

NATUS MEDICAL INC  
Form DEF 14A  
April 20, 2011  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**SCHEDULE 14a**

**Proxy Statement Pursuant to Section 14(a) of the**

**Securities Exchange Act of 1934**

**(Amendment No. \_\_)**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement.

**Confidential, for use of the Commission Only** (as permitted by Rule 14a-6(e)(2)).

Definitive Proxy Statement.

Definitive Additional Materials.

Soliciting Material Pursuant to § 240.14a-12.

**NATUS MEDICAL INCORPORATED**

(Name of Registrant as Specified in its Charter)

**(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)**

Payment of filing fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which the transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(1) Amount previously paid:

(2) Form, Schedule or Registration Statement No.;

(3) Filing Party:

(4) Date Filed:

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**Natus Medical Incorporated**

**1501 Industrial Road**

**San Carlos, California 94070**

**[www.natus.com](http://www.natus.com)**

**(650) 802-0400**

**NOTICE OF 2011 ANNUAL MEETING OF STOCKHOLDERS**

**TO OUR STOCKHOLDERS:**

The 2011 Annual Meeting of Stockholders of Natus Medical Incorporated will be held on Thursday, June 2, 2011, at 9:00 a.m., Pacific Time, at our headquarters located at 1501 Industrial Road, San Carlos, California 94070 for the following purposes:

1. To elect two directors to serve for a term of three years;
2. To ratify the appointment of Deloitte & Touche LLP as independent accountants for the Company for the current fiscal year;
3. To hold an advisory vote on the issue of executive compensation;
4. To hold an advisory vote on the frequency with which an advisory vote on executive compensation, such as Proposal No. 3, should be held;
5. To ratify the 2011 Stock Awards Plan;
6. To ratify the 2011 Employee Stock Purchase Plan; and
7. Transaction of such other business as may properly come before the meeting or any adjournment thereof.

We are using the Internet as our primary means of furnishing proxy materials to stockholders. Consequently, most stockholders will not receive paper copies of our proxy materials. We will instead send these stockholders a notice with instructions for accessing the proxy materials and voting via the Internet. The notice also provides information on how stockholders may obtain paper copies of our proxy materials if they so choose.

The foregoing items of business are more fully described in the Proxy Statement accompanying this Notice. Stockholders who owned shares of our stock at the close of business on Friday, April 8, 2011, are entitled to attend and vote at the meeting. A complete list of these stockholders will be available during normal business hours for ten days prior to the meeting at our headquarters located at 1501 Industrial Road, San Carlos,

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California 94070. A stockholder may examine the list for any legally valid purpose related to the meeting. The list will also be available during the annual meeting for inspection by any stockholder present at the meeting.

Whether or not you plan to attend the Annual Meeting, please submit your proxy promptly by the Internet or by phone or by completing, dating, signing and returning the enclosed proxy card as promptly as possible in the accompanying reply envelope. If your shares are held in street name by a broker, trustee or other nominee and you do not instruct this nominee how to vote your shares; your shares will be voted on any matter other than approval of appointment of our independent accountants.

For the Board of Directors of  
NATUS MEDICAL INCORPORATED

/s/ James B. Hawkins  
JAMES B. HAWKINS  
*Chief Executive Officer*  
San Carlos, California  
April 20, 2011

**YOUR VOTE IS IMPORTANT**

**PLEASE SUBMIT YOUR PROXY AS PROMPTLY AS POSSIBLE BY FOLLOWING THE  
INSTRUCTIONS ON THE ENCLOSED PROXY CARD**

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**INTERNET AVAILABILITY OF PROXY MATERIALS**

In accordance with U.S. Securities and Exchange Commission rules, we are using the Internet as our primary means of furnishing proxy materials to stockholders. Consequently, most stockholders will not receive paper copies of our proxy materials. We will instead send these stockholders a Notice of Internet Availability of Proxy Materials with instructions for accessing the proxy materials, including our proxy statement and annual report, and voting via the Internet. The Notice of Internet Availability of Proxy Materials also provides information on how stockholders may obtain paper copies of our proxy materials if they so choose. We believe this rule makes the proxy distribution process more efficient, less costly, and helps in conserving natural resources. If you previously elected to receive our proxy materials electronically, these materials will continue to be sent via email unless you change your election.

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**QUESTIONS AND ANSWERS ABOUT THE PROXY MATERIALS AND THE ANNUAL MEETING**

***Q: Why am I receiving these materials?***

**A:** The Board of Directors (the Board) of Natus Medical Incorporated, (Natus, the Company, we, our), a Delaware corporation, is providing these proxy materials to you in connection with the annual meeting of stockholders of Natus that will take place on June 2, 2011. As a stockholder as of the record date, April 8, 2011, you are invited to attend the annual meeting, and are entitled, and requested, to vote on the items of business described in this proxy statement. We are distributing the proxy materials on or about April 22, 2011.

***Q: What information is contained in this proxy statement?***

**A:** The information included in this proxy statement relates to the proposals to be voted on at our annual meeting, the voting process, the compensation of executive officers and directors, and certain other required information.

***Q: How may I obtain a copy of the Natus Annual Report on Form 10-K?***

**A:** Stockholders may request a free copy of our 2010 Form 10-K from:  
**Natus Medical Incorporated**

**Attn: Investor Relations**

**1501 Industrial Road**

**San Carlos, CA 94070**

**(650) 802-0400**

Our 2010 Annual Report on Form 10-K is also available on our website at [www.natus.com](http://www.natus.com) and at the website of the Securities and Exchange Commission at [www.sec.gov](http://www.sec.gov).

We will also furnish any exhibit to our 2010 Annual Report on Form 10-K if specifically requested in writing.

***Q: What items of business will be voted on at the annual meeting?***

**A:** The following items will be voted on at the annual meeting:

The election of two directors for a term of three years;

The ratification of Deloitte & Touche LLP, an independent registered public accounting firm, as auditors for the year ending December 31, 2011;



An advisory vote on executive compensation;

An advisory vote on the frequency of advisory votes on executive compensation;

The ratification of the 2011 Stock Awards Plan;

The ratification of the 2011 Employee Stock Purchase Plan; and

Other business that properly comes before the annual meeting.

***Q: How does the Board recommend that I vote?***

**A:** Our Board recommends that you vote your shares **FOR** each of the nominees to the Board, **FOR** the ratification of Deloitte & Touche LLP as auditors for the year ending December 31, 2011, **FOR** the

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advisory vote on executive compensation, FOR ONE YEAR for the advisory vote on the frequency of advisory votes on executive compensation, FOR the ratification of the 2011 Stock Awards Plan, and FOR the ratification of the 2011 Employee Stock Purchase Plan.

**Q:** *What shares can I vote?*

**A:** Each share of Natus common stock issued and outstanding as of the close of business on April 8, 2011, the *Record Date*, is entitled to be voted on all items being voted upon at the annual meeting. You may vote all shares owned by you as of that date, including (i) shares held directly in your name as the *stockholder of record*, and (ii) shares held by you as the *beneficial owner* through a broker, trustee or other nominee, such as a bank. More information on how to vote these shares is contained in this proxy statement. On the *Record Date* we had approximately 29,002,000 shares of common stock issued and outstanding, and each outstanding share is entitled to one vote.

**Q:** *What is the difference between holding shares as a stockholder of record and as a beneficial owner?*

**A:** Rather than holding shares in their own name, as a stockholder of record, most Natus stockholders hold their shares beneficially through a broker, trustee or other nominee. As summarized below, there are some distinctions between shares held of record and those owned beneficially.

**Stockholder of Record** If your shares are registered directly in your name with our transfer agent, Wells Fargo Shareowner Services, you are considered, with respect to those shares, the stockholder of record. As the stockholder of record, you have the right to grant your voting proxy directly to Natus or to vote in person at the meeting. Voting instructions are provided online with the proxy materials and, if you are receiving a paper copy of the proxy materials Natus has enclosed a proxy card for you to use.

**Beneficial Owner** If your shares are held in a brokerage account or by another nominee you are considered the *beneficial owner* of shares held in *street name*, and these proxy materials are being forwarded to you together with a voting instruction card by your broker, trustee or other nominee. As the beneficial owner, you have the right to direct your broker, trustee or nominee how to vote and are also invited to attend the annual meeting.

Since a beneficial owner is not the *stockholder of record*, you may not vote these shares in person at the meeting unless you obtain a legal proxy from the broker, trustee or nominee that holds your shares, giving you the right to vote the shares at the meeting. Your broker, trustee or nominee has enclosed or provided voting instructions for you to use in directing the broker, trustee or nominee how to vote your shares. **Brokers do not have discretion to vote their clients' shares on a number of important matters, including the election of directors, executive compensation matters and the approval of employee equity plans. If you do not instruct your broker how to vote on these matters, your shares will not be voted on them.**

**Q:** *How can I vote my shares in person at the annual meeting?*

**A:** Shares held in your name as the stockholder of record may be voted in person at the annual meeting. Shares held beneficially in street name may be voted in person only if you obtain a legal proxy from the broker, trustee or nominee that holds your shares giving you the right to vote the shares. Even if you plan to attend the annual meeting, you may also submit your proxy or voting instructions as described below so that your vote will be counted if you later decide not to attend the meeting.

**Q:** *How can I vote my shares without attending the annual meeting?*

**A:** Whether you hold shares directly as the stockholder of record or beneficially in street name, you may direct how your shares are voted without attending the meeting. If you are a stockholder of record, you may vote by submitting a proxy. If you hold shares beneficially in street name, you may vote by submitting voting instructions to your broker, trustee or other nominee. The Notice of

Internet Availability of Proxy Materials

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provides instructions on how to access your proxy card, which contains instructions on how to vote via the Internet or by telephone. For those stockholders who receive a paper proxy card, directions on how to vote are set forth below and included on your proxy card. For shares held beneficially in street name, the voting instruction card provided by your broker, trustee or other nominee will include instructions on how to vote by telephone, Internet or by mail.

**By Internet** Stockholders of record of Natus common stock with Internet access may submit proxies by following the Vote by Internet instructions on their proxy cards. Most Natus stockholders who hold shares beneficially in street name may direct the voting of their shares by accessing the website specified on the voting instruction cards provided by their broker, trustee or other nominee. Please check the voting instruction card for Internet voting availability.

**By Telephone** Stockholders of record of Natus common stock who live in the United States or Canada may submit proxies by following the Vote by Phone instructions on their proxy cards. Most Natus stockholders who hold shares beneficially in street name and live in the United States or Canada may direct the voting of their shares by phone by calling the number specified on the voting instruction card provided by their broker, trustee or other nominee. Please check the voting instruction card for telephone voting availability.

**By Mail** Stockholders of record of Natus common stock may submit proxies by completing, signing and dating their proxy cards and mailing them in the pre-addressed envelope provided. Natus stockholders who hold shares beneficially in street name may vote by mail by completing, dating and signing the voting instruction cards provided and mailing them in the pre-addressed envelope provided to their broker, trustee, or other nominee.

***Q: Can I change my vote or otherwise revoke my proxy?***

**A:** You may change your vote at any time prior to the vote at the annual meeting. If you are the stockholder of record, you may change your vote by granting a new proxy bearing a later date (which automatically revokes your earlier proxy), by providing a written notice of revocation to our Corporate Secretary prior to your shares being voted, or by attending the annual meeting and voting in person. Attendance at the meeting will not cause your previously granted proxy to be revoked unless you specifically so request. For shares you hold beneficially in street name, you may change your vote by submitting new voting instructions to your broker, trustee or other nominee, or, if you have obtained a legal proxy from your nominee giving you the right to vote your shares, by attending the annual meeting and voting in person.

