionally, Executive acknowledges that Executive's right to receive the severance payments set forth in Section 7 (to the extent Executive is otherwise entitled to such payments) are contingent upon Executive complying with this Section 10(b) and upon any breach of this section all severance payments pursuant to this Agreement shall immediately cease.

(c) Understanding of Covenants. Executive represents that Executive (i) is familiar with the foregoing covenants not to compete and not to solicit, and (ii) is fully aware of Executive obligations hereunder, including, without limitation, the reasonableness of the length of time, scope and geographic coverage of these covenants.

12. Code Section 409A. For purposes of this Agreement, a termination of employment will be determined consistent with the rules relating to a "separation from service" as defined in Section 409A of the Code and the regulations thereunder ("Section 409A"). Notwithstanding anything else provided herein, to the extent any payments provided under this Agreement in connection with Executive's termination of employment constitute deferred compensation subject to Section 409A, and Executive is deemed at the time of such termination of employment to be a "specified employee" under Section 409A, then such payment shall not be made or commence until the earlier of (i) the expiration of the 6-month period measured from Executive's separation from service from the Company or (ii) the date of Executive's death following such a separation from service; provided, however, that such deferral shall only be effected to the extent required to avoid adverse tax treatment to Executive including, without limitation, the additional tax for which Executive would otherwise be liable under Section 409A(a)(1)(B) in the absence of such a deferral. The first payment thereof will include a catch-up payment covering the amount that would have otherwise been paid during the period between Executive's termination of employment and the first payment date but for the application of this provision, and the balance of the installments (if any) will be payable in accordance with their original schedule. To the extent that any provision of this Agreement is ambiguous as to its compliance with Section 409A, the provision will be read in such a manner so that all payments hereunder comply with Section 409A. To the extent any payment under this Agreement may be classified as a "short-term deferral" within the meaning of Section 409A, such payment shall be deemed a short-term deferral, even if it may also qualify for an exemption from Section 409A under another provision of Section 409A. Payments pursuant to this section are intended to

constitute separate payments for purposes of Section 1.409A-2(b)(2) of the Treasury Regulations. Except as otherwise expressly provided herein, to the extent any expense reimbursement or the provision of any in-kind benefit under this Agreement is determined to be subject to Section 409A of the Code, the amount of any such expenses eligible for reimbursement, or the provision of any in-kind benefit, in one calendar year shall not affect the expenses eligible for reimbursement in any other taxable year (except for any lifetime or other aggregate limitation applicable to medical expenses), in no event shall any expenses be reimbursed after the last day of the calendar year following the calendar year in which the Executive incurred such expenses, and in no event shall any right to reimbursement or the provision of any in-kind benefit be subject to liquidation or exchange for another benefit.

13. Assignment. This Agreement will be binding upon and inure to the benefit of (a) the heirs, executors and legal representatives of Executive upon Executive's death and (b) any successor of the Company. Any such successor of the Company will be deemed substituted for the Company under the terms of this Agreement for all purposes. For this purpose, "successor" means any person, firm, corporation or other business entity which at any time, whether by purchase, merger or otherwise, directly or indirectly acquires all or substantially all of the assets or business of the Company. None of the rights of Executive to receive any form of compensation payable pursuant to this Agreement may be assigned or transferred except by will or the laws of descent and distribution. Any other attempted assignment, transfer, conveyance or other disposition of Employee's right to compensation or other benefits will be null and void.

14. Notices. All notices, requests, demands and other communications called for hereunder shall be in writing and shall be deemed given (i) on the date of delivery if delivered personally, (ii) one (1) day after being sent by a well-established commercial overnight service, or (iii) four (4) days after being mailed by registered or certified mail, return receipt requested, prepaid and addressed to the parties or their successors at the following addresses, or at such other addresses as the parties may later designate in writing:

If to the Company:

Natus Medical Incorporated
1501 Industrial Road
San Carlos, CA 94070
Attn: Jonathan A. Kennedy, Chief Executive Officer

If to Executive:

at the last residential address known by the Company.

