UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2020

☐ **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)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $0.001 par value per share	NTUS	The Nasdaq Stock Market LLC (The Nasdaq Global Market)

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 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, a smaller reporting company, or an emerging growth 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	☐	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 of July 29, 2020 was 33,871,367.

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)

	June 30, 2020	December 31, 2019
ASSETS		
Current assets:		
Cash and cash equivalents	$ 84,878	$ 63,297
Accounts receivable, net of allowance for doubtful accounts of $7,539 in 2020 and $7,384 in 2019	89,230	115,889
Inventories	83,589	71,368
Prepaid expenses and other current assets	21,059	19,195
Total current assets	278,756	269,749
Property and equipment, net	26,673	24,702
Operating lease right-of-use assets	12,926	15,046
Intangible assets, net	103,984	114,799
Goodwill	145,917	146,367
Deferred income tax	30,204	30,355
Other assets	22,346	21,509
Total assets	$ 620,806	$ 622,527
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 31,654	$ 27,253
Current portion of long-term debt	35,000	35,000
Accrued liabilities	38,857	54,451
Deferred revenue	21,186	20,246
Current portion of operating lease liabilities	5,533	5,871
Total current liabilities	132,230	142,821
Other liabilities	16,851	17,616
Operating lease liabilities	10,224	12,051
Long-term debt, net of current portion	51,761	19,665
Deferred income tax	14,267	14,251
Total liabilities	225,333	206,404
Stockholders' equity:		
Common stock, $0.001 par value, 120,000,000 shares authorized; shares issued and outstanding 33,871,723 in 2020 and 34,148,700 in 2019	337,338	344,476
Preferred stock, $0.001 par value; 10,000,000 shares authorized; no shares issued and outstanding in 2020 and 2019	—	—
Retained earnings	75,422	87,922
Accumulated other comprehensive loss	(17,287)	(16,275)
Total stockholders' equity	395,473	416,123
Total liabilities and stockholders' equity	$ 620,806	$ 622,527

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

NATUS MEDICAL INCORPORATED AND SUBSIDIARIES

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Revenue	$ 84,780	$ 125,539	$ 194,163	$ 240,296
Cost of revenue	42,573	52,393	87,506	98,903
Intangibles amortization	1,654	1,746	3,322	3,502
Gross profit	40,553	71,400	103,335	137,891
Operating expenses:				
Marketing and selling	22,802	32,324	53,532	66,054
Research and development	14,336	13,324	31,905	26,718
General and administrative	11,187	12,691	24,368	28,996
Intangibles amortization	3,644	3,763	7,305	7,549
Restructuring	621	2,668	1,492	40,040
Total operating expenses	52,590	64,770	118,602	169,357
Income (loss) from operations	(12,037)	6,630	(15,267)	(31,466)
Other expense, net	(757)	(1,200)	(2,251)	(3,312)
Income (loss) before provision for (benefit from) income tax	(12,794)	5,430	(17,518)	(34,778)
Provision for (benefit from) income taxes	(3,891)	1,944	(5,018)	(7,865)
Net income (loss)	(8,903)	$ 3,486	$ (12,500)	$ (26,913)
Net income (loss) per share:				
Basic	$ (0.26)	$ 0.10	$ (0.37)	$ (0.80)
Diluted	$ (0.26)	$ 0.10	$ (0.37)	$ (0.80)
Weighted average shares used in the calculation of net loss per share:				
Basic	33,827	33,639	33,624	33,630
Diluted	33,827	33,690	33,624	33,630

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

NATUS MEDICAL INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(unaudited)
(in thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	**2019**	**2020**	**2019**
Net income (loss)	$ (8,903)	$ 3,486	$ (12,500)	$ (26,913)
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustment	3,116	1,567	(902)	(230)
Interest rate swap designated as a cash flow hedge	65	(131)	(110)	(209)
Reclassification of stranded tax effects upon adoption of ASU 2018-02	—	—	—	(1,332)
Reclassification of deferred foreign currency related adjustments related to the sale of Medix	—	24,845	—	24,845
Other comprehensive income (loss), net of tax	3,181	26,281	(1,012)	23,074
Comprehensive income (loss)	(5,722)	29,767	(13,512)	(3,839)

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

NATUS MEDICAL INCORPORATED AND SUBSIDIARIES

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

	Common Stock		Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Stockholders' Equity
	Shares	Amount			
Balances, December 31, 2019	**34,148,700**	**$ 344,476**	**$ 87,922**	**$ (16,275)**	**$ 416,123**
Vesting of restricted stock units	14,033	—	—	—	—
Net issuance of restricted stock awards	162,212	—	—	—	—
Stock-based compensation expense	—	2,198	—	—	2,198
Repurchase of company stock	(465,117)	(10,495)	—	—	(10,495)
Taxes paid related to net share settlement of equity awards	(57,695)	(1,883)	—	—	(1,883)
Other comprehensive loss	—	—	—	(4,193)	(4,193)
Net loss	—	—	(3,597)	—	(3,597)
Balances, March 31, 2020	**33,802,133**	**$ 334,296**	**$ 84,325**	**$ (20,468)**	**$ 398,153**
Net issuance of restricted stock awards	40,483	—	—	—	—
Employee stock purchase plan	30,955	658	—	—	658
Stock-based compensation expense	—	2,427	—	—	2,427
Taxes paid related to net share settlement of equity awards	(1,848)	(43)	—	—	(43)
Other comprehensive income	—	—	—	3,181	3,181
Net loss	—	—	(8,903)	—	(8,903)
Balances, June 30, 2020	**33,871,723**	**$ 337,338**	**$ 75,422**	**$ (17,287)**	**$ 395,473**

	Common Stock								
	Shares		**Amount**		**Retained Earnings**		**Accumulated Other Comprehensive Income (Loss)**		**Stockholders' Equity**
Balances, December 31, 2018	**33,804,379**	**$**	**334,215**	**$**	**102,261**	**$**	**(38,032)**	**$**	**398,444**
Reclassification of stranded tax effects for ASU 2018-02	—		—		1,332		(1,332)		—
Vesting of restricted stock units	42,130		—		—		—		—
Net issuance of restricted stock awards	139,718		—		—		—		—
Stock-based compensation expense	—		2,432		—		—		2,432
Repurchase of company stock	—		—		—		—		—
Taxes paid related to net share settlement of equity awards	(47,767)		(1,567)		—		—		(1,567)
Exercise of stock options	16,617		268		—		—		268
Other comprehensive loss	—		—		—		(1,875)		(1,875)
Net loss	—		—		(30,398)		—		(30,398)
Balances, March 31, 2019	**33,955,077**	**$**	**335,348**	**$**	**73,195**	**$**	**(41,239)**	**$**	**367,304**
Net issuance of restricted stock awards	5,762		—		—		—		—
Employee stock purchase plan	31,879		725		—		—		725
Stock-based compensation expense	—		1,987		—		—		1,987
Taxes paid related to net share settlement of equity awards	(274)		(7)		—		—		(7)
Exercise of stock options	47,786		682		—		—		682
Other comprehensive income	—		—		—		26,281		26,281
Net income	—		—		3,486		—		3,486
Balances, June 30, 2019	**34,040,230**	**$**	**338,735**	**$**	**76,681**	**$**	**(14,958)**	**$**	**400,458**