***Q: How many shares must be present or represented to conduct business at the annual meeting?***

**A:** A majority of shares of our common stock entitled to vote must be present in person or represented by proxy to meet the quorum requirement for holding the annual meeting and transacting business. Both abstentions and broker non-votes are counted for the purpose of determining the presence of a quorum.

***Q: Will my shares be voted if I do not return my proxy card?***

**A:** If your shares are held in street name, your broker may, under certain limited circumstances, vote your shares. Brokerage firms have authority to vote clients' unvoted shares on some routine matters, such as the ratification of auditors. However, your broker does not have authority to vote unvoted shares on non-routine matters, such as the election of directors, executive compensation matters, and the approval of equity plans. If you do not give a proxy to vote your shares, your broker cannot vote your shares on the election of directors, which will leave your shares unvoted.

***Q: What is the voting requirement to approve each of the proposals?***

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**A:** In the election of directors, the two nominees receiving the highest number of FOR votes at the annual meeting will be elected. Our Corporate Governance Principles and Practices provide that if a nominee for

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election to the Board of Directors had a greater number of votes withheld than the number of votes cast for his or her election, such director shall tender his or her resignation from the Board and the Nominating and Governance Committee will determine the action to be taken with respect to such tendered resignation.

The proposal for ratification of the independent auditors requires a FOR vote by a majority of those shares present in person or represented by proxy and entitled to vote on that proposal at the annual meeting. The advisory vote on executive compensation is non-binding; however, the Company will record the number of votes cast in favor of and against the proposal and will report the voting results at the Annual Meeting. The advisory vote on the frequency of holding future advisory votes on executive compensation is also non-binding; however, the Company will record the number of votes cast with respect to the frequency of one year, two years or three years and will report the voting results at the Annual Meeting.

Ratification of the 2011 Stock Awards Plan and the Employee Stock Purchase Plan will each require a FOR vote by a majority of those shares present in person or represented by proxy and entitled to vote on that proposal at the annual meeting.

With respect to Proposals No. 2, 3, 5 and 6, you may vote FOR or AGAINST or you may abstain. Abstentions with respect to these Proposals have the effect of a vote against each of these proposals. With respect to Proposal No. 4, you may vote for One Year, Two Years, or Three Years, or you may abstain. If you hold shares beneficially in street name and do not provide your broker with voting instructions, your shares may constitute broker non-votes. Generally, broker non-votes occur on a matter when a broker is not permitted to vote on that matter without instructions from the beneficial owners and instructions are not given. In tabulating the voting result for any particular proposal, shares that constitute broker non-votes are not considered entitled to vote on that proposal. Thus, broker non-votes will not affect the outcome of any matter being voted on at the meeting, assuming that a quorum is obtained.

***Q: Is cumulative voting permitted for the election of directors?***

**A:** Yes. Every stockholder voting to elect a director may cumulate such stockholder's votes and give to one of the candidates to be elected a number of votes equal to the number of directors to be elected multiplied by the number of votes to which such stockholder is entitled, or distribute the stockholder's votes on the same principle among as many candidates as the stockholder thinks fit, provided that votes cannot be cast for more than the number of directors to be elected. In their discretion, the proxy holders may, when voting for directors, cumulate the votes represented by the proxies received. No stockholder shall be entitled to cumulate votes for a candidate unless such candidate's name has been properly placed in nomination prior to the voting and the stockholder, or any other stockholder, has given notice at the annual meeting, prior to the voting, of the intention to cumulate the stockholder's votes. The candidates receiving the highest number of votes, up to the number of directors to be elected, shall be elected.

***Q: What happens if additional matters are presented at the annual meeting?***

**A:** Other than the items of business described in this proxy statement, we are not aware of any other business to be acted upon at the annual meeting. If you grant a proxy using the enclosed form, the persons named as proxy holders, James B. Hawkins and Steven J. Murphy, will have the discretion to vote your shares on any additional matters properly presented for a vote at the meeting. If for any unforeseen reason either of our nominees is not available as a candidate for director, the persons named as proxy holders will vote your proxy for such other candidate or candidates that may be nominated by the Board of Directors.

***Q: What should I do if I receive more than one set of voting materials?***

**A:** You may receive more than one set of voting materials, including multiple copies of this proxy statement and multiple proxy cards or voting instruction cards. For example, if you hold your shares in more than one brokerage account, you may receive a separate voting instruction card for each brokerage account in which

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you hold shares. If you are a stockholder of record and your shares are registered in more than one name, you will receive more than one proxy card. Please complete, sign, date and return each proxy card and voting instruction card that you receive. A number of brokers with account holders who beneficially own our common stock will be householding our annual report and proxy materials, including the Notice of Internet Availability of Proxy Materials. A single Notice of Internet Availability of Proxy Materials and, if applicable, a single set of annual reports and other proxy materials will be delivered to multiple stockholders sharing an address unless contrary instructions have been received from the affected stockholders. Once you have received notice from your broker that it will be householding communications to your address, householding will continue until you are notified otherwise or until you revoke your consent. Stockholders may revoke their consent at any time by contacting Broadridge ICS, either by calling toll-free (800) 542-1061, or by writing to Broadridge ICS, Household Department, 51 Mercedes Way, Edgewood, New York 11717.

Any stockholders who share the same address and currently receive multiple copies of our Notice of Internet Availability of Proxy Materials or annual report or other proxy materials who wish to receive only one copy in the future can contact their broker, trustee or other nominee to request information about householding.

***Q: How may I obtain an additional set of voting materials?***

**A:** If you wish to receive an additional set of proxy materials now or in the future, you may write or call us to request a separate copy of these materials from our principal executive offices at: Natus Medical Incorporated, Attn: Investor Relations, 1501 Industrial Road, San Carlos CA 94070, 650-802-0400.

***Q: Who will bear the cost of soliciting votes for the annual meeting?***

**A:** Natus is making this solicitation and will pay the entire cost of preparing, assembling, printing, mailing and distributing these proxy materials and soliciting votes. If you choose to access the proxy materials and/or vote over the Internet, you are responsible for Internet access charges you may incur. If you choose to vote by telephone, you are responsible for any telephone charges you may incur. In addition to the mailing of these proxy materials, the solicitation of proxies or votes may be made in person, by telephone or by electronic communication by our directors, officers and employees who will not receive any additional compensation for such solicitation activities. Upon request, we will also reimburse brokerage houses and other custodians, nominees and fiduciaries for forwarding proxy and solicitation materials to stockholders.

***Q: Where can I find the voting results of the annual meeting?***

**A:** We intend to announce the final voting results of all proposals at the Annual Meeting and will publish the final results in a current report on Form 8-K within four business days of the date the Annual Meeting ends, unless final results are unavailable in which case we will publish the preliminary results in such current report on Form 8-K. If final results are not filed with our current report on Form 8-K to be filed within four business days of the date the Annual Meeting ends, the final results will be published in an amendment to our current report on Form 8-K within four business days after the final voting results are known.

***Q: What is the deadline to propose actions for consideration or to nominate individuals to serve as directors?***

**A:** Although the deadline for submitting proposals or director nominations for consideration at the 2011 annual meeting has passed, you may submit proposals and director nominations for consideration at future stockholder meetings.

Stockholder Proposals: For a stockholder proposal to be considered for inclusion in the Natus proxy statement for the annual meeting next year, the written proposal must be received by the Corporate Secretary of Natus at our principal executive offices no later than December 23, 2011. If the date of next year's annual meeting is moved more than 30 days before or after the anniversary date of this year's annual





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meeting, the deadline for inclusion of proposals in the Natus proxy statement is instead a reasonable time before we begin to print and mail our proxy materials. Such proposals also will need to comply with Securities and Exchange Commission regulations under Rule 14a-8 regarding the inclusion of stockholder proposals in company-sponsored proxy materials. Proposals should be addressed to: Natus Medical Incorporated, Attn: Corporate Secretary, 1501 Industrial Road. San Carlos CA 94070.

For a stockholder proposal that is not intended to be included in the Natus proxy statement under Rule 14a-8, the stockholder must provide the information required by, and give timely notice to the Corporate Secretary of Natus in accordance with, Section 2.3(b) of the Company's Bylaws. For the 2012 annual meeting of stockholders, any such notice must be received by the Company not later than the close of business on April 2, 2012, provided that if the date of the 2012 annual meeting is moved more than 30 days from the anniversary date of this year's meeting (which is the date contemplated in setting the notice provisions for the 2012 annual meeting) then such notice must be received a reasonable time before we begin the solicitation of proxies for the 2012 annual meeting.

Recommendation and Nomination of Director Candidates: The Nominating and Governance Committee will consider recommendations for candidates to be considered for nominations to the Board from stockholders who are entitled to vote in the election of directors at the annual meeting. A stockholder that desires to recommend a candidate for election to the Board should see the section entitled Corporate Governance Principles and Board Matters; Policy for Director Recommendations and Nominations below in this proxy statement.

A stockholder that instead desires to nominate a person directly for election to the Board must meet all of the deadlines and information requirements set forth in Section 2.3(c) of the Company's Bylaws and the rules and regulations of the Securities and Exchange Commission. For next year's annual meeting of stockholders, any such nomination must be received by the Company not later than the close of business on April 2, 2012, provided that if the date of the 2012 annual meeting is moved more than 30 days from the anniversary date of this year's meeting, then such notice must be received a reasonable time before we begin the solicitation of proxies for the 2012 annual meeting.

If you would like a copy of the relevant bylaw provisions regarding the requirements for making stockholder proposals and nominating director candidates, please contact the Corporate Secretary of Natus Medical Incorporated at our principal executive offices.

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**PROPOSALS**

The proposals being presented for shareholder action are set forth on your proxy card and are discussed in detail below. Shares that you have the power to vote that are represented by proxy will be voted at the meeting in accordance with your instructions.

**PROPOSAL No. 1**

**ELECTION OF DIRECTORS**

The Board is divided into three classes. Each class is elected for a term of three years, so that the term of one class of directors expires at each meeting. There are two nominees for election to the Board this year – Kenneth E. Ludlum and Mark D. Michael. Each of the nominees is presently a member of the Board whose term expires at the meeting. Information regarding the business experience and age as of the record date of each nominee and other members of the Board is provided below. Each of the directors elected will serve a three-year term until our annual meeting in 2014 and until their respective successors are elected. There are no family relationships among our executive officers and directors.

If you sign your proxy or voting instruction card but do not give instructions with respect to the voting of directors, your shares will be voted for the two persons recommended by the Board. If you wish to give specific instructions with respect to voting for directors, you may do so by indicating your instructions on your proxy or voting instruction card.

**Our Board recommends a vote FOR the election to the Board of each of Mr. Ludlum and Mr. Michael.**

**Vote Required** The two persons receiving the highest number of for votes represented by shares of Natus common stock present in person or represented by proxy and entitled to be voted at the annual meeting will be elected. Our Corporate Governance Principles and Practices provide that if a nominee for election to the Board of Directors had a greater number of votes withheld than the number of votes cast for his or her election, such director shall tender his or her resignation from the Board and the Nominating and Governance Committee will determine the action to be taken with respect to such tendered resignation.