15. Severabilitv. In the event that any provision hereof becomes or is declared by a court of competent jurisdiction to be illegal, unenforceable or void, this Agreement will continue in full force and effect without said provision.

16. Arbitration.

(a) General. In consideration of Executive's service to the Company, its promise to arbitrate all employment related disputes and Executive's receipt of the compensation, pay raises and other benefits paid to Executive by the Company, at present and in the future, Executive agrees that any and all controversies, claims, or disputes with anyone (including the Company and any employee, officer, director, shareholder or benefit plan of the Company in their capacity as such or otherwise) arising out of, relating to, or resulting from Executive's service to the Company under this Agreement or otherwise or the termination of Executive's service with the Company, including any breach of this Agreement, shall be subject to binding arbitration under the Arbitration Rules set forth in California Code of Civil Procedure Section 1280 through 1294.2, including Section 1283.05 (the "Rules") and pursuant to California law. Disputes which Executive agrees to arbitrate, and thereby agrees to waive any right to a trial by jury, include any statutory claims under state or federal law, including, but not limited to, claims under Title VII of the Civil Rights Act of 1964, the Americans with Disabilities Act of 1990, the Age Discrimination in Employment Act of 1967, the Older Workers Benefit Protection Act, the California Fair Employment and Housing Act, the California Labor Code, claims of harassment, discrimination or wrongful termination and any statutory claims. Executive further understands that this Agreement to arbitrate also applies to any disputes that the Company may have with Executive.

(b) Procedure. Executive agrees that any arbitration will be administered by the American Arbitration Association ("AAA") and that a neutral arbitrator will be selected in a manner consistent with its National Rules for the Resolution of Employment Disputes. The arbitration proceedings will allow for discovery according to the rules set forth in the *National Rules for the Resolution of Employment Disputes or California Code of Civil Procedure.* Executive agrees that the arbitrator shall have the power to decide any motions brought by any party to the arbitration,

including motions for summary judgment and/or adjudication and motions to dismiss and demurrers, prior to any arbitration hearing. Executive agrees that the arbitrator shall issue a written decision on the merits. Executive also agrees that the arbitrator shall have the power to award any remedies, including attorneys' fees and costs, available under applicable law. Executive understands the Company will pay for any administrative or hearing fees charged by the arbitrator or AAA except that Executive shall pay the first $200.00 of any filing fees associated with any arbitration Executive initiates. Executive agrees that the arbitrator shall administer and conduct any arbitration in a manner consistent with the Rules and that to the extent that the AAA's National Rules for the Resolution of Employment Disputes conflict with the Rules, the Rules shall take precedence.

(c) Remedy. Except as provided by the Rules, arbitration shall be the sole, exclusive and final remedy for any dispute between Executive and the Company. Accordingly, except as provided for by the Rules, neither Executive nor the Company will be permitted to pursue court action regarding claims that are subject to arbitration. Notwithstanding, the arbitrator will not have the authority to disregard or refuse to enforce any lawful Company policy, and the arbitrator shall not order or require the Company to adopt a policy not otherwise required by law that the Company has not adopted.

(d) Availability of Injunctive Relief. In addition to the right under the Rules to petition the court for provisional relief, Executive agrees that any party may also petition the court for injunctive relief where either party alleges or claims a violation of this Agreement or the Confidentiality Agreement or any other agreement regarding trade secrets, confidential information, nonsolicitation or Labor Code §2870. In the event either party seeks injunctive relief, the prevailing party shall be entitled to recover reasonable costs and attorneys' fees.

(e) Administrative Relief. Executive understands that this Agreement does not prohibit Executive from pursuing an administrative claim with a local, state or federal administrative body such as the Department of Fair Employment and Housing, the Equal Employment Opportunity Commission or the workers' compensation board. This Agreement does, however, preclude Executive from pursuing court action regarding any such claim.