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)

	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
Operating activities:		
Net loss	$ (12,500)	$ (26,913)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Provision for losses on accounts receivable	3,044	4,260
Depreciation and amortization	13,677	15,427
Loss on disposal of property and equipment	22	482
Warranty reserve	1,280	1,677
Share-based compensation	4,664	4,462
Loss on commencement of sales-type leases	1,095	—
Impairment charge for sale of entity	—	24,571
Changes in operating assets and liabilities:		
Accounts receivable	25,152	15,870
Inventories	(11,194)	(2,106)
Prepaid expenses and other assets	(4,066)	(10,383)
Accounts payable	4,324	(3,215)
Accrued liabilities	(16,343)	(2,620)
Deferred revenue	302	2,739
Deferred income tax	155	(205)
Net cash provided by operating activities	9,612	24,046
Investing activities:		
Purchase of property and equipment	(6,927)	(2,919)
Purchase of intangible assets	—	(13)
Net cash used in investing activities	(6,927)	(2,932)
Financing activities:		
Proceeds from stock option exercises and Employee Stock Purchase Program purchases	658	1,674
Repurchase of common stock	(10,495)	—
Taxes paid related to net share settlement of equity awards	(1,926)	(1,573)
Principal payments of financing lease liability	(242)	(265)
Proceeds from borrowings	60,000	—
Payments on borrowings	(28,000)	(25,000)
Net cash provided by (used in) financing activities	19,995	(25,164)
Exchange rate changes effect on cash and cash equivalents	(1,099)	(314)
Net increase (decrease) in cash and cash equivalents	21,581	(4,364)
Cash and cash equivalents, beginning of period	63,297	56,373
Cash and cash equivalents, end of period	$ 84,878	$ 52,009
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 1,561	$ 3,071
Cash paid for income taxes	$ 4,667	$ 5,328
Non-cash investing activities:		
Property and equipment included in accounts payable	$ (13)	$ 35
Inventory transferred to property and equipment	$ 525	$ 589
Transfer of leased assets to sales-type leases	$ 2,365	$ —

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 ("we," "us," or "our") 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 our Annual Report on Form 10-K for the year ended December 31, 2019.

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. We have made certain reclassifications to the prior period to conform to current period presentation. The consolidated balance sheet as of December 31, 2019 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 our Annual Report on Form 10-K for the year ended December 31, 2019.

Operating results for the three and six months ended June 30, 2020 are not necessarily indicative of the results that may be expected for the year ending December 31, 2020. The accompanying condensed consolidated financial statements include our accounts and our wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

Impact of COVID-19 on Our Financial Statements

The global spread and unprecedented impact of COVID-19 is complex and rapidly-evolving. On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic and recommended extensive containment and mitigation measures worldwide. The outbreak has reached all of the regions in which we do business, and governmental authorities around the world have implemented numerous measures attempting to contain and mitigate the effects of the virus, including travel bans and restrictions, border closings, quarantines, shelter-in-place orders, shutdowns, limitations or closures of non-essential businesses, school closures, and social distancing requirements. The global spread of COVID-19 and actions taken in response to the virus have negatively affected workforces, customers, consumer confidence, financial markets, employment rates, consumer spending, credit markets and housing demand, caused significant economic and business disruption, volatility and financial uncertainty, and led to a significant economic downturn, including in the markets where we operate.

We have assessed various accounting estimates and other matters, including those that require consideration of forecasted financial information, in context of the unknown future impacts of COVID-19 using information that is reasonably available to us at this time. The accounting estimates and other matters we assessed include, but were not limited to, our allowance for doubtful accounts, inventory and warranty reserves, stock-based compensation, goodwill and other long-lived assets, financial assets, valuation allowances for tax assets and revenue recognition. While based on our current assessment of these estimates there was not a material impact to our consolidated financial statements as of and for the quarter ended June 30, 2020, as additional information becomes available to us, our future assessment of these estimates, including our expectations at the time regarding the duration, scope and severity of the pandemic, as well as other factors, could materially and adversely impact our consolidated financial statements in future reporting periods.

Recently Adopted Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, Credit Losses (Topic 326). This update requires financial assets measured at amortized cost, such as trade receivables and contract assets, to be presented net of expected credit losses, which may be estimated based on relevant information such as historical experience, current conditions, and future expectation for each pool of similar financial assets. The new guidance requires enhanced disclosures related to trade receivables and associated credit losses. In May 2019, the FASB issued ASU 2019-05 which provides targeted transition relief guidance intended to increase comparability of financial statement information. The guidance for these pronouncements became effective on January 1, 2020. The adoption of ASU 2016-13 did not have a material impact on our consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, Income Taxes (Topic 740), Simplifying the Accounting for Income Tax. This update includes removal of certain exceptions to the general principles of ASC 740, Income taxes, and simplification in several other areas such as accounting for franchise tax (or similar tax) that is partially based on income. We have early adopted the ASU in the second quarter of the current fiscal year. As a result, we recorded an additional income tax benefit of $0.9 million due to the elimination of the year-to-date loss limitation rule that limited the interim period tax benefit.

2 - Revenue

Unbilled accounts receivable ("AR") 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 primarily relates to extended service contracts, installation, and training, for which the service fees are billed in advance. The associated deferred revenue is generally recognized ratably over the extended service period or when installation and training are complete.

The following table summarizes the changes in the unbilled AR and deferred revenue balances for the six months ended June 30, 2020 (in thousands):

Unbilled AR, December 31, 2019	$	2,667
Additions		104
Transferred to trade receivable		(1,479)
Unbilled AR, June 30, 2020	$	1,292

Deferred revenue, December 31, 2019	$	24,808
Additions		13,548
Revenue recognized		(13,260)
Deferred revenue, June 30, 2020	$	25,096

At June 30, 2020, the short-term portion of deferred revenue of $21.2 million and the long-term portion of $3.9 million were included in deferred revenue and other long-term liabilities respectively, in the consolidated balance sheet. As of June 30, 2020, we expect to recognize revenue associated with deferred revenue of approximately $13.9 million in 2020, $8.4 million in 2021, $1.4 million in 2022, $0.8 million in 2023, and $0.6 million thereafter.

3 - Earnings Per Share

The components of basic and diluted EPS, and shares excluded from the calculation of diluted loss per share because the effect would have been anti-dilutive, are as follows (in thousands, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Net income (loss)	$ (8,903)	$ 3,486	$ (12,500)	$ (26,913)
Weighted average common shares	33,827	33,639	33,624	33,630
Dilutive effect of stock based awards	—	51	—	—
Diluted shares	33,827	33,690	33,624	33,630
Basic earnings (loss) per share	$ (0.26)	$ 0.10	$ (0.37)	$ (0.80)
Diluted earnings (loss) per share	$ (0.26)	$ 0.10	$ (0.37)	$ (0.80)
Shares excluded from calculation of diluted EPS	28	—	70	103

4 - Allowance for Doubtful Accounts

We estimate the lifetime allowance for doubtful, potentially uncollectible, accounts receivable upon their inception based on historical collection experience within the markets in which we operate, customer-specific information such as bankruptcy filings or customer liquidity problems, current conditions, and reasonable and supportable forecasts about the future.

Our allowance for doubtful accounts is presented as a reduction to accounts receivable on our consolidated balance sheet. When all internal efforts have been exhausted to collect the receivable, it is written off and relieved from the reserve.