**Table of Contents*****Nominees for Election*****Kenneth E. Ludlum**

Director since 2002

Age 57

Mr. Ludlum is currently the Chief Financial Officer of EndoGastric Solutions, Inc. where he has served since April, 2011. Mr. Ludlum served as Senior Vice President and Chief Financial Officer of Paracor Medical Systems, Inc. from April 2008 to September 2009. From August 2007 through December 2007 he was the Chairman of the board of directors of AtheroMed, Inc. From March 2007 through August 2007 he served as Senior Vice President and Chief Financial Officer of Zonare Medical Systems. From 2005 through early 2007, Mr. Ludlum was an investor, advisor and board member for several medical technology companies. He was President, Chief Executive Officer, and Chairman of the board of directors of Revivant Corporation from June 2003 until its sale to Zoll Medical Corporation in October 2004. Prior to that, he was Chief Financial Officer of Perclose, Inc. Mr. Ludlum currently serves on the boards of directors of several private medical technology companies and was a director of Thermoage, Inc. (Nasdaq: THRM) from March 2004 to July 2007. He holds a Bachelor of Science degree in Business from Lehigh University and a Masters of Business Administration degree from Columbia University. Mr. Ludlum brings to the Board many years of experience as an executive and board member of dynamic medical technology companies. His service as chief financial officer at several public companies has provided him with extensive financial and accounting experience, and knowledge of accounting principles, financial reporting rules, and regulations. With his background in investment banking he also brings a unique perspective to the Board.

**Mark D. Michael**

Director since 2004

Age 59

Mr. Michael is currently a private investor, director, and consultant. He has served as the Senior Executive Advisor to Control Risks Group since March 2007. From October 2003 until March 2007, Mr. Michael acted as a private investor and consultant. Mr. Michael was Senior Vice President Legal, General Counsel, and Secretary of 3Com Corporation (Nasdaq: COMS) from 1997 through September 2003. He holds a Bachelor of Arts degree in History from Stanford University and a Juris Doctorate from the University of California Los Angeles School of Law. Mr. Michael brings to the Board a strong mix of legal, global business, and financial acumen critical to a large public company. With his experience as the former general counsel of 3Com he also brings a unique perspective to the Board regarding legal and regulatory matters, intellectual property and acquisitions.

***Continuing Directors*****Doris E. Engibous**

Director since 2004

Age 56

Ms. Engibous served as President and Chief Executive Officer of Hemosphere, Inc., an early commercialization stage medical technology company, from September 2004 to July 2010. From August 2003 to September 2004, Ms. Engibous served as a consultant and advisor to medical technology companies. Ms. Engibous served as President of Nellcor, a Tyco Healthcare Group/Tyco International, Ltd. (now Covidien) business from 2000 through August 2003. Ms. Engibous served on the board of directors of National Kidney Foundation serving Minnesota, the Dakotas and Iowa from 2006 to 2010. She holds a Bachelor of Science degree in Chemical Engineering from the University of Michigan. Ms. Engibous brings to the Board knowledge of organizational and operational management as well as executive leadership experience relevant to a healthcare industry public company.

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**William M. Moore**

Director since 1987

Age 62

Mr. Moore is one of our co-founders. Mr. Moore served as the Managing Partner of Alpine Partners LLC since May 2008 as well as from 2003 to 2004. From 2004 until May 2008 Mr. Moore was a special limited partner for medical technology at Blue Line Partners, a private equity firm. Mr. Moore currently serves on the board of directors of IRIDEX Corporation (Nasdaq: IRIX) and served on the boards of directors of Criticare Systems, Inc. from 2006 until it was acquired by Opto Circuits (India) Limited in April 2008 and Urologix Inc. (Nasdaq: ULGX) until June 2010. Mr. Moore holds a Bachelor of Science degree in Business from the University of Utah. Mr. Moore brings to the Board more than 25 years of executive experience in the worldwide medical technology field, particularly in the areas of sales, marketing, and product development.

**Robert A. Gunst**

Director since 2004

Age 63

Mr. Gunst joined the Board of Directors in June 2004 and he was appointed Chairman in September 2004. Mr. Gunst is currently a private investor. From 1990 to 1999, Mr. Gunst served as the President and Chief Executive Officer of The Good Guys, Inc. During the past five years, Mr. Gunst has also served on the boards of directors of Phoenix Footwear Group, Inc., PortalPlayer, Inc., which was acquired by NVIDIA Corporation in January 2007 and AmNet Mortgage, Inc., which was acquired by Wachovia Corp. in December 2005. He holds a Bachelor of Arts degree in Economics from Dartmouth College and a Masters Degree in Business Administration from the University of Chicago's Graduate School of Business. Mr. Gunst brings to the Board knowledge and experience gained from decades of managing and directing public and private companies across several industries.

**James B. Hawkins**

Director since 2004

Age 55

Mr. Hawkins joined Natus as President, Chief Executive Officer, and Director in April 2004 and as of February 2011 is Chief Executive Officer and Director. Prior to joining Natus, Mr. Hawkins was President, Chief Executive Officer, and a Director of Invivo Corporation, a developer and manufacturer of multi-parameter vital sign monitoring equipment, and its predecessor, from 1985 through January 2004. Mr. Hawkins also served as Secretary of Invivo from 1986 until January 2004. Mr. Hawkins is a director of IRIDEX Corporation (Nasdaq: IRIX). He earned his undergraduate degree in Business Commerce from Santa Clara University and holds a Masters of Business Administration degree from San Francisco State University. Mr. Hawkins brings to the Board highly relevant leadership experience in the medical technology industry as well as a unique perspective on our operations due to his position as our Chief Executive Officer.

**Table of Contents****PROPOSAL No. 2****RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED****PUBLIC ACCOUNTING FIRM**

The Audit Committee of the Board has appointed Deloitte & Touche LLP, an independent registered public accounting firm, to audit Natus's consolidated financial statements for the year ending December 31, 2011.

Stockholder ratification of the selection of Deloitte & Touche LLP as our independent auditors is not required by applicable law, our certificate of incorporation, our Bylaws or otherwise. However, the Board is submitting the selection of Deloitte & Touche LLP to the stockholders for ratification as a matter of good corporate practice. If the stockholders fail to ratify the selection, the Audit Committee will reconsider whether or not to retain Deloitte & Touche LLP. Even if the selection is ratified, the Audit Committee in its discretion may direct the appointment of different independent auditors at any time during the year if they determine that such a change would be in the best interests of Natus and its stockholders.

Representatives of Deloitte & Touche LLP are expected to attend the annual meeting, where they are expected to be available to respond to appropriate questions and, if they desire, to make a statement.

**Auditor Fees Incurred by Natus in 2010 and 2009**

Fees for professional services provided by our independent registered public accounting firm in the past two years are:

	<b>2010</b>	<b>2009</b>
Audit Fees (1)	\$ 1,467,000	\$ 1,488,000
Audit-Related Fees (2)	36,000	33,000
Tax Fees (3)	45,000	
Total	\$ 1,511,000	\$ 1,521,000

- (1) Audit services fees are fees for the annual audit of our consolidated financial statements. Audit services fees also include the audit of our internal control over financial reporting and the review of the financial statements included in our Quarterly Reports on Form 10-Q. This category also includes fees for services that generally only the principal auditor reasonably can provide to a client, such as procedures related to the audit of income tax provisions and related valuation allowances, fees for statutory audits of foreign subsidiaries, consents, and assistance with and review of documents filed with the Securities and Exchange Commission.
- (2) Audit-related fees are fees associated with assurance and related services that are reasonably related to the performance of the audit or review of the Company's financial statements. This category includes primarily fees for assistance in financial due diligence and attestation services related to mergers and acquisitions.
- (3) Tax fees are fees associated primarily with tax advice and planning services.

**Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditors**

Our Audit Committee pre-approves all audit and permissible non-audit services provided by our independent auditors. These services may include audit services, audit-related services, tax services and other services. Pre-approval is generally detailed as to the particular service or category of services and is generally subject to a specific budget. Our independent auditors and management are required to periodically report to the Audit Committee regarding the extent of services provided by our independent auditors in accordance with this pre-approval, and the fees for the services performed to date. Our Audit Committee may also pre-approve particular services on a case-by-case basis.

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**Our Board recommends a vote FOR the ratification of Deloitte & Touche LLP, an independent registered public accounting firm, as Natus auditors for the year ending December 31, 2011.**

If the appointment is not ratified, the Audit Committee will consider whether it should select other independent auditors.

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**PROPOSAL No. 3**

**ADVISORY VOTE ON EXECUTIVE COMPENSATION**

We are requesting your advisory approval of the compensation of our named executive officers as disclosed in the Compensation Discussion and Analysis, the compensation tables, and the related narrative discussion in the Proxy Statement. This non-binding advisory vote is commonly referred to as a say-on-pay vote.

Our Compensation Committee believes that the most effective executive compensation program is one that is designed to reward achievement and that aligns executives' interests with those of stockholders by rewarding performance, with the ultimate objective of improving stockholder value. The Committee also seeks to ensure that we maintain our ability to attract and retain superior employees in key positions and that the compensation provided to key employees remains competitive relative to the compensation paid to similarly situated executives of a selected group of our peer companies and the broader marketplace from which we recruit and compete for talent.

We are asking you to indicate your support for the compensation of our named executive officers as described in this Proxy Statement. This vote is not intended to address any specific item of compensation, but rather the overall compensation of our named executive officers and the philosophy, policies and practices described in this Proxy Statement. Accordingly, we are asking you to vote, on an advisory basis, FOR the following resolution at the Annual Meeting:

*RESOLVED, that the compensation paid to the company's named executive officers, as disclosed pursuant to Item 402 of Regulation S-K, including the Compensation Discussion and Analysis, compensation tables and narrative discussion set forth on pages 24 to 35 of this Proxy Statement, is hereby approved.*

While the results of this advisory vote are not binding, the Compensation Committee will consider the outcome of the vote in deciding whether to take any action as a result of the vote and when making future compensation decisions for named executive officers.

**Board of Directors Recommendation**

**Our Board recommends a vote FOR the Advisory Vote on Executive Compensation.**

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**PROPOSAL No. 4**

**ADVISORY VOTE ON THE FREQUENCY WITH WHICH AN ADVISORY VOTE ON  
EXECUTIVE COMPENSATION SHOULD BE HELD**

You are being provided with the opportunity to cast an advisory vote on how frequently we should seek an advisory vote on the compensation of our named executive officers as provided in Proposal No. 3. This advisory vote is referred to here as the frequency of say-on-pay vote. Under this Proposal No. 4, you may vote on whether you would prefer to have a say-on-pay vote every year, every two years or every three years.

The say-on-pay and frequency of say-on-pay voting provisions are new and at this time our Board of Directors believes that the say-on-pay advisory vote should be conducted every year. An annual advisory vote on executive compensation will allow our stockholders to provide input on our compensation philosophy, policies and practices as disclosed in the proxy statement every year.

You may cast your vote on your preferred voting frequency by choosing the option of one year, two years or three years or abstain from voting when you vote in response to the resolution set forth below.

*RESOLVED, that the compensation of the company's named executive officers be submitted to the stockholders of the company for an advisory vote: (a) every year; (b) every two years; or (c) every three years.*

You are not voting to approve or disapprove our Board of Directors' recommendation.

While this advisory vote on the frequency of the say on pay vote is non-binding, our Board of Directors and Compensation Committee will give careful consideration to the outcome of this vote when considering the frequency of future say on pay votes.

**Board of Directors' Recommendation**

**Our Board recommends a vote FOR the holding of an annual advisory vote on Executive Compensation.**



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**PROPOSAL No. 5**

**APPROVAL OF THE 2011 STOCK AWARDS PLAN**

In April 2011, the Board of Directors approved the 2011 Stock Awards Plan (the "2011 Plan") and is asking stockholders to approve the 2011 Plan. The 2011 Plan will replace our Amended and Restated 2000 Stock Awards Plan ("Prior Plan") and 2000 Director Option Plan, which expire in July 2011. We believe that adoption of the 2011 Plan is essential for our ability to attract and retain qualified executives and other key employees and directors.