(f) Voluntary Nature of Agreement. Executive acknowledges and agrees that Executive is executing this Agreement voluntarily and without any duress or undue influence by the Company or anyone else. Executive further acknowledges and agrees that Executive has carefully read this Agreement and that Executive has asked any questions needed for Executive to understand the terms, consequences and binding effect of this Agreement and fully understand it, including that Executive is waiving Executive's right to a jury trial. Finally, Executive agrees that Executive has been provided an opportunity to seek the advice of an attorney of Executive's choice before signing this Agreement.

17. Integration. This Agreement, together with the any Company stock awards plan pursuant to which stock options, restricted stock, restricted stock units or other equity awards have been made to Executive, any agreements representing any such equity awards, and the Confidential Information Agreement represents the entire agreement and understanding between the parties as to the subject matter herein and supersedes all prior or contemporaneous agreements whether written or oral. No waiver, alteration, or modification of any of the provisions of this Agreement will be binding unless it is in writing and specifically mentions this Section 16 and it is signed by duly authorized representatives of the parties hereto.

18. Waiver of Breach. The waiver of a breach of any term or provision of this Agreement, which must be in writing, shall not operate as or be construed to be a waiver of any other previous or subsequent breach of this Agreement.

19. Headings. All captions and section headings used in this Agreement are for convenient reference only and do not form a part of this Agreement.

20. Tax Withholding. All payments made pursuant to this Agreement will be subject to withholding of applicable taxes.

21. Governing Law. This Agreement will be governed by the laws of the State of California (with the exception of its conflict of laws provisions).

22. Acknowledgment Executive acknowledges that he has had the opportunity to discuss this matter with and obtain advice from his private attorney, has had sufficient time to, and has carefully read and fully understands all the provisions of this Agreement, and is knowingly and voluntarily entering into this Agreement.

23. Counterparts. This Agreement may be executed in counterparts, and each counterpart shall have the same force and effect as an original and shall constitute an effective, binding agreement on the part of each of the undersigned.

IN WITNESS WHEREOF, each of the parties has executed this Agreement, in the case of the Company by their duly authorized officers, as of the day and year first above written.

COMPANY:

NATUS MEDICAL INCORPORATED

By: Date:

_______________________________________ ________________________

Title:

____

Executive: Date:

_______________________________________ _________________________

EXHIBIT 31.1

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

I, Jonathan A. Kennedy, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Natus Medical Incorporated;

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(s) 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(s) 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: November 8, 2018

/s/ Jonathan A. Kennedy
Jonathan A. Kennedy
President and Chief Executive Officer

EXHIBIT 31.2

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

I, B. Drew Davies, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Natus Medical Incorporated;

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(s) 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(s) 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: November 8, 2018

/s/ B. Drew Davies
B. Drew Davies
Executive Vice President
and Chief Financial Officer

EXHIBIT 32.1

CERTIFICATIONS OF PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER
PURSUANT TO TITLE 18, UNITED STATES CODE, SECTION 1350, AS ADOPTED
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Natus Medical Incorporated (the “Company”) on Form 10-Q for the quarter ended September 30, 2018 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Jonathan A. Kennedy, President and Chief Executive Officer of the Company, certify, pursuant to Title 18, United States Code, Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

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

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

/s/ Jonathan A. Kennedy

Print Name: Jonathan A. Kennedy
Title: President and Chief Executive Officer
Date: November 8, 2018

In connection with the Quarterly Report of Natus Medical Incorporated (the “Company”) on Form 10-Q for the quarter ended September 30, 2018 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, B. Drew Davies, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to Title 18, United States Code, Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

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

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

/s/ B. Drew Davies

Print Name: B. Drew Davies
Title: Executive Vice President and Chief Financial Officer
Date: November 8, 2018