The details of activity in allowance for doubtful accounts are as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Balance, beginning of period	$ 7,292	$ 7,451	$ 7,384	$ 6,960
Additions charged to expense	1,480	2,463	3,044	4,260
Write-offs charged against allowance	(238)	(816)	(795)	(1,542)
Recoveries of amounts previously written off	(995)	(519)	(2,094)	(1,099)
Balance, end of period	$ 7,539	$ 8,579	$ 7,539	$ 8,579

5 - Inventories

Inventories consist of the following (in thousands):

	June 30, 2020	December 31, 2019
Raw materials and subassemblies	$ 34,318	$ 37,259
Work in process	2,306	1,780
Finished goods	63,901	50,521
Total inventories	100,525	89,560
Less: Non-current inventories	(16,936)	(18,192)
Inventories, current	$ 83,589	$ 71,368

As of June 30, 2020 and December 31, 2019, we have classified $ 16.9 million and $18.2 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 we no longer sell, inventory purchased for lifetime buys, and inventory that is turning over at a slow rate. We believe these inventories will be utilized for their intended purpose.

6 – Intangible Assets

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

	June 30, 2020				December 31, 2019			
	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	$ 108,377	$ (6,035)	$ (58,826)	$ 43,516	$ 108,400	$ (6,035)	$ (55,408)	$ 46,957
Customer related	90,177	(50)	(44,628)	45,499	90,351	(50)	(40,527)	49,774
Trade names	45,901	(3,245)	(28,316)	14,340	45,874	(3,237)	(25,355)	17,282
Internally developed software	13,281	—	(12,743)	538	13,281	—	(12,606)	675
Patents	2,697	(133)	(2,564)	—	2,692	(133)	(2,559)	—
Service agreements	1,190	—	(1,099)	91	1,190	—	(1,079)	111
Definite-lived intangible assets	$ 261,623	$ (9,463)	$ (148,176)	$ 103,984	$ 261,788	$ (9,455)	$ (137,534)	$ 114,799

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 $11.1 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 June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Technology	$ 1,698	$ 1,729	$ 3,410	$ 3,467
Customer related	2,123	2,167	4,264	4,350
Trade names	1,467	1,491	2,933	2,989
Internally developed software	69	506	137	1,010
Patents	—	20	—	40
Service agreements	$ 10	$ 103	20	205
Total amortization	$ 5,367	$ 6,016	$ 10,764	$ 12,061

The amortization expense amounts shown above include internally developed software not held for sale of $ 24.0 thousand and $48.0 thousand for the three and six months ended June 30, 2020, respectively which is recorded within our income statement as a general and administrative operating expense.

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

Six months ending December 31, 2020	$	10,798
2021		20,739
2022		17,341
2023		16,386
2024		14,493
2025		13,833
Thereafter		10,394
Total expected amortization expense	$	103,984

7 – Goodwill

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

December 31, 2019	$	146,367
Foreign currency translation		(450)
June 30, 2020	$	145,917

8 - Property and Equipment, net

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

	June 30, 2020		December 31, 2019	
Land	$	1,720	$	1,719
Buildings		7,039		6,943
Leasehold improvements		8,754		8,664
Finance lease right-of-use assets		2,508		2,377
Equipment and furniture		23,709		22,819
Computer software and hardware		14,225		12,610
Demonstration and loaned equipment		11,747		11,621
		69,702		66,753
Accumulated depreciation		(43,029)		(42,051)
Total	$	26,673	$	24,702

Depreciation expense of property and equipment was approximately $1.6 million and $3.2 million for the three and six months ended June 30, 2020 and approximately $1.9 million and $3.5 million for the three and six months ended June 30, 2019.

9 - Reserve for Product Warranties

We provide a warranty for products that is generally one year in length. In some cases, regulations may require us to provide repair or remediation beyond the typical warranty period. If any of the products contain defects, we may incur additional repair and remediation costs. Service, repair and calibration services are provided by a combination of our owned facilities and vendors on a contract basis.

We accrue estimated product warranty costs at the time of sale based on historical experience. 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. We consider 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 June 30, 2020, we have accrued $5.7 million for product related warranties. Our estimate of these costs is primarily based upon the number of units outstanding that may require repair and costs associated with shipping.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Balance, beginning of period	$ 5,837	$ 8,225	$ 6,404	$ 9,391
Additions charged to expense	575	1,639	1,280	2,248
Utilizations	(729)	(1,473)	(2,001)	(2,983)
Changes in estimate related to product remediation activities	—	(315)	—	(571)
Divestiture adjustments	—	—	—	(9)
Balance, end of period	$ 5,683	$ 8,076	$ 5,683	$ 8,076

Our estimate of future product warranty costs may vary from actual product warranty costs, and any variance from estimates could impact our cost of sales, operating profits and results of operations.

10 - Share-Based Compensation

As of June 30, 2020, we have two active share-based compensation plans, the 2018 Equity Incentive Plan and the 2011 Employee Stock Purchase Plan.

In January 2020, we granted performance stock unit (“PSU”) awards to our CEO and CFO. These PSUs fully vest on December 31, 2022 and have separate performance goals than the previously granted market stock units. We estimate fair value of performance stock unit awards based on the share price and other pertinent factors on the grant date. Compensation expense for performance stock unit awards are recognized on a straight-line basis over the requisite service period of the award based on expected achievement of the performance condition. Provided that the requisite service is rendered, the shares will become vested and payout will occur based on the outcome of the performance condition. Any unrecognized compensation cost shall be recognized when the award becomes vested.

The terms of all other awards granted during the six months ended June 30, 2020 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, 2019.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Cost of revenue	$ 75	$ 89	$ 149	$ 156
Marketing and selling	480	258	949	503
Research and development	269	209	523	439
General and administrative	1,604	1,431	3,004	3,321
Total	$ 2,428	$ 1,987	$ 4,625	$ 4,419

As of June 30, 2020, unrecognized compensation expense related to the unvested portion of stock options and other stock awards was approximately $15.1 million, which is expected to be recognized over a weighted average period of 2.2 years.

11 - Other Income (Expense), net

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Interest income	$ 8	$ 127	$ 32	$ 147
Interest expense	(976)	(1,468)	(1,693)	(2,995)
Foreign currency loss	217	134	(584)	(463)
Other expense	(6)	7	(6)	(1)
Total other expense, net	$ (757)	$ (1,200)	$ (2,251)	$ (3,312)

12 - Income Taxes

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.

In December 2019, the FASB issued ASU 2019-12, Income Taxes (Topic 740), Simplifying the Accounting for Income Tax. This update includes removal of certain exceptions to the general principles of ASC 740, Income taxes, and simplification in several other areas such as accounting for franchise tax (or similar tax) that is partially based on income. We have early adopted the ASU in the second quarter of the current fiscal year. As a result, we recorded an additional income tax benefit of $0.9 million due to the elimination of the year-to-date loss limitation rule that limited the interim period tax benefit.

We recorded a benefit from income tax of $3.9 million and $5.0 million for the three and six months ended June 30, 2020, respectively. The effective tax rate was 30.4% and 28.6% for the three and six months ended June 30, 2020 respectively.