The 2011 Plan provides for the same types of equity awards to officers and other employees, directors and consultants as the Prior Plan. Other important features of the 2011 Plan include:

Elimination of the "evergreen" provision of regarding shares authorized under the Prior Plan and establishing a pool consisting of a fixed number of shares, plus shares underlying awards granted under the Prior Plan that are forfeited due to expiration of the award or termination of employment of the award recipient;

Provision that full-value awards (i.e., awards other than stock options or stock appreciation rights) count on a 2.5 to 1 basis in terms of the utilization of authorized shares;

Provision that shares recovered from the use of award shares to satisfy the purchase price or associated tax obligations of the recipient are not added back to the maximum number of authorized shares;

Double-trigger acceleration provisions for the vesting of awards in connection with a change of control event;

Prohibition of the repricing of outstanding options or stock appreciation rights without stockholder consent; and

A claw-back provision that provides authority for the Compensation Committee, or other plan administrator, to reduce or cancel awards, or recapture gains from previously vested awards, in the event that it determines that the award recipient has engaged in certain types of inappropriate behavior relative to the Company.

We urge you to read the Compensation Discussion and Analysis in this Proxy Statement which describes the key role of equity awards in our compensation strategy. We believe that it is essential that we continue to have the ability to provide equity awards to officers and other key employees and directors for several reasons. First, we believe the ability to make equity awards is very important for our ability to compete successfully for talent in the competitive market conditions and geographic areas in which we operate. Second, these awards, with our typical vesting periods, provide award recipients with a meaningful component of their compensation that is directly related to longer term growth in value achieved for stockholders. And third, these awards have been our sole form of compensation with vesting elements that extend beyond one year and, as such, at any given time an award recipient's unvested equity awards serve as a powerful retention tool.

**If the 2011 Plan is not approved, we will lose the ability to grant equity awards to existing employees and directors under the Prior Plan when it expires in July 2011.** Under the Prior Plan, we had the authority to grant equity awards covering 2,710,888 shares of our common stock as of March 31, 2011, in addition to the 3,452,020 shares of common stock underlying awards outstanding on that date. **We will not carry over to the 2011 Plan any authorized shares from the Prior Plan other than shares underlying awards made under the Prior Plan that are forfeited due to expiration of the award or termination of employment of the award recipient.**

Should stockholder approval not be obtained, the 2011 Plan will not be implemented.

**Summary of the 2011 Plan**

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Below is a summary of the principal provisions of the 2011 Plan. This summary is qualified in its entirety by reference to the full text of the 2011 Plan which is attached to this proxy statement as Appendix A

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**Shares Subject to the 2011 Plan.** An aggregate of 4,000,000 shares of the Company's Common Stock have will be reserved for issuance under the 2011 Plan. In addition, shares underlying outstanding awards under the Prior Plan on July 1, 2011 that are forfeited due to expiration of the award or termination of employment of the award recipient will also become available for issuance under the 2011 Plan. As of March 31, 2011 there were 4,212,387 shares underlying outstanding awards under the Prior Plan. In addition to these shares, we expect to make our annual equity awards to officers and key employees in June 2011, promptly following the Annual Meeting, under the Prior Plan. If the 2011 Plan is approved by stockholders, we will terminate the Prior Plan on July 1, 2011.

The 2011 Plan contains a feature not included in the Prior Plan regarding the rate at which different types of awards are counted towards the maximum number of shares that may be subject to awards made under the plan. For purposes of determining the number of shares available for grant under the 2011 Plan against the maximum number of shares authorized, any full-value award (i.e., awards other than stock options and stock appreciation rights) will reduce the number of shares available for issuance by 2.5 shares for every 1 share issued, and stock option or stock appreciation rights will reduce the number of shares available for issuance on a share for share basis.

With respect to awards made under the 2011 Plan, shares that are subject to issuance upon exercise of an option but cease to be subject to such option for any reason (other than exercise of such option), shares that are subject to an award that is granted but is subsequently forfeited or repurchased by the Company at the original issue price and shares that are subject to an award that terminates without shares being issued will again be available for grant and issuance under the 2011 Plan. The number of shares that will, in effect, be added back to the pool of available shares under the plan as a result of these forfeitures, repurchases and terminations will be the same as the number of shares by which the award reduced the number of shares available when the award was made. Any shares that are made available under the 2011 Plan due to forfeitures, repurchases and terminations with regard to awards under the Prior Plan that are outstanding on July 1, 2011 will be added back on a share for share basis regardless of whether the forfeited, repurchased or terminated award was a full value award or other type of award. For awards under both the 2011 Plan and the Prior Plan, shares that are withheld to pay the exercise or purchase price of an award or to satisfy any tax withholding obligations in connection with an award and shares that are not issued or delivered as a result of the net settlement of an outstanding option or stock appreciation right will not be available again for grant and issuance under the 2011 Plan.

**Administration.** The Board of Directors or any of its Committees appointed by the Board shall act as the administrator of the 2011 Plan. Subject to the terms of the 2011 Plan, the administrator determines the persons who are to receive awards, the number of shares subject to each such award and the terms, types and conditions of such awards. The administrator also has the authority to construe and interpret any of the provisions of the 2011 Plan or any awards granted thereunder. We expect that the Board will designate our Compensation Committee as the administrator of the 2011 Plan.

In determining whether an award should be made, and/or the vesting schedule for any such award, the administrator may impose whatever conditions to vesting that it determines to be appropriate. For example, the administrator may decide to grant an award only if the participant satisfies performance goals established by the administrator. The administrator may set performance periods and performance goals that differ from participant to participant. The administrator may choose performance goals based on company-wide or other results, as deemed appropriate in light of the participant's specific responsibilities. For purposes of qualifying awards as performance-based compensation under Section 162(m), the administrator may (but is not required to) specify performance goals for the entire company. Performance goals may be based on business criteria including: net income, earnings per share, return on equity, or other financial or performance-related measures.

After the end of each performance period, a determination will be made pursuant to Section 162(m) as to the extent to which the performance goals applicable to each participant were achieved or exceeded. The actual award (if any) for each participant will be determined by the level of actual performance.

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**Eligibility.** Employees, officers, directors (including directors who are not employees), and consultants of the Company (and of any subsidiaries and affiliates) whom the Board of Directors deems to have potential to contribute to the future success of the Company (the Participants ) are eligible to receive Stock Options, Restricted Stock, Stock Bonuses, Stock Appreciation Rights, and Restricted Stock Units under the 2011 Plan. No person will be granted awards covering more than 1,000,000 shares of Stock in any one fiscal year under the 2011 Plan, except that in connection with his or her initial employment, an employee may be granted an award covering an additional 500,000 Shares.

**Stock Option Awards.** The 2011 Plan permits the granting of options that are intended to qualify either as Incentive Stock Options ( ISOs ) or Nonqualified Stock Options ( NQSOs ).

ISOs may be granted only to employees and no more than 4,000,000 shares may be granted as ISOs under the 2011 Plan.

The exercise price for each option granted under the 2011 Plan is determined by the administrator and generally will be no less than 100% of the fair market value (as defined in the plan) of a share at the time such option is granted. In the case of a 10% or greater stockholder, the exercise price of an ISO must be no less than 110% of the fair market value. Options are exercisable within the times and upon the events determined by the administrator as set forth in the optionee's option agreement, provided that the term of any option grant under the 2011 Plan may not exceed ten years.

**Restricted Stock Awards.** The administrator may grant Participants restricted stock awards to purchase stock either in addition to, or in tandem with, other awards under the 2011 Plan, under such terms, conditions and restrictions as the administrator may determine. Vesting of restricted stock awards may be based on continued service or the satisfaction of performance factors established by the administrator.

**Stock Bonus Awards.** The administrator may grant Participants stock bonus awards, which may take the form of cash, whole Shares, or a combination thereof, under such terms, conditions and restrictions as the administrator may determine. Vesting of stock bonus awards may be based on continued service or the satisfaction of performance factors established by the administrator.

**Stock Appreciation Rights.** Stock appreciation rights are awards that typically obligate the Company to issue our shares in the future if the vesting terms and conditions scheduled by the administrator are satisfied, and if there has been an appreciation in value of our share price from the date of grant. The administrator determines the terms and conditions of stock appreciation rights, provided that the term of a stock appreciation right may not exceed ten years. The Company's obligation arising upon the exercise of a stock appreciation right may be paid in cash, whole Shares, or a combination thereof, as the administrator may determine. The administrator may choose to grant stock appreciation rights in tandem with the grant of stock options, such that the exercise of either the stock option or the stock appreciation right would cancel the other.

**Restricted Stock Units.** Restricted stock units are awards that typically obligate the Company to issue a specific number of our shares at a future date if the vesting terms and conditions established by the administrator are satisfied. The administrator will determine the number of shares that are subject to such restricted stock units. Vesting of restricted stock units may be based on continued service or the satisfaction of performance factors established by the administrator, and we may settle our obligation under a restricted stock unit in cash, whole Shares, or a combination thereof.

### **Consideration and Issuance of Shares**

The 2011 Plan provides that the consideration to be paid for any Shares issued pursuant to an award made under the 2011 Plan may consist of the following, subject to any further limitations that may be contained in the agreement entered into with the recipient of any award: (a) cash, (b) check, (c) promissory note, (d) consideration

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received by the Company under a cashless exercise program implemented by an independent third party, (e) prior services provided to the Company or any Parent or Subsidiary of the Company as determined by the administrator (provided the par value of the Shares shall always be paid in cash), (f) any combination of the foregoing methods of payment, or (g) such other consideration and method of payment for the issuance of Shares to the extent permitted by applicable laws.

### **Mergers, Consolidations, Change of Control.**

**Changes in Capitalization.** The number of Shares covered by any outstanding award and the number of Shares which have been authorized for issuance under the 2011 Plan shall be proportionately adjusted for any increase or decrease in the number of issued shares resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Shares of the Company.

**Dissolution or Liquidation.** In the event of the proposed liquidation of the Company the administrator may provide in its discretion for any holder of an Award to have the right to exercise his or her Award prior to such transaction as to all of the Shares covered thereby, including Shares as to which the Award would not otherwise be exercisable. In addition, the administrator may provide that any Company repurchase right applicable to any Shares purchased upon exercise of an Award shall lapse as to all such Shares. To the extent it has not been previously exercised, an Award will terminate immediately prior to the consummation of such proposed action.

**Merger or Asset Sale.** In the event of a change in control transaction (as defined in the 2011 Plan), at the administrator's discretion, outstanding Awards may be assumed or equivalent awards may be substituted by the successor corporation. If the successor corporation does not assume an outstanding award or substitute for it an equivalent award, the award shall become fully vested and exercisable. At the administrator's discretion, the administrator may provide that following an assumption or substitution of equivalent awards, if a Participant's service as an employee or employee of the successor corporation, as applicable, is terminated within 12 months of the Change in Control Transaction other than upon a voluntary resignation by such Participant or the termination of such participant for cause, the awards (or equivalent awards) held by such participant shall become fully vested and exercisable. Even when assumed or substituted, the administrator has the discretion to terminate the Plan and permit participants to exercise awards to the extent already vested and the discretion to accelerate vesting of any portion of, or all of, the then outstanding options or other awards.

In the event of the merger of the Company with or into another corporation or the sale of substantially all of the assets of the Company in a transaction that is not a change in control transaction, each outstanding award shall be assumed or an equivalent award shall be substituted by the successor corporation. In the event the successor corporation refuses to assume or substitute for an award, such award shall terminate upon the closing of such merger or sale of assets.

### **Amendment of the 2011 Plan and Outstanding Awards**

The Board may at any time terminate or amend the 2011 Plan, including amending any form of award agreement or instrument to be executed pursuant to the 2011 Plan or executed and outstanding under the 2011 Plan, provided, that the Board may not, without the approval of the stockholders, amend the 2011 Plan to increase the number of shares that may be issued under the plan or materially modify a provision of the plan if the modification requires stockholder approval under rules of the NASDAQ Stock Market. However, the Board may not reduce the exercise price of stock options or stock appreciation rights or cancel outstanding stock options or stock appreciation rights in exchange for cash or other awards with an exercise price that is less than the exercise price of the original stock option or stock appreciation right without prior stockholder approval.

### **Clawback Provisions**

The administrator may specify in an award that the Participant's rights with respect to an award are subject to reduction, cancellation, forfeiture, or recoupment upon the occurrence of certain specified events, in addition

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to any otherwise applicable vesting or performance conditions of an award. Such events may include, but are not limited to, termination of employment for cause, breach of non-competition, confidentiality, or other restrictive covenants that may apply to the Participant, or other conduct by the Participant that is detrimental to the business or reputation of the Company as determined by the administrator. In addition, if any of the Company's financial statements are required to be restated resulting from errors, omissions, or fraud, the administrator may (in its sole discretion, but acting in good faith) direct that the Company recover all or a portion of any with respect to any fiscal year of the Company the financial results of which are negatively affected by such restatement. The amount to be recovered from a Participant would be the amount by which the award exceeded the amount that would have been payable to the Participant had the financial statements been initially filed as restated, or any greater or lesser amount (including, but not limited to, the entire award) that the administrator shall determine.

**Term of the 2011 Plan**

If approved by the stockholders, the 2011 Plan will terminate June 2, 2021, ten years from the Annual Meeting.

**Federal Income Tax Information**

THE FOLLOWING IS A GENERAL SUMMARY AS OF THE DATE OF THIS PROXY STATEMENT OF THE FEDERAL INCOME TAX CONSEQUENCES TO THE COMPANY AND PARTICIPANTS UNDER THE 2011 PLAN. THE FEDERAL TAX LAWS MAY CHANGE AND THE FEDERAL, STATE AND LOCAL TAX CONSEQUENCES FOR ANY PARTICIPANT WILL DEPEND UPON HIS OR HER INDIVIDUAL CIRCUMSTANCES. THIS SUMMARY DOES NOT ADDRESS THE TAX CONSEQUENCES TO FAMILY MEMBERS TO WHOM AN OPTION IS TRANSFERRED OR TO THE PARTICIPANT THAT TRANSFERS THE OPTION. EACH PARTICIPANT AND FAMILY MEMBER WHO HOLDS AN OPTION HAS BEEN AND IS ENCOURAGED TO SEEK THE ADVICE OF A QUALIFIED TAX ADVISOR REGARDING THE TAX CONSEQUENCES OF PARTICIPATION IN THE PLAN.

*Incentive Stock Options.* A Participant will recognize no income upon grant of an ISO and incur no tax on its exercise (unless the Participant is subject to the alternative minimum tax (AMT)). If the Participant holds the stock acquired upon exercise of an ISO (the ISO Shares) for more than one year after the date the option was exercised and for more than two years after the date the option was granted, the Participant generally will realize capital gain or loss (rather than ordinary income or loss) upon disposition of the ISO Shares. This gain or loss will be equal to the difference between the amount realized upon such disposition and the amount paid for the ISO Shares.

If the Participant disposes of the ISO Shares prior to the expiration of either required holding period described above (a disqualifying disposition), the gain realized upon such disposition, up to the difference between the fair market value of the ISO Shares on the date of exercise (or, if less, the amount realized on a sale of such shares) and the option exercise price, will be treated as ordinary income. Any additional gain will be long-term or short-term capital gain, depending upon the amount of time the ISO Shares were held by the Participant.

*Alternative Minimum Tax.* The difference between the fair market value of the ISO Shares on the date of exercise and the exercise price is an adjustment to income for purposes of the alternative minimum tax, or AMT. Alternative minimum taxable income is determined by adjusting regular taxable income for certain items, increasing that income by certain tax preference items (including the difference between the fair market value of the ISO Shares on the date of exercise and the exercise price) and reducing this amount by the applicable exemption amount. If a disqualifying disposition of the ISO Shares occurs in the same calendar year as the exercise of the ISO for those ISO shares, there is no AMT adjustment with respect to those ISO Shares. Also, upon a sale of the ISO Shares that is not a disqualifying disposition, alternative minimum taxable income is reduced in the year of the sale by the excess of the fair market value of the ISO Shares at exercise over the amount paid for the ISO Shares.

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*Nonqualified Stock Options.* A Participant will not recognize any taxable income at the time a NQSO is granted. However, upon exercise of a NQSO the Participant will include in income as compensation an amount equal to the difference between the fair market value of the shares on the date of exercise and the Participant's exercise price. The included amount will be treated as ordinary income by the Participant and may be subject to withholding by the Company (either by payment in cash or withholding out of the Participant's salary). Upon resale of the shares by the Participant, any subsequent appreciation or depreciation in the value of the shares will be treated as capital gain or loss.

*Restricted Stock Awards and Stock Bonuses.* Restricted stock awards and stock bonuses will generally be subject to tax at the time of receipt, unless there are restrictions that enable the Participant to defer tax. At the time that tax is incurred, the tax treatment will be similar to that discussed above for NQSOs.

*Stock Appreciation Rights.* No taxable income is reportable when a stock appreciation right is granted to a participant. Upon exercise, the participant will recognize ordinary income in an amount equal to the amount of cash received and the fair market value of any shares received. Any additional gain or loss recognized upon any later disposition of the shares would be capital gain or loss.

*Restricted Stock Units.* A participant will not be taxable upon grant or upon vesting of a restricted stock unit. Instead, he or she will be taxable upon receipt of the shares or cash value of the shares at the time of the distribution of the shares or cash to the participant. The participant may not make an election under Section 83(b) of the Code with respect to any restricted stock unit.

*Tax Treatment of the Company.* The Company generally will be entitled to a tax deduction in connection with an award under the 2011 Plan in an amount equal to the ordinary income realized by a participant and at the time the participant recognizes such income (for example, the exercise of a nonqualified stock option). Special rules limit the deductibility of compensation paid to our Chief Executive Officer and to each of our four other most highly compensated executive officers. Under Section 162(m) of the Internal Revenue Code, the annual compensation paid to any of these specified executives will be deductible only to the extent that it does not exceed \$1,000,000. However, the Company can preserve the deductibility of certain compensation in excess of \$1,000,000 if the conditions of Section 162(m) are met. These conditions include stockholder approval of the 2011 Plan, setting limits on the number of shares subject to awards that any individual may receive in a calendar year, and for awards other than certain stock options, establishing performance criteria that must be met before the award actually will vest or be paid. The 2011 Plan has been designed to permit the Committee to grant awards that qualify as performance-based for purposes of satisfying the conditions of Section 162(m), thereby permitting the Company to continue to receive a federal income tax deduction in connection with such awards.

## **New Plan Benefits**

Future awards to directors, executive officers, employees and other eligible participants under the 2011 Plan are discretionary and cannot be determined at this time. By way of background, please see "Grants of Plan Based Awards Fiscal 2010" for information regarding equity awards in 2010 to our named executive officers and Director Compensation for information regarding equity awards in 2010 to our directors. In 2010, awards of stock options, restricted stock and restricted stock units covering 728,650 shares were made to all of our employees, including officers who were not executive officers.

## **Board of Directors Recommendation**

**Our Board recommends a vote FOR the approval of the 2011 Stock Awards Plan. Properly completed proxies will be voted FOR ratification unless a contrary vote is specified.**

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**PROPOSAL No. 6**

**APPROVAL OF THE 2011 EMPLOYEE STOCK PURCHASE PLAN**

The following is a summary of the principal provisions of the Company's 2011 Employee Stock Purchase Plan (the "2011 Purchase Plan"). The 2011 Purchase Plan was adopted to replace the 2000 Employee Stock Purchase Plan, which is due to expire in July 2011. The 2011 Purchase Plan is generally similar to the expiring plan. This summary is qualified in its entirety by reference to the full text of the 2011 Purchase Plan which is attached to this proxy statement as Appendix B.

**Purchase Plan Background**

In April 2011, the Board of Directors adopted the 2011 Purchase Plan, subject to approval by our stockholders. The 2011 Purchase Plan Administrator (as described below) has the power to change the duration of offering periods.

Our 2000 Employee Stock Purchase Plan is currently in effect, with the most recent offering period scheduled to expire on April 30, 2011. We do not intend to commence any new offering periods under the 2000 Employee Stock Purchase Plan after April 30, 2011. If the 2011 Purchase Plan is approved by our stockholders, we will terminate the 2000 Employee Stock Purchase Plan, and the remaining shares reserved for issuance under the 2000 Employee Stock Purchase Plan, 4,212,387 shares as of March 31, 2011, would no longer be available under the 2000 Employee Stock Purchase Plan, nor would such shares become available under the 2011 Purchase Plan.

**Shares Subject to the 2011 Purchase Plan**

The Board has reserved an aggregate of 500,000 shares of the Company's common stock for issuance under the 2011 Purchase Plan. This differs from the 2000 Employee Stock Purchase Plan, which had automatic annual increases to the shares reserved under such plan. No increases can be made to the shares reserved for issuance under the 2011 Purchase Plan without the approval of our stockholders.

**Administration**

The 2011 Purchase Plan is administered by the Board or a committee of the Board (as applicable, the administrator). The administrator has the authority to construe and interpret any of the provisions of the 2011 Purchase Plan.

**International Stock Purchase Rights**

To provide us with greater flexibility in structuring our equity compensation programs for our non-U.S. employees, the 2011 Purchase Plan also permits us to grant our non-U.S. employees rights to purchase stock pursuant to rules or sub-plans adopted by the Administrator in order to achieve tax, securities law or other compliance objectives ("International Awards"). While the 2011 Purchase Plan is intended to be an employee stock purchase plan within the meaning of Section 423 of the Internal Revenue Code ("Section 423"), these International Awards will not qualify under Section 423. See "Federal Tax Consequences" below for a discussion of tax consequences under Section 423.

**Eligibility**

Employees generally are eligible to participate in the 2011 Purchase Plan if they are customarily employed by us or one of our U.S. subsidiaries for more than twenty (20) hours per week and more than five (5) months in any calendar year. Eligible employees may select a rate of payroll deduction between 1% and 15% of their compensation and are subject to certain maximum purchase limitations pursuant to regulations of the Internal Revenue Service.



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Currently, approximately 400 employees, including our executive officers, would be eligible to participate in the 2011 Purchase Plan. For the offering period under our 2000 Employee Stock Purchase Plan that concluded on October 31, 2010, approximately 100 employees participated in such offering.

### **Offering Periods and Purchase Period**

The 2011 Purchase Plan is comprised of six-month offering periods that commence on May 1 and November 1 of each year, although we intend to commence an initial offering period on June 2, 2011, expiring on October 31, 2011, if the 2011 Purchase Plan is approved by stockholders. In each offering period there is a purchase period that commences on the first day of each offering period and that ends on the last business day on or before the following April 30 and October 31, respectively. On the last day of each Purchase Period participants in the 2011 Purchase Plan purchase shares of our Company common stock. The purchase price for the common stock purchased under the 2011 Purchase Plan is 85% of the fair market value of the common stock as of the most recent previous closing of the Nasdaq Stock Market prior to the purchase date.