We recorded an expense for income tax of $1.9 million and a benefit from income tax of $7.9 million for the three and six months ended June 30, 2019, respectively. The effective tax rate was 35.8% and 22.6% for the three and six months ended June 30, 2019, respectively.

The decrease in the effective tax rate for the three months ended June 30, 2020 compared with the three months ended June 30, 2019 is primarily attributable to the reduction in global intangible low-taxed income inclusion and state taxes. The increase in effective tax rate for the six months ended June 30, 2020 compared with the six months ended June 30, 2019 is primarily attributable to the changes in distribution of income among jurisdictions with varying tax rates. Other significant factors that impact the effective tax rate are Federal and California research and development credits, and non-deductible executive compensation expenses.

We recorded no changes related to unrecognized tax benefits for the three and six months ended June 30, 2020. Within the next twelve months, it is possible that the uncertain tax benefit may change with a range of approximately zero to $2.4 million. Our tax returns remain open to examination as follows: U.S Federal, 2016 through 2019, U.S. states, 2015 through 2019, and significant foreign jurisdictions, generally 2015 through 2019.

For the three and six months ended June 30, 2020, we have included our best estimate of the impact of COVID-19 pandemic to the estimated annual effective tax rate. Our estimated annual effective tax rate could be impacted by any changes in facts and circumstances or new information related to the COVID-19 pandemic.

13 - Debt and Credit Arrangements

We have a Credit Agreement with JP Morgan Chase Bank ("JP Morgan"), Citibank, NA (“Citibank”), and Wells Fargo Bank, National Association (“Wells Fargo”). 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 our 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 the event has a material adverse effect. We have no other significant credit facilities.

In addition to the customary restrictive covenants listed above, the Credit Agreement also contains financial covenants that require us 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 than 2.75 to 1.00.
- Interest Coverage Ratio, as defined, to be at least 1.75 to 1.00 at all times.

At June 30, 2020, we were in compliance with the Leverage Ratio and the Interest Coverage Ratio covenants as defined in the Credit Agreement.

During the first quarter of 2020 we drew an additional $60.0 million on our credit line as a precaution to ensure we have the necessary capital to continue to reliably serve our customers during an extended period of uncertainty. At June 30, 2020, we had $87.0 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 the six months ended June 30, 2020 was 3.13%. The Credit Agreement matures on September 23, 2021, at which time all principal amounts outstanding under the Credit Agreement will be due and payable. As of June 30, 2020, we have classified $35.0 million of the $87.0 million outstanding as short-term on our balance sheet due to our intent to repay this portion over the next twelve months.

Long-term debt consists of (in thousands):

	June 30, 2020	December 31, 2019
Revolving credit facility	$ 87,000	$ 55,000
Debt issuance costs	(239)	(335)
Less: current portion of long-term debt	35,000	35,000
Total long-term debt	$ 51,761	$ 19,665

Maturities of long-term debt as of June 30, 2020 are as follows (in thousands):

	June 30, 2020	December 31, 2019
2020	$ —	$ —
2021	87,000	55,000
2022	—	—
Thereafter	—	—
Total	$ 87,000	$ 55,000

As of June 30, 2020, the carrying value of total debt approximated fair market value.

14 - Financial Instruments and Derivatives

We use interest rate swap derivative instruments to reduce earnings volatility and manage cash flow exposure resulting from changes in interest rates. These interest rate swaps apply a fixed interest rate on a portion of our expected LIBOR-indexed floating-rate borrowings. We held the following interest rate swaps as of June 30, 2020 (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	$ 15,000	May 31, 2018	June 1, 2018	September 23, 2021	2.611%	1-month USD LIBOR	$ 459
Total interest rate derivatives designated as cash flow hedge	$ 15,000						$ 459

We have designated these derivative instruments as cash flow hedges. We assess 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, we will reclassify the amount of any gain or loss on the related cash flow hedge to interest expense at that time.

As of June 30, 2020, we estimate that approximately $ 264.0 thousand of losses associated with the cash flow hedge, net of tax, could be reclassified from AOCI into earnings within the next twelve months.

15 - Segment, Customer and Geographic Information

We operate in one reportable segment in which we provide medical device solutions focused on the diagnosis and treatment of central nervous and sensory system disorders for patients of all ages.

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

The following tables present revenue by end market and geographic region and long-lived asset information by geographic region. Revenue is based on the destination of the shipments and long-lived assets are based on the physical location of the assets (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Consolidated Revenue:				
United States	$ 51,175	$ 73,531	$ 119,513	$ 139,598
International	33,605	52,008	74,650	100,698
Total	$ 84,780	$ 125,539	$ 194,163	$ 240,296

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Revenue by End Market:				
Neuro Products				
Devices and Systems	$ 33,136	$ 54,575	$ 82,535	$ 100,267
Supplies	10,373	16,952	26,296	32,850
Services	—	71	—	871
Total Neuro Revenue	43,509	71,598	108,831	133,988
Newborn Care Products				
Devices and Systems	14,864	12,615	26,554	27,260
Supplies	9,443	8,933	19,237	18,979
Services	2,609	5,015	5,357	9,860
Total Newborn Care Revenue	26,916	26,563	51,148	56,099
Hearing & Balance Products				
Devices and Systems	13,639	26,178	32,228	47,703
Supplies	716	1,200	1,956	2,506
Total Hearing & Balance Revenue	14,355	27,378	34,184	50,209
Total Revenue	$ 84,780	$ 125,539	$ 194,163	$ 240,296

	June 30, 2020	December 31, 2019
Property and equipment, net:		
United States	$ 14,198	$ 11,868
Ireland	5,683	5,732
Canada	4,007	4,140
Denmark	1,764	1,799
Other countries	1,021	1,163
Total	$ 26,673	$ 24,702

During the three and six months ended June 30, 2020 and 2019, no single customer or country outside the United States contributed more than 10% of our consolidated revenue.

16 - 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 14 are measured at fair value on a recurring basis and are presented on the consolidated balance sheets at fair value. We estimate the fair value of the interest rate swaps by calculating the present value of the expected future cash flows of each swap. The calculation incorporates 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 our nonperformance risk. As of June 30, 2020, there have been no events of default under the interest rate swap agreement. 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, 2019	Additions	Payments	Adjustments	June 30, 2020
Liabilities:					
Interest rate swap	$ 313	$ —	$ —	$ 146	$ 459
Total	$ 313	$ —	$ —	$ 146	$ 459

The following financial instruments are not measured at fair value on our consolidated balance sheet as of June 30, 2020 and December 31, 2019 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.

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 our Annual Report on Form 10-K for the year ended December 31, 2019. 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, 2019 and the cautionary information regarding forward-looking statements at the end of this section.

Our Business

We are a leading provider of medical device solutions focused on the diagnosis and treatment of central nervous and sensory system disorders for patients of all ages.

End Markets

Our products address the below end markets:

- Neuro - Includes products and services that provide diagnostic, therapeutic and surgical solutions in neurodiagnostics, neurocritical care and neurosurgery. Neuro's comprehensive neurodiagnostic solutions include electroencephalography and long-term monitoring, Intensive Care Unit monitoring, electromyography, sleep analysis or polysomnography, and intra-operative monitoring. These solutions enhance the diagnosis of neurological conditions such as epilepsy, sleep disorders and neuromuscular diseases. Our neurocritical care solutions include management of traumatic brain injury by continuous monitoring of intracranial pressure and cerebrospinal fluid drainage, as well as cranial access kits for entry into the cranium. Our neurosurgical solutions such as dural grafts to facilitate dural repair in the cranium as well as valves, shunts and related treatment solutions for procedures involving hydrocephalus.
- Newborn Care - Includes products and services for newborn care including hearing screening, brain monitoring, eye imaging, jaundice management, and various disposable newborn care supplies.
- Hearing & Balance - The Hearing portfolio includes products for hearing assessment and diagnostics, and hearing aid fitting, including computer-based audiological, otoneurologic and vestibular instrumentation and sound rooms for hearing and balance care professionals. Our Balance portfolio provides diagnosis and assessment of vestibular and balance disorders. These solutions have a complete product and brand portfolio known for its sophisticated design technology in the hearing and balance assessment markets.

Segment and Geographic Information

We operate as one operating segment and one reportable segment, which provides healthcare products, and services focused on the diagnosis and treatment of central nervous and sensory system disorders for patients of all ages. Financial information is reviewed on a consolidated basis for purposes of making operating decisions and assessing financial performance. Consolidated financial information is accompanied by disaggregated information about revenues by end market and geographic region. We do not asses the performance of our end markets or geographic regions on measures of profit or loss, or asset-based metrics. We have disclosed the revenues for each of our end markets and geographic regions to provide the reader of the financial statements transparency into our operations.

Information regarding our revenues and long-lived assets in the U.S. and in countries outside the U.S. is contained in Note 15 – 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, 2019. Revenue from Devices and Systems, Supplies, and Services, as a percent of total revenue for the three and six months ended June 30, 2020 and 2019, is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Devices and Systems	73 %	74 %	73 %	73 %
Supplies	24 %	22 %	24 %	23 %
Services	3 %	4 %	3 %	4 %
Total	100 %	100 %	100 %	100 %

2020 Second Quarter Overview

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

We experienced a significant decline in demand, particularly in the U.S. and Europe, during the quarter as a result of the COVID-19 pandemic. Our consolidated revenue decreased $40.8 million in the second quarter ended June 30, 2020 to $84.8 million compared to $125.5 million in the second quarter of the previous year. The decline in revenue was driven primarily by the impact of COVID-19 on demand, partially offset by growth in Newborn Care device sales in the United States due to shipping backlog of NICVIEW devices.

Our net loss was $8.9 million or $0.26 per share in the three months ended June 30, 2020, compared with net income of $3.5 million or $0.10 per diluted share in the same period in 2019. The net loss was driven mainly by lower revenue resulting from the impact of the COVID-19 pandemic on global demand for our products.

COVID-19 Update

Healthcare providers and patients continue to depend on our products and services every day. Our team members and partners are continuing to maintain our supply chain, manufacturing and delivery of our products and services. The health and welfare of our employees, our customers and our partners remain our top priority as we continue our business operations.

We have implemented safeguards in our facilities to protect team members, including social distancing practices, work from home and other measures consistent with specific regulatory requirements and guidance from health authorities. As an essential supplier of healthcare products and services, all of our manufacturing, engineering and customer support functions remain fully operational and will continue to support customers with vital supplies, service and equipment. We have taken actions to reduce costs, including reducing travel and discretionary expenses. We will continue to prioritize spending to allow continued investment in products and services that are key elements of our stated strategy for profitable growth in the years ahead.

Impact to our supply chain

Many of our materials are single source and require lengthy qualification periods. Disruptions in our supply chain could negatively impact our ability to produce and supply our finished products. We have made strategic investments in inventory to help mitigate potential supply chain disruptions. These investments include increased inventory and firm purchase orders beyond our typical timeframe in order to secure capacity at our key suppliers. To date, we have not incurred any significant supply disruptions and we believe our suppliers are positioned well to provide us with the materials we need to meet our demand. Going into the third quarter, supply appears to be stable, which could allow for the reduction of inventory levels in future quarters. The health and safety of our suppliers is also a priority for us and we have transitioned collaboration with our suppliers to online technology so that we can continue our business operations.

Liquidity

In 2019, we completed a restructuring of the Company and strengthened our balance sheet by generating over $60.0 million in cash from operations and paying down $55.0 million in debt. At the end of the first quarter of 2020 we drew an additional $60.0 million on our credit line as a precaution to ensure we have the necessary capital to continue to reliably serve our customers during an extended period of uncertainty. During the second quarter of 2020 we repaid $13.0 million in debt and continued to maintain a strong cash position ending the quarter with $84.9 million in cash.

As expected in the second quarter, some hospitals and clinics delayed payments for products and services and we have worked with our customers to arrange mutually acceptable payment terms during this uncertain time. The delays have impacted, and may continue to impact, cash flow and earnings. Looking ahead, we expect revenues and margins to improve compared to the second quarter, but remain below historical levels. We see our customers adapting to the COVID environment with elective procedures resuming, which we believe will result in increased capital spending, improving our business for the remainder of 2020.

While we believe that we have sufficient liquidity to operate the Company for the foreseeable future should negative economic conditions persist for an extended period of time, we are evaluating additional measures we could take to improve our liquidity position.

Impact to fair-value of intangible assets

We have reviewed the assets on our balance sheet, particularly goodwill and significant intangible assets for indications of impairment and as of the end of the second quarter, and determined that impairment is unnecessary at this time. The values of these assets are particularly sensitive to our market cap and the long term value of their cash flows. If these conditions change significantly, we may need to record an impairment to their value. However, any impairment charges would not require the use of cash and are excluded from the calculation of our debt covenants and therefore would not affect our ability to borrow under our existing credit line.

Impact to our financial systems and internal controls

To date, the COVID-19 pandemic has not had a material impact to our ability to operate our accounting and financial functions. We are staffed with approximately 150 dedicated finance, accounting and IT professionals. Our accounting and IT systems are maintained with third party support agreements and we have documented disaster recovery plans in place. Our finance, accounting and IT professionals are performing their normal functions while working from home with little to no physical presence and with no changes to our internal controls. We are confident that we can operate in this manner for an extended period of time without disruption and without significant impact to our internal controls.

Travel restrictions and use of online technology

The global Natus team is geographically diverse with multiple small locations and hundreds of employees that typically work from home in normal circumstances. We use the latest collaboration technology and have been able to transition to a company-wide work from home model without major interruption. Our manufacturing, distribution and field service operations require physical presence of certain employees as their work requires them to handle our products. In these cases, we have made adjustments to shift size and schedule and limited access to these groups by non-related employees. Our field service technicians are following our customers' requirements for distancing practices but continue to provide service where needed.

Travel restrictions have forced most customer and external partner collaboration to online technology. Using this technology has enabled us to continue operations without incident. However, in-person customer engagement as well as physical presence in laboratory settings is required for the long term success of our company and eventually, we will need to return to traditional forms of interaction.

Application of Critical Accounting Policies

We prepare our financial statements in accordance with accounting principles generally accepted in the United States of America. 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
- Inventory valuation

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, 2019, under Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*.