### **Special Limitations**

The 2011 Purchase Plan imposes certain limitations upon a participant's rights to acquire common stock, including the following limitations:

Purchase rights may not be granted to any individual who owns stock, including stock purchasable under any outstanding purchase rights, possessing 5% or more of the total combined voting power or value of all classes of stock of the Company or any of its affiliates;

Purchase rights granted to a participant may not permit the individual to accrue the right to purchase our common stock at a rate of more than \$12,500 for any offering period, valued at the time each purchase right is granted; and

No more than 10,000 shares may be purchased by any one participant during each offering period

### **Termination of Purchase Rights**

A purchase right will terminate upon the participant's election to withdraw from the 2011 Purchase Plan. Any payroll deductions that the participant may have made with respect to the terminated purchase right will be refunded to the participant if the election to withdraw from the 2011 Purchase Plan is received prior to the end of an offering period. A participant's election to withdraw from the 2011 Purchase Plan is irrevocable, and the participant may not rejoin the offering period for which the terminated purchase right was granted.

A purchase right will also terminate upon the participant's termination of employment. Any payroll deductions that the participant may have made during the offering period in which the termination occurs will be refunded to the participant.

In addition, the company has specifically reserved the right, exercisable in the sole discretion of the administrator, to terminate the 2011 Purchase Plan, or any offering period thereunder, at any time.

### **Stockholder Rights**

No participant will have any stockholder rights with respect to the shares covered by his or her purchase rights until the shares are actually purchased on the participant's behalf. No adjustment will be made for dividends, distributions or other rights for which the record date is prior to the date of the purchase.

### **Assignability**

No purchase rights will be assignable or transferable by the participant, except by will or the laws of inheritance following the participant's death. Each purchase right will, during the lifetime of the participant, be exercisable only by the participant.



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### **Mergers, Consolidations and Change in Control**

The 2011 Purchase Plan provides that, in the event of the proposed dissolution or liquidation of the Company, the then-open offering period will terminate immediately prior to the consummation of the proposed action, provided that the administrator may, in its sole discretion, fix an earlier date for termination of the 2011 Purchase Plan and provide each participant the opportunity to purchase shares under the 2011 Purchase Plan prior to the termination. The 2011 Purchase Plan also provides that, in the event of certain merger or change-in-control transactions, in the event that the successor corporation refuses to assume or substitute for the option under an ongoing offering period, the offering period with respect to which such option relates will be shortened by setting a new exercise date that occurs before the date of the Company's proposed merger or change in control.

### **Amendment of the Plan**

The Administrator has the authority to amend, terminate or extend the term of the 2011 Purchase Plan, except that stockholder approval is required to increase the number of shares that may be issued under the 2011 Purchase Plan.

The 2011 Purchase Plan will terminate in April 2021, on the tenth anniversary of the date of its adoption by our Board, unless terminated earlier under the terms of the 2011 Purchase Plan.

### **Federal Tax Consequences**

Except with respect to International Awards, the 2011 Purchase Plan is intended to be an employee stock purchase plan within the meaning of Section 423 of the Internal Revenue Code. Under such a plan, no taxable income will be reportable by a participant, and no deductions will be allowable to the Company, as a result of the grant or exercise of the purchase rights issued under the 2011 Purchase Plan. Taxable income will not be recognized until there is a sale or other disposition of the shares acquired under the 2011 Purchase Plan or in the event the participant should die while still owning the purchased shares.

If the participant sells or otherwise disposes of the purchased shares within two years after commencement of the offering period during which those shares were purchased or within one year of the date of purchase, the participant will recognize ordinary income in the year of sale or disposition equal to the amount by which the fair market value of the shares on the purchase date exceeded the purchase price paid for those shares. If the participant sells or disposes of the purchased shares more than two years after the commencement of the offering period in which those shares were purchased and more than one year from the date of purchase, then the participant will recognize ordinary income in the year of sale or disposition equal to the lesser of the amount by which the fair market value of the shares on the sale or disposition date exceeded the purchase price paid for those shares or 15% of the fair market value of the shares on the date of commencement of such offering period. Any additional gain upon the disposition will be taxed as a capital gain.

If the participant still owns the purchased shares at the time of death, the lesser of the amount by which the fair market value of the shares on the date of death exceeds the purchase price or 15% of the fair market value of the shares on the date of commencement of the offering period during which those shares were purchased will constitute ordinary income in the year of death.

If the purchased shares are sold or otherwise disposed of within two years after commencement of the offering period during which those shares were purchased or within one year after the date of purchase, then the Company will be entitled to an income tax deduction in the year of sale or disposition equal to the amount of ordinary income recognized by the participant as a result of such sale or disposition. No deduction will be allowed in any other case.

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**New Benefits Under the 2011 Purchase Plan**

Because awards to employees under the 2011 Purchase Plan are based on voluntary contributions in amounts determined by the participant, the benefits and amounts that will be received or allocated under the 2011 Purchase Plan are not determinable at this time. Therefore, we have not included a table reflecting such benefits or awards.

Based on their stockholdings as of March 31, 2011, (determined in accordance with Section 423 of the Code) all of our named executive officers (as defined in Compensation Discussion and Analysis below) will be eligible to participate in our 2011 Purchase Plan. As of March 31, 2011, two of our named executive officers were participants in our 2000 Employee Stock Purchase Plan. None of our non-employee directors will be eligible to participate in the 2011 Purchase Plan.

**Our Board of Directors recommends a vote FOR the approval of the 2011 Employee Stock Purchase Plan.**

**Table of Contents****CORPORATE GOVERNANCE PRINCIPLES AND BOARD MATTERS**

Natus is committed to having sound corporate governance principles. Having such principles is essential to running our business effectively and to maintaining our integrity in the marketplace. Our Code of Business Conduct and Ethics which applies to all Natus employees, including our principal executive officer and principal financial officer, is available on our Internet website at <http://www.natus.com>. The Code of Business Conduct and Ethics can be found in the Governance section of our Investor webpage. Our Code of Business Conduct and Ethics complies with the rules of the SEC and the listing standards of the Nasdaq Stock Market. We have also adopted complaint procedures for accounting and auditing matters. Concerns relating to accounting, internal accounting controls or auditing matters may be brought to the attention of our Audit Committee through our anonymous reporting system described in the Code of Business Conduct and Ethics.

**Board Independence**

The Board has determined that, except for James B. Hawkins, our Chief Executive Officer, each of our current directors has no material relationship with Natus (either directly or as a partner, shareholder or officer of another organization that has a material relationship with Natus) and is independent within the meaning of the Nasdaq Stock Market ( Nasdaq ) director independence standards. Furthermore, the Board has determined that each of the members of each of the committees of the Board has no material relationship with Natus (either directly or as a partner, stockholder or officer of an organization that has a material relationship with Natus) and is independent within the meaning of the Nasdaq director independence standards, including in the case of the members of the Audit Committee, the heightened independence standard required for such committee members set forth in the applicable SEC rules.

**Board Structure and Committee Composition**

As of December 31, 2010, our Board had six directors divided into three classes with each class being equal in number and with a three-year term for each class. As of December 31, 2010, the classes were comprised as follows:

**Nominees for director whose terms will expire in 2011**

Kenneth E. Ludlum  
Mark D. Michael

**Present directors whose terms expire in 2012**

Doris E. Engibous  
William M. Moore

**Present directors whose terms expire in 2013**

Robert A. Gunst  
James B. Hawkins

We do not have a policy regarding the separation of the roles of Chief Executive Officer and Chairman of the Board as we believe it is in our best interests to make that determination based on the position and direction of the Company and the membership of the Board. The Board has determined that having an independent director serve as Chairman is in the best interest of our stockholders at this time. This structure ensures a greater role for the independent members of the Board in the oversight of the Company and active participation of the independent directors in setting agendas and establishing Board priorities and procedures. Further, this structure permits our Chief Executive Officer to focus on the management of our day-to-day operations.

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The Board has a standing Audit Committee, Compensation Committee, and Nominating and Governance Committee. The membership during the last year and the function of each of the committees are described below. Each of these committees operates under a written charter adopted by the Board. All of those committee charters are available on our Internet website at <http://www.natus.com>. The charters can be found in the Governance section of our Investor webpage. During 2010, each director attended at least 75% of all Board and applicable committee meetings.

Name of Director	Board	Audit	Compensation	Nominating and Governance
<b>Non-Employee Directors</b>				
Doris E. Engibous	X		X	X
Robert A. Gunst	X	X	X	
Kenneth E. Ludlum*	X	X		
Mark D. Michael	X	X		X
William M. Moore	X		X	X
<b>Employee Director</b>				
James B. Hawkins	X			
Number of Meetings in 2010	7	8	6	2

X = Committee Member

\* The Board has determined that Mr. Ludlum is an audit committee financial expert within the meaning of the rules promulgated by the Securities and Exchange Commission.

We encourage our directors to attend our annual meeting of stockholders and we typically hold a regularly scheduled meeting of our Board of Directors on the same day as the annual stockholders meeting. All of our directors attended the 2010 annual meeting of stockholders.

**Audit Committee**

The Audit Committee oversees and monitors our accounting and financial reporting processes, our financial statement audits, audits of our internal controls over financial reporting, the qualifications, independence and performance of our independent registered public accounting firm, and our internal accounting and financial controls. The Committee also pre-approves audit and non-audit services, reviews, approves and monitors our *Code of Business Conduct and Ethics* with respect to our Chief Executive Officer, Chief Financial Officer, and other senior financial officers, and establishes procedures for receiving and handling complaints regarding accounting, internal accounting controls, or auditing matters. The report of the Audit Committee for 2010 is included in this proxy statement.

**Compensation Committee**

The Compensation Committee is responsible for determining or recommending to the Board of Directors salaries, incentives and other forms of compensation for executive officers and other employees and administers various incentive compensation and benefit plans.

Under Delaware law the Compensation Committee has the ability to delegate powers to a subcommittee of its members. The Board of Directors may also delegate the right to grant certain equity awards to one or more officers of the Company, provided that such officer may not make awards to himself, and our Board of Directors has authorized our Chief Executive Officer to make aggregate grants not to exceed a specified threshold to employees who are not officers of Natus. Our Chief Executive Officer makes recommendations to the Compensation Committee regarding the compensation of our executive officers and participates in the discussions of executive compensation other than the Compensation Committee's decision-making processes with respect to the Chief Executive Officer's compensation. Additional information about the Compensation Committee's use of consultants and its processes is provided below under Compensation Discussion and Analysis.

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### ***Nominating and Governance Committee***

The Nominating and Governance Committee is expected to identify, evaluate and recommend nominees to the Board of Directors as well as evaluate the composition, organization and governance of the Board of Directors and its committees and to develop and recommend corporate governance principles and policies. The Nominating and Governance Committee also supervises the Board of Directors' annual review of director independence and the Board's performance self-evaluation.