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 June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Revenue	100.0 %	100.0 %	100.0 %	100.0 %
Cost of revenue	50.2 %	41.7 %	45.1 %	41.1 %
Intangibles amortization	2.0 %	1.4 %	1.7 %	1.5 %
Gross profit	47.8 %	56.9 %	53.2 %	57.4 %
Operating expenses:				
Marketing and selling	26.9 %	25.7 %	27.6 %	27.5 %
Research and development	16.9 %	10.6 %	16.4 %	11.1 %
General and administrative	13.2 %	10.1 %	12.6 %	12.1 %
Intangibles amortization	4.3 %	3.0 %	3.8 %	3.1 %
Restructuring	0.7 %	2.1 %	0.8 %	16.7 %
Total operating expenses	62.0 %	51.5 %	61.2 %	70.5 %
Income (loss) from operations	(14.2)%	5.4 %	(8.0)%	(13.1)%
Other expense, net	(0.9)%	(0.9)%	(1.2)%	(1.5)%
Income (loss) before provision for (benefit from) income tax	(15.1)%	4.5 %	(9.2)%	(14.6)%
Provision for (benefit from) income taxes	(4.6)%	1.5 %	(2.6)%	(3.3)%
Net income (loss)	(10.5)%	3.0 %	(6.6)%	(11.3)%

Revenues

The following table shows revenue by products during the three and six months ended June 30, 2020 and June 30, 2019 (in thousands):

	Three Months Ended June 30,			Six Months Ended June 30,		
	2020	2019	Change	2020	2019	Change
Neuro Products						
Devices and Systems	$ 33,136	$ 54,575	(39)%	$ 82,535	$ 100,267	(18)%
Supplies	10,373	16,952	(39)%	26,296	32,850	(20)%
Services	—	71	(100)%	—	871	(100)%
Total Neuro Revenue	43,509	71,598	(39)%	108,831	133,988	(19)%
Newborn Care Products						
Devices and Systems	14,864	12,615	18 %	26,554	27,260	(3)%
Supplies	9,443	8,933	6 %	19,237	18,979	1 %
Services	2,609	5,015	(48)%	5,357	9,860	(46)%
Total Newborn Care Revenue	26,916	26,563	1 %	51,148	56,099	(9)%
Hearing & Balance Products						
Devices and Systems	13,639	26,178	(48)%	32,228	47,703	(32)%
Supplies	716	1,200	(40)%	1,956	2,506	(22)%
Total Hearing & Balance Revenue	14,355	27,378	(48)%	34,184	50,209	(32)%
Total Revenue	$ 84,780	$ 125,539	(32)%	$ 194,163	$ 240,296	(19)%

For the three months ended June 30, 2020, Neuro revenue decreased by 39% compared to the same period last year. Revenue from sales of both Neuro Devices and Systems and Neuro Supplies decreased by 39% due to slowing demand attributed to impact of the COVID-19 pandemic. Revenue from Services decreased by 100% due to the exit of GND, our ambulatory EEG services business, as of January 31, 2019.

For the three months ended June 30, 2020, Newborn Care revenue increased by 1% compared to the same period last year. The 18% increase in Newborn Care Devices and Systems revenue was due to the release of NICVIEW devices for shipment to fulfill backlog. Newborn Care Supplies revenue increased 6% due to an increase in demand in our domestic market resulting from our supply agreement with Pediatrix. The increase in revenue from Devices and Supplies was offset by a decrease in revenue from Services of 48% primarily due to the exit from our Peloton business as of December 31, 2019.

For the three months ended June 30, 2020, Hearing & Balance revenue decreased by 48% compared to the same period last year. The decrease in revenue was driven by the impact of the COVID-19 pandemic on demand.

For the six months ended June 30, 2020, Neuro revenue decreased by 19% compared to the same period last year. Revenue from sales of Neuro Devices and Systems and Neuro Supplies decreased by 18% and 20%, respectively driven by a drop in demand related to the COVID-19 pandemic. Revenue from Services decreased by 100% due to the exit of GND, our ambulatory EEG services business, as of January 31, 2019.

For the six months ended June 30, 2020, Newborn Care revenue decreased by 9% compared to the same period last year. The 3% decrease in Newborn Care Devices and Systems revenue was due to the exit from our Neurocom and Medix businesses in 2019 and the impact of non-repeated tender business in 2019. Newborn Care Supplies revenue increased 1% due to an increase in demand resulting from our supply agreement with Pediatrix. Revenue from Services decreased primarily due to the exit from our Peloton business as of December 31, 2019.

For the six months ended June 30, 2020, Hearing & Balance revenue decreased by 32% compared to the same period last year. The decrease in revenue was driven by the impact of the COVID-19 pandemic on demand.

Revenue from domestic sales decreased to $51.2 million for the three months ended June 30, 2020 compared to $73.5 million in the three months ended June 30, 2019. The decrease in domestic revenue was mainly due to the impact of the COVID-19 pandemic on demand.

Revenue from international sales decreased to $33.6 million for the three months ended June 30, 2020 compared to $52.0 million for the three months ended June 30, 2019. The reduction was driven by the impact of the COVID-19 pandemic on demand in our international markets.

Cost of Revenue and Gross Profit

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Revenue	$ 84,780	$ 125,539	$ 194,163	$ 240,296
Cost of revenue	42,573	52,393	87,506	98,903
Intangibles amortization	1,654	1,746	3,322	3,502
Gross profit	40,553	71,400	103,335	137,891
Gross profit percentage	47.8 %	56.9 %	53.2 %	57.4 %

For the three and six months ended June 30, 2020, gross profit as a percentage of revenue decreased 9.1% and 4.2%, respectively, compared to the same period in the prior year. The decrease was due to lower revenue and higher other costs of revenue for freight, both driven by the impact of COVID-19, and inventory related adjustments, partly offset by a decrease in operations overhead expense.

Operating Costs

Operating costs consist of (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Marketing and selling	$ 22,802	$ 32,324	$ 53,532	$ 66,054
Percentage of revenue	26.9 %	25.7 %	27.6 %	27.5 %
Research and development	$ 14,336	$ 13,324	$ 31,905	$ 26,718
Percentage of revenue	16.9 %	10.6 %	16.4 %	11.1 %
General and administrative	$ 11,187	$ 12,691	$ 24,368	$ 28,996
Percentage of revenue	13.2 %	10.1 %	12.6 %	12.1 %
Intangibles amortization	$ 3,644	$ 3,763	$ 7,305	$ 7,549
Percentage of revenue	4.3 %	3.0 %	3.8 %	3.1 %
Restructuring	$ 621	$ 2,668	$ 1,492	$ 40,040
Percentage of revenue	0.7 %	2.1 %	0.8 %	16.7 %

Marketing and Selling

Marketing and selling expenses decreased for the three and six months ended June 30, 2020. The reduction was primarily driven by exiting the GND, Peloton and Medix businesses in 2019 and lower travel and tradeshow expenses due to the impact of COVID-19 restrictions. We expect lower travel and tradeshow spend in the three months ending September 30, 2020 as a result of continued COVID-19 restrictions with travel spend returning closer to historical levels in the last quarter of fiscal year 2020 assuming worldwide travel restrictions are removed, an assumption that has no certainty of happening within the predicted timeframe.

Research and Development

Research and development expenses increased during the three and six months ended June 30, 2020 compared to the same period in 2019. The increase is due mainly to higher spend to support remediation activities and projects to comply with the European Union's adoption of the Medical Device Regulation which imposes stricter requirements for the marketing and sale of medical devices, including new quality system and post-market surveillance requirements.

General and Administrative

General and administrative expense during the three and six months ended June 30, 2020 decreased when compared to the same period in the prior year. This decrease was due to a reduction in outside service expenses related to our exit from the GND and Peloton businesses and other organization changes as well as lower bad debt expense related to exiting the Peloton business as of December 31, 2019.

Intangibles Amortization

Intangibles amortization remained flat during the three and six months ended June 30, 2020 as compared to the same period in 2019.

Restructuring

Restructuring expenses decreased during the three and six months ended June 30, 2020 compared to the same period in 2019. The decrease in the three months ended June 30, 2020 was primarily driven lower severance costs as the costs incurred in 2019 related to our One Natus initiative that did not repeat in the current year. For the six months ended June 30, 2020, the decrease was primarily due to an impairment recorded related to the sale of Medix which included the recognition of deferred foreign currency related adjustments in accumulated other comprehensive income of $24.8 million, net of tax, and an adjustment of $4.6 million for assets with a book value in excess of their fair market value. We do not currently project that restructuring expenses related to COVID-19 will have an impact on the business.

Other Expense, net

Other 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 June 30, 2020 we reported $0.8 million of other expense compared to $1.2 million of other expense for the same period in 2019. The decrease in expense was attributable to less interest expense than the prior period.

Provision for (Benefit from) 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 a benefit from income tax of $3.9 million and $5.0 million for the three and six months ended June 30, 2020, respectively. The effective tax rate was 30.4% and 28.6% for the three and six months ended June 30, 2020 respectively.

We recorded an expense for income tax of $1.9 million and a benefit from income tax of $7.9 million for the three and six months ended June 30, 2019, respectively. The effective tax rate was 35.8% and 22.6% for the three and six months ended June 30, 2019, respectively.

The decrease in the effective tax rate for the three months ended June 30, 2020 compared with the three months ended June 30, 2019 is primarily attributable to the reduction in global intangible low-taxed income inclusion and state taxes. The increase in effective tax rate for the six months ended June 30, 2020 compared with the six months ended June 30, 2019 is primarily attributable to the changes in distribution of income among jurisdictions with varying tax rates. Other significant factors that impact the effective tax rate are Federal and California research and development credits, and non-deductible executive compensation expenses.

We recorded no changes related to unrecognized tax benefits for the three and six months ended June 30, 2020. Within the next twelve months, it is possible that the uncertain tax benefit may change with a range of approximately zero to $2.4 million. Our tax returns remain open to examination as follows: U.S Federal, 2016 through 2019, U.S. states, 2015 through 2019, and significant foreign jurisdictions, generally 2015 through 2019.

For the three and six months ended June 30, 2020, we have included our best estimate of the impact of COVID-19 pandemic to the estimated annual effective tax rate. Our estimated annual effective tax rate could be impacted by any changes in facts and circumstances or new information related to the COVID-19 pandemic.

The Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) was signed into law on March 27, 2020. The CARES Act did not have a material impact on our provision for income taxes for the six months ended June 30, 2020.

Liquidity and Capital Resources

Liquidity and capital resources consist of (in thousands):

	June 30, 2020	December 31, 2019
Cash and cash equivalents	$ 84,878	$ 63,297
Working capital	146,526	126,928

	Six Months Ended June 30,	
	2020	2019
Net cash provided by operating activities	$ 9,612	$ 24,046
Net cash used in investing activities	(6,927)	(2,932)
Net cash provided by (used in) financing activities	19,995	(25,164)

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 June 30, 2020, we had cash and cash equivalents outside the U.S. in certain of our international subsidiaries of $33.6 million, primarily in Canada and Ireland. We intend to permanently reinvest the cash held by our international subsidiaries except for Excel Tech Corporation and Natus Manufacturing Limited, which we intend to repatriate. A net deferred tax liability has been recorded for the potential future repatriation. If, however, a portion of permanently reinvested 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.

We have a Credit Agreement with JP Morgan, Citibank, and Wells Fargo. 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 our 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 the event has a material adverse effect. The Credit Agreement matures on September 23, 2021, at which time all principal amounts outstanding under the Credit Agreement will be due and payable. We have no other significant credit facilities. During the first quarter of 2020 we drew an additional $60.0 million on our credit line as a precaution to ensure we have the necessary capital to continue to reliably serve our customers during an extended period of uncertainty. As of June 30, 2020, we had $87.0 million outstanding under the Credit Facility.

During the six months ended June 30, 2020 cash provided by operating activities of $9.6 million was the result of $12.5 million of net loss, non-cash adjustments to net loss of $23.8 million, and net cash outflows of $1.7 million from changes in operating assets and liabilities. The non-cash adjustment to net loss was driven by depreciation and amortization of $13.7 million. Cash used in investing activities during the period was $6.9 million to acquire other property and equipment. Cash provided by financing activities during the six months ended June 30, 2020 was $20.0 million and consisted of proceeds from borrowing of $60.0 million and Employee Stock Purchase Program ("ESPP") purchases of $0.7 million offset by repayment on borrowing of $28.0 million, $10.5 million for repurchases of common stock under our share repurchase program, $1.9 million for taxes paid related to net share settlement of equity awards, and $0.2 million for principal payments of financing lease liability.

During the six months ended June 30, 2019 cash provided by operating activities of $24.0 million was the result of $26.9 million of net loss, non-cash adjustments to net loss of $50.9 million, and net cash inflows of $0.1 million from changes in operating assets and liabilities. The non-cash adjustment to net loss was driven by an impairment recorded related to the held for sale status of Medix of $24.6 million and depreciation and amortization of $15.4 million. Cash used in investing activities during the period was $2.9 million to acquire other property and equipment. Cash used in financing activities during the six months ended June 30, 2019 was $25.2 million and consisted of repayment on borrowing of $25.0 million, $1.6 million for taxes paid related to net share settlement of equity awards, and $0.3 million for principal payments of financing lease liability, offset by stock option exercises and ESPP purchases of $1.7 million.

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

- Extent to which we make acquisitions;
- Amount and timing of revenue;
- Length and severity of business disruptions caused by COVID-19;
- 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 summarizes our contractual obligations and commercial commitments as of June 30, 2020 (in thousands):

		Payments Due by Period			
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Unconditional purchase obligations	$ 52,872	$ 48,478	$ 4,394	$ —	$ —
Bank debt	87,000	—	87,000	—	—
Interest payments	4,321	2,800	1,521	—	
Repatriation tax	9,113	1,672	2,517	4,924	—
Total	$ 153,306	$ 52,950	$ 95,432	$ 4,924	$ —

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.

Our Credit Agreement with JP Morgan, Citibank, and Wells Fargo matures in 2021. We have recorded this obligation in the payments due in one to three years category in the table above based on the maturity date of the Agreement. As of June 30, 2020, we have classified $35.0 million out of the $87.0 million outstanding as short-term on our balance sheet due to our intent to repay this portion over the next twelve months.

The interest payments noted above are an estimate of expected interest payments but could vary materially based on the timing of future loan draws and payments. See Note 13 to the unaudited 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 18 in our Annual Report filed on Form 10-K for the year ended December 31, 2019 for further discussion on income taxes and repatriation tax.

Recently Issued Accounting Pronouncements

None.