### **Board of Directors Role in Risk Oversight**

Management continually monitors the material risks we face, including financial risk, strategic risk, operational risk, and legal and compliance risk. The Board is responsible for exercising oversight of management's identification and management of, and planning for, those risks. In fulfilling this oversight role, the Board focuses on understanding the nature of our enterprise risks, including our operations and strategic direction, as well as the adequacy of our risk management process and overall risk management system. The Board performs these functions in a number of ways, including the following:

At its regularly scheduled meetings, the Board receives management updates on our business operations, financial results and strategy, and discusses risks related to the business;

Our Audit Committee assists the Board in its oversight of risk management by discussing with management our guidelines and policies regarding financial and enterprise risk management, including major risk exposures, and the steps management has taken to monitor and control such exposures; and

Through management updates and committee reports, the Board monitors our risk management activities, including the enterprise risk management process, risks relating to our compensation programs, and financial and operational risks.

### **Policy for Director Recommendations and Nominations**

The Nominating and Governance Committee will consider Board candidates recommended by Board members, management, and security holders. Stockholders may submit their recommendations by confidential email to [BoardofDirectors@natus.com](mailto:BoardofDirectors@natus.com); or mail to the Chairman of our Nominating and Governance Committee, or to the Chairman of the Board of Directors, care of: Corporate Secretary, Natus Medical Incorporated, 1501 Industrial Road, San Carlos, CA 94070.

A stockholder seeking to recommend a nominee to the Nominating and Governance Committee should provide the information required by our Bylaws for stockholders directly nominating a person for election as a director at a stockholders' meeting.

Our Bylaws also contain procedures by which stockholders may submit nominations for election at the Annual Meeting of Stockholders. Stockholders may receive a copy of our Bylaws by making a written request to the Secretary of the Company. We did not receive any recommendations for nominees from stockholders for consideration in this Proxy Statement.

Listed below are the minimum qualifications that the Nominating and Governance Committee believes must be met by all Board nominees:

Directors should possess the highest personal and professional ethics, integrity and values, and be committed to representing the long-term interests of the stockholders. They must also have an inquisitive and objective perspective, practical wisdom, and mature judgment. We endeavor to have a Board representing diverse experience at policy-making levels in business, health care, and technology, and in areas that are relevant to our global activities;

Directors must be willing and able to devote sufficient time to carrying out their duties and responsibilities effectively, and should be committed to serve on the Board for an extended period of time. Directors should not serve on more than four other boards of public

companies in addition to the Natus Board; and



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Director nominees must have demonstrated a history of good business judgment, and possess financial and governance literacy. They must have the experience and the value-adding temperament to be good outside directors of a public company. The following are specific qualities or skills that the Nominating and Governance Committee believes are necessary for one or more of the Company's directors to possess:

Experience with a publicly traded company as a proactive and diligent outside director desirable;

Proven ability to understand the dynamic between management and Board members, and to effectively manage that dynamic for the benefit of the Company is important;

Experience with Wall Street, transactions, and managing operations is helpful; and

Some understanding of the medical device market is also helpful.

Members of the Nominating and Governance Committee will use their professional contacts to identify nominees. If necessary, outside recruiters will also be used. The Chairman of the Nominating and Governance Committee will collect and organize the data on potential nominees, and with the help of the Secretary of the Company will undertake initial due diligence evaluation into nominee qualifications and background. Members of the Nominating and Governance Committee, as well as the Chairman of the Board of Directors and all Board members, will interview those candidates that are nominated by the Committee. The full Board votes to approve nominees after considering the recommendation of the Nominating and Governance Committee.

While we do not have a formal policy with regard to the consideration of diversity in identifying director nominees, the Nominating and Governance Committee strives to nominate directors with a variety of complementary skills so that, as a group, the Board will possess the appropriate talent, skills, and expertise to oversee our business.

## **Certain Relationships and Policies on Related Party Transactions**

The Company has adopted and maintains a Code of Business Conduct and Ethics (the "Code") that applies to all members of the Company's Board of Directors, all executive officers of the Company, and to all other persons who are employees of the Company. This Code covers matters that the Company believes are supportive of high standards of legal and ethical business conduct, including those relating to fair dealing with those with whom the Company does business, the avoidance of conflicts of interest, confidentiality, the protection of corporate assets, special obligations applicable to those involved in our financial reporting, the Company's obligation to make full, fair, accurate and timely disclosure in its filings with the Securities and Exchange Commission and in other public communications, compliance with laws, insider trading, and the reporting of violations of the Code. The Code can be found at the Company's website, [www.natus.com](http://www.natus.com), under Investors/Governance/Governance Policies.

The Code does not distinguish between potential conflict of interest transactions with executive officers or directors and those with other employees. It notes that all covered persons must avoid situations where their interests conflict, or would appear to conflict, with those of the Company. The Code notes that it is not possible to list all types of conflict situations, but provides examples of several types of scenarios that would involve a conflict of interest, including:

Use of Company property

Dealings with customers and suppliers

Interests in or relationships with other companies

Dealings with relatives

Reporting obligations

Loans

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The Code requires that covered persons report to the Company's Chief Executive Officer any ownership interest or other relationship that might affect their ability to exercise impartial, ethical judgments. The Code does not expressly set forth the standards that would be applied in reviewing or approving transactions in which directors or executive officers of the Company have a material interest. In general, any such transactions that are so identified would be submitted for approval to the Audit Committee of the Board of Directors, which is authorized by the Charter of the Audit Committee to review related party transactions. The Company expects that in reviewing, and potentially approving, any such transactions, that the Audit Committee would be provided with all material facts relative to the proposed transaction, the nature and extent of the director's or executive officer's interest in the transaction, and the terms upon which the products, services or other subject matter of the transaction could be provided by alternative sources. The Company further expects that any such transaction would be approved only if the Audit Committee determined that it was in the interest of the Company to proceed with it. The Company expects that pre-approval would be sought for any such transaction whenever practicable, and if pre-approval is not obtained, any such transaction would be submitted for ratification as soon as practicable.

### **Compensation Committee Interlocks and Insider Participation**

Our Compensation Committee consists of Mr. Moore, Ms. Engibous and Mr. Gunst. Mr. Moore was our Chief Executive Officer from April 1989 to May 1992. During 2010, Mr. Hawkins, our Chief Executive Officer, participated in discussions and decisions of the Compensation Committee regarding salaries and incentive compensation for our executive officers, but he was excluded from discussions regarding his own salary and incentive compensation. No interlocking relationship exists between any member of our Compensation Committee and any member of any other company's board of directors or compensation committee. None of our executive officers serves or in the past has served as a member of the board of directors or compensation committee of any entity that has one or more of its executive officers serving on our Board or Compensation Committee.

### **Communicating with our Board**

Any stockholder of Natus or any other party interested in communicating with the Board may contact any of our directors by writing to them c/o Natus Medical Incorporated, 1501 Industrial Road, San Carlos, California 94070. Stockholders may also communicate with the Board on a confidential basis by sending an email to [BoardofDirectors@natus.com](mailto:BoardofDirectors@natus.com). The Nominating and Governance Committee has approved a process for handling stockholder communications received by the Company. Under that process, the corporate Secretary may review all stockholder communications and has the authority to disregard any communications that are inappropriate or irrelevant to Natus and its operations, or to take other appropriate actions with respect to such communications.

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**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth information, as of April 1, 2011, concerning:

Beneficial owners of more than 5% of Natus common stock;

Beneficial ownership by current Natus directors and nominees, and the named executive officers set forth in the Summary Compensation Table ; and

Beneficial ownership by all current Natus directors and executive officers as a group.

The information provided in the table is based on Natus records, information filed with the Securities and Exchange Commission and information provided to Natus, except where otherwise noted.

The number of shares beneficially owned by each entity, person, director or executive officer is determined under rules of the Securities and Exchange Commission, and the information is not necessarily indicative of beneficial ownership for any other purpose. Under such rules, beneficial ownership includes any shares as to which the individual has the sole or shared voting power or investment power and also any shares that the individual has the right to acquire within 60 days of the record date through the exercise of any stock option or other right. The address for those individuals for which an address is not otherwise provided is c/o Natus Medical Incorporated, 1501 Industrial Road, San Carlos, California 94070. Unless otherwise indicated, each person has sole voting and investment power (or shares such powers with his or her spouse) with respect to the shares set forth in the following table. For each individual and group included in the table below, percentage ownership is calculated by dividing the number of shares beneficially owned by such person or group by the sum of the 29,002,050 shares of common stock outstanding on April 8, 2011, plus the number of shares of common stock that such person or group had the right to acquire on or within 60 days after April 8, 2011.

**Table of Contents****SECURITY OWNERSHIP TABLE**

Name and Address	Shares Owned	Right to acquire beneficial ownership under options exercisable within 60 days	Total Owned	Percent of Class
<b>Principal Stockholders</b>				
BlackRock, Inc.  55 East 52nd Street  New York, NY 10055 (1)	2,993,599		2,993,599	10.3%
The D3 Family Funds  19605 NE 8th Street  Camas, WA 98607 (2)	2,188,496		2,188,496	7.5%
The Vanguard Group, Inc.  100 Vanguard Blvd.  Malvern, PA, 19355 (3)	1,553,423		1,553,423	5.4%
<b>Directors, Nominees and Named Executive Officers</b>				
John T. Buhler (4)	60,000		60,000	*
D. Christopher Chung, M.D. (5)	46,041	274,833	320,874	1.1%
Doris E. Engibous (6)	20,250	67,500	87,750	*
Robert A. Gunst (6)	7,000	62,500	69,500	*
James B. Hawkins (7)	216,315	730,147	946,462	3.2%
Kenneth E. Ludlum (8)	63,950	20,000	83,950	*
Mark D. Michael (6)	25,250	67,500	92,750	*
William L. Mince (9)	75,541	164,833	240,374	*
William M. Moore (10)	107,952	87,500	195,452	*
Steven J. Murphy (11)	57,236	239,833	297,069	1.0%
Kenneth M. Traverso (12)	113,486	309,833	423,319	1.4%
All Directors and Executive Officers as a group (11 persons) (13)	793,021	2,024,479	2,817,500	9.1%

\* Represents holdings of less than one percent.

- (1) Based on information reported on Schedule 13-G filed with the Securities and Exchange Commission on February 28, 2011 by BlackRock, Inc. ( BlackRock ). BlackRock is a parent holding company or control person in accordance with Rule 13d-1(b)(1)(ii)(G) of the Securities Exchange Act of 1934. BlackRock has sole voting and investment power with respect to all of these shares.
- (2) Based on information reported on Form 13-G/A filed with the Securities and Exchange Commission on March 25, 2011. Nierenberg Investment Management Company, Inc. is the general partner of several entities that hold our common stock, including the D3 Family Bulldog Fund L.P., the D3 Offshore Fund L.P., the D3 Family Fund L.P., and the D3 Family Canadian Fund L.P., collectively, the D3 Family Funds. Nierenberg Investment Management Company has sole voting and investment power with respect to all of these shares.
- (3) Based on information reported on Schedule 13-G filed with the Securities and Exchange Commission on February 9, 2011 by The Vanguard Group, Inc. ( Vanguard ). Vanguard is an investment advisor in accordance with Rule 13d-1(b)(1)(ii)(E) of the Securities Exchange Act of 1934. Of Vanguard s total shares, the voting power of 42,402 shares is shared with Vanguard Fiduciary Trust Company

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( VFTC ), a wholly owned subsidiary of Vanguard. Vanguard has sole voting and investment power over remaining shares owned by Vanguard.