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, without limitation, statements regarding our ability to capitalize on improving market conditions, the sufficiency of our current cash, cash equivalents and short-term investment balances, any cash generated from operations to meet our ongoing operating and capital requirements for the foreseeable future, outcomes of new product development, improved operations performance and profitability as the result of restructuring activities, 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. Please refer to Part II, Item 7A, "Quantitative and Qualitative Disclosures About Market Risk" included in our Annual Report on Form 10-K for the ended December 31, 2019 for a more complete discussion on the market risks we encounter.

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.

As of December 31, 2019, our management, with the participation of our Chief Executive Officer and Chief Financial Officer, 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, 2019. 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 related to immaterial errors that indicated certain deficiencies existed in the Company's internal control over financial reporting. Specifically, we did not have controls designed to identify and properly account for certain research and development activities related to an arrangement with a third party. Additionally, insufficient training provided to a new control operator and the design of one of our controls over payroll accounts contributed to an error in the period end accrual. The Company concluded that these deficiencies could have resulted in a material misstatement of the consolidated financial statements that would not have been prevented or detected on a timely basis, and as such, these control deficiencies resulted in a material weakness in internal control over financial reporting as of December 31, 2019.

As of June 30, 2020, 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 June 30, 2020 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 second quarter of 2020, 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, 2019, we plan to make substantive changes to enhance our design of controls intended to identify and assess contracts that include research and development activities and to aid in confirming the accuracy of our payroll accounts. Specifically, we formalized a policy that provides guidance on proper identification, analysis and treatment of contracts that include research and development activities. Proper identification includes coordination with our legal team to flag contracts that include terminology indicative of research and development components. The policy requires that management document conclusions on accounting treatment in supporting memos depending on materiality of the contract. We provided training to relevant teams in the second quarter to ensure the policy is communicated, understood and followed. We strengthened the control design for payroll accounts to require that specific review procedures be completed and to formalize the results of required review procedures in a checklist format including reviewer signoff. The checklists for the reviewer of payroll accounting entries are prepared and executed during the second quarter close process. We have also coordinated with our third party payroll administrators to build efficiency in our payroll reporting process with the goal of reducing manual work. The intent of this project is to free up the payroll accounting reviewers and enable them to focus more on material review items and continue our methodology of continuous improvement and risk reduction. Additionally, we plan to institute a process to monitor changes to our control operator responsible for key controls over financial reporting and implement a control to verify that appropriate training is provided to new control operators to mitigate this risk of change in our system of control. With the oversight of senior management and our audit committee, we have begun taking the above steps. While our remediation efforts are in process, they have not been completed. There can be no assurances that these steps will be successful in fully remediating the material weakness.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

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

The following updates the risk factors previously reported in Part 1, Item 1A “Risk Factors” of our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2020:

Our business has been and may continue to be negatively affected by the ongoing COVID-19 pandemic and any future outbreaks of disease.

Our operations and financial performance have and continue to be significantly affected by the ongoing global COVID-19 pandemic and the resulting volatility and uncertainty it has caused in the U.S. and international markets. On March 11, 2020, the WHO declared the COVID-19 outbreak a pandemic and recommended containment and mitigation measures worldwide. On March 13, 2020, President Trump declared a National Emergency relating to the disease. The widespread infection in the U.S. and abroad has caused significant volatility and uncertainty in U.S. and international markets, which could result in a prolonged economic downturn that has disrupted and is expected to continue to disrupt our business.

National, state and local authorities have recommended social distancing and many have implemented quarantine, shelter-in-place, curfew and similar isolation measures, including government orders and other restrictions on the conduct of business operations. Such measures have had adverse impacts on the U.S. and foreign economies of uncertain severity and duration and have and may continue to negatively impact our ongoing operations, including our revenue, manufacturing and supply chain. For example, our business relies on continued investment and activity in the healthcare system, and as a result of the significant reduction, or in some cases elimination, of elective medical procedures and healthcare visits, as well as the deferring or cancelling of customer capital expenditure projects, we have seen a decline in revenue from our Supplies and Devices and Systems products.

In addition, we have experienced disruption and delays in parts of our direct and indirect supply chain. We have made investments in inventory to help mitigate against further potential supply chain interruptions. These investments include increased inventory and firm purchase orders beyond our typical timeframe in order to secure capacity at our key suppliers. We have experienced, and may continue to experience, increased costs as a result of excess inventory, which in turn has resulted, and may continue to result, in lower gross margins. In addition, our inventory management systems and related supply chain visibility tools may be inadequate to enable us to forecast accurately and effectively manage supply of our products and product components. We may experience restricted stock availability or delays or difficulty sourcing certain products in the future, which could negatively impact us.

As a result of the ongoing COVID-19 outbreak, we have transitioned the majority of our workforce to a temporary remote working model, which may result in us experiencing lower work efficiency and productivity, which in turn may adversely affect our business. As our employees work from home and access our systems remotely, we may be subject to heightened security and privacy risks, including the risks of cyber attacks and privacy incidents. Additionally, we have a number of employees who continue to work in our facilities or perform services at our customers' facilities who may be subject to heightened risks for COVID-19 exposure thus potentially impacting their health and future worker compensation claims against us. We may also be subject to lawsuits from employees and others exposed to COVID-19 at our facilities, which could involve large demands and substantial defense costs. Our professional and general liability insurance may not cover all claims against us. Furthermore, if any of our employees are unable to perform his or her duties for a period of time, including as the result of illness, our results of operations or financial condition could be adversely affected. Finally, the widespread pandemic has caused and is expected to continue to cause significant disruption of global financial markets, which may reduce or impair our ability to access capital, or access capital on terms that would be consistent with our expectations, temporarily during this period.

We cannot reasonably estimate the length or severity of the COVID-19 pandemic or the related response, including the length of time it may take for normal economic and operating conditions to resume or the extent to which the disruption may materially impact our business, consolidated financial position, consolidated results of operations or consolidated cash flows. To the extent the COVID-19 pandemic continues to adversely affect our business operations, financial position or consolidated cash flows, it may also have the effect of heightening many of the other risks described in the other disclosures, including the risk factors contained in Part 1, Item 1A “Risk Factors” of our Annual Report on Form 10-K for the fiscal year ended December 31, 2019.

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

None.

ITEM 5. Other Information

None

ITEM 6. Exhibits

(a) Exhibits

		Incorporated By Reference			
Exhibit No.	**Exhibit**	**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
101	The following materials from Natus Medical Incorporated's Quarterly Report on Form 10-Q for the quarter ended June 30, 2020, 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
104	The cover page from Natus Medical Incorporated's Quarterly Report on Form 10-Q for the quarter ended June 30, 2020, formatted in Inline XBRL (included as Exhibit 101).				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:	August 4, 2020	By:	/s/ Jonathan A. Kennedy	
			Jonathan A. Kennedy **President and Chief Executive Officer** **(Principal Executive Officer)**	
Dated:	August 4, 2020	By:	/s/ B. Drew Davies	
			B. Drew Davies **Executive Vice President and** **Chief Financial Officer** **(Principal Financial and Accounting Officer)**	

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: August 4, 2020

/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: August 4, 2020

/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 June 30, 2020 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: August 4, 2020

In connection with the Quarterly Report of Natus Medical Incorporated (the “Company”) on Form 10-Q for the quarter ended June 30, 2020 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: August 4, 2020