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- (4) All shares subject to a right of repurchase by the Company that expires as to 30,000 shares in February 2013, 15,000 shares in February 2014, and 15,000 shares in February 2015.
- (5) Includes 40,500 shares subject to a right of repurchase by the Company that expires as to 15,000 shares in August 2011, 14,000 shares in August 2012, 8,250 shares in August 2013, and 3,250 shares in August 2014.
- (6) Includes 5,000 shares subject to a right of repurchase by the Company that expires on June 3, 2011.
- (7) Includes 151,250 shares subject to a right of repurchase by the Company that expires with respect to 54,375 shares in August 2011, 53,125 shares in August 2012, 31,250 shares in August 2013, and 12,500 shares in August 2014.
- (8) Includes 4,000 shares held by The Ludlum Family Trust and 5,000 shares subject to a right of repurchase by the Company that expires on June 3, 2011.
- (9) Includes 2,500 shares held in a 401(k) for Mr. Mince s benefit and 40,500 shares subject to a right of repurchase by the Company that expires as to 15,000 shares in August 2011, 14,000 shares in August 2012, and 8,250 shares in August 2013, and 3,250 shares in August 2014.
- (10) Includes 79,892 shares held by The Moore Family Trust and 4,150 shares held by Mr. Moore s spouse. Also includes 5,000 shares subject to a right of repurchase by the Company that expires on June 3, 2011.
- (11) Includes 40,500 shares that are subject to a right of repurchase by the Company that expires as to 15,000 shares in August 2011, 14,000 shares in August 2012, 8,250 shares in August 2013, and 3,250 shares in August 2014.
- (12) Includes 8,572 shares held by the Traverso Family Trust, 10,500 shares held in an IRA for the benefit of Mr. Traverso and 4,100 shares held in an IRA for the benefit of Mr. Traverso s spouse. Also includes 40,500 shares subject to a right of repurchase by the Company that expires as to 15,000 shares in August 2011, 14,000 shares in August 2012, 8,250 shares in August 2013, and 3,250 shares in August 2014.
- (13) Includes all shares referenced in notes 4 through 12 above.

**SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our directors, executive officers and holders of more than 10% of our common stock to file with the Securities and Exchange Commission reports regarding their ownership and changes in ownership of our securities. We believe that, during fiscal 2010, our directors, executive officers and 10% stockholders complied with all Section 16(a) filing requirements. In making this statement, we have relied upon examination of the copies of Forms 3, 4 and 5, and amendments thereto, provided to us, and the written representations of our directors, executive officers and 10% stockholders.

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**COMPENSATION DISCUSSION AND ANALYSIS**

**General**

Our executive compensation program is designed to attract, as needed, individuals with the skills necessary for us to achieve our business plan, to reward those individuals fairly over time, to retain those individuals who continue to perform at or above the levels that we expect and to closely align the compensation of those individuals with the performance of our Company on both a short-term and long-term basis.

**Executive Summary**

Although our markets have not yet returned to the pre-recession level of activity, the Company's performance and management actions during 2010 have positioned us well for future success.

Despite the uncertain global economy, our performance in 2010 was strong:

Revenues increased by \$52 million or 31% over 2009, and in the fourth quarter we achieved a long-standing goal of reaching an annual revenue run rate of \$250 million;

Income from operations increased by approximately 16% to \$11.9 million, which included restructuring charges of approximately \$3.9 million for which there was no corresponding charge in 2009 and which we think will position us for more efficient operations in 2011 and future periods;

We generated cash flow from operations of over \$11 million;

We successfully completed the acquisition of Medix in October 2010 which expanded our worldwide operations into South America and expanded our product line;

We completed important reorganizations that helped to integrate and improve the efficiencies of operations gained through the Alpine Biomed and Medix acquisitions; and

Our search for an experienced medical device industry executive to strengthen our management team successfully culminated with our appointment of a new President and Chief Operating Officer in early 2011.

Our Compensation Committee made the following key pay decisions for our Named Executive Officers for 2010:

For the second consecutive year we made no salary increases;

We increased the bonus target percentage by five percentage points for each Named Executive Officer to further strengthen our pay-for-performance alignment because we found that our cash bonus opportunities had fallen farther behind our peers than our Compensation Committee deemed advisable;

We made actual annual incentive payouts under our 2010 Cash Incentive Plan at 78% of target based on achieving performance at 91% of the target level;



The annual equity grants made in 2010 resulted in a drop in our burn rate from 3.5% in 2009 to 2.4% in 2010 (burn rate representing annual equity award shares as a percentage of shares outstanding); and

As in prior years, we do not provide supplemental executive benefits, or perquisites, to our executive employees. As described below, our Compensation Committee makes other decisions designed to promote responsible and effective pay practices, including that our change in control arrangements provide severance payments only upon double trigger (change in control and termination) and we do not provide for excise tax gross-ups.

#### **Our Business and Our Compensation Philosophy**

We believe that opportunities exist for us to increase stockholder value by increasing the revenue base, and by doing so the income earning capacity, of our Company. We seek growth in two ways, through organic growth

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involving, primarily, the introduction of existing products into new markets and the internal development of new products, and through acquisitions of complementary products and businesses. Our business plans challenge our executives to seek growth through both of these means, and we expect over time to achieve a higher level of growth than could be achieved through either of them alone. Further, we expect our business, including the businesses that we acquire, to be operated efficiently so that earnings can grow as we increase revenue.

Pursuit of this business model is demanding on our executives. They must implement efforts to enhance sales opportunities of existing products, oversee effective and efficient new product development and enhancements, successfully identify and complete the acquisition of complementary products and businesses and integrate these operations with our existing businesses, as well as conduct our business in an efficient manner.

In consideration of these factors, the primary objectives of our executive compensation are:

*Retain Qualified Executive Talent.* We have increased our revenue nearly five-fold over the five year period from 2006 to 2010 and seven-fold from 2003 to 2010. During the period from 2003 to 2010 we completed eleven acquisitions of companies with principal offices in six different countries. We believe that maintaining continuity within our executive team has contributed significantly to our ability to achieve this growth. Our business is competitive and our headquarters are in an area where there is significant competition for executive talent. In light of these factors, a key objective of our compensation is to allow us to retain qualified executives. We believe that our ability to keep our senior executive team intact since 2003 reflects some measure of success of our compensation programs.

*Attract Qualified Executives.* We understand that we may find it in our interests to, or may be required to, add new individuals to our executive team from time to time, as was the case with our creating and filling the new President and Chief Operating Officer position in early 2011. For us to be appropriately positioned to attract new talent as needed, we must be prepared to, and perceived as an employer that is willing to, offer competitive compensation.

*Link Compensation to Achievement of Our Business Objectives.* We believe that earnings growth is the performance factor most capable of increasing stockholder value for the Company. As a result, we believe that a significant portion of the current period cash compensation that our executives are eligible to receive should be tied to attainment of the earnings target incorporated into our annual business plan, and that if we achieve our plans our executives should be rewarded commensurately.

*Provide Direct Incentives for the Enhancement of Stockholder Value Over the Long Term.* The effectiveness of our management in operating our business has a strong influence on the value of our common stock over time. We believe that our executives should be positioned to share, with our stockholders, in the gains and losses from changes in the value of our common stock over time and that this form of compensation will further motivate our executives to seek to increase long-term stockholder value.

## **Elements of Compensation**

Our executive officers' compensation currently has two primary elements of compensation: (i) cash compensation in the form of salary and annual incentive awards, and (ii) equity awards in the form of stock option grants and restricted stock awards. In addition, we provide our executive officers with benefits that are available generally to all salaried employees.

We believe that we would impair our ability to retain our executives or, as required, attract new executives if we did not offer a competitive salary. As such, our goal is to provide salaries that are sufficient to make us reasonably confident of our ability to retain our executive team without overpaying. We further believe that a substantial portion of the cash compensation that our executives are eligible to receive should be directly tied to corporate performance. We believe that our annual business plans represent reasonably challenging targets. Our

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long-term equity-based incentive awards are designed to provide a competitive compensation package and to motivate our executives to increase stockholder value. We explain below with greater specificity how the Compensation Committee determines the amount paid or granted under such element.

In establishing compensation, we take into account the compensation that is payable by companies that we believe to be our competitors and by other companies with which we believe we generally compete for executives. To this end, our Compensation Committee works with management and an outside compensation consultant to define the criteria used to identify appropriate market comparisons for establishing compensation levels and the mix of salary, incentive compensation, and equity compensation. When determining our peer companies, we focus on identifying companies with whom we compete directly for customers and employees, as well as other medical device companies, and in particular focus on companies headquartered in the San Francisco Bay Area. In addition, we select companies that are similar to our size, limiting the peer group to companies whose trailing twelve month revenue is within a range of approximately 0.5x to 2.0x of our projected annual revenue.

Each year the Compensation Committee considers whether it is necessary to have a formal report produced by a compensation consultant for all of the peer group companies. In the years a formal report is not produced, the Compensation Committee directs the consultant to review the prior report and compensation changes reported by the peer companies in the following year or years in helping the Committee arrive at compensation levels relative to the peer group that are consistent with our goals as described below. We received a formal report from our consultant in December 2009 to assist the Committee in its deliberations for 2010 compensation. The peer companies that we reviewed at that time were: Abaxis; Accuray; Analogic; AngioDynamics; Aspect Medical; Cardiac Science; Cyberonics; I-Flow; Omnicell; Sonosite; Thoratec; Volcano; and Zoll Medical. The peer group was revised from the group last developed for our compensation decisions because three members of the prior peer group were acquired and one company was regarded as no longer comparable to the Company. For the purpose of establishing competitive compensation ranges for elements of compensation, Towers Watson, our compensation advisor, considered the most recently reported compensation information for the peer group companies as well as the applicable compensation survey information based on our size and industry.

Towers Watson has worked directly with the Compensation Committee (and not on behalf of management) to assist the Compensation Committee in satisfying its responsibilities and will undertake no projects for management except at the request of our Compensation Committee chair and in the capacity of our Compensation Committee's agent. To date, Towers Watson has not undertaken any projects for management.

In determining the compensation of each of our executive officers, other than the Chief Executive Officer, our Compensation Committee considers the recommendations of the Chief Executive Officer.

We view the cash and equity elements of compensation as distinct. We think that each of these main components must be perceived by our executives as largely competitive with the corresponding compensation element paid by our peer companies. While we view cash and equity elements of compensation as distinct, we do link these two components of compensation insofar as it is our goal to establish aggregate cash and equity compensation that is near the median of our peer group, assuming achievement of target level of performance.

Because we seek to provide cash compensation that our executives regard as competitive with relevant market conditions, when setting salaries and aggregate cash compensation we are mindful of the corresponding amounts of cash consideration of our peer group. However, we may set an individual officer's salary and target bonus above or below median levels of our peer group, as determined to be appropriate by the Compensation Committee. We believe that this approach is sufficient to achieve our retention goals. For the achievement of performance goals above plan, our executives can earn aggregate cash consideration that is substantially above the median level of the peer group. We believe that this is appropriate because we adopt business plans that are a challenge for us to achieve, and we believe that if our executives exceed the demanding targets in these plans they should be eligible to receive higher levels of compensation. This being the case, we have not undertaken to determine the extent to which our performance targets are more or less difficult to achieve than those of our peer group because we did not think that it would be feasible to do so.

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We view our compensation decisions as an exercise in paying competitive compensation, with desired performance goals, on an annual basis. Our cash compensation is not tied to performance beyond one year. Our equity awards vest over a period of time, and as such are impacted by the value of our common stock over the life of the option or the vesting period of the restricted stock, as the case may be. We do not take account of prior wealth accumulation by our executives from the receipt of cash on exercise or vesting of equity awards as we do not believe these prior period returns provide a significant motivation or retention benefit in the current period. Further, we do not set the compensation of our executives at any multiple or ratio to the compensation of other executives or employees. Our Compensation Committee has not adopted any formal or informal policies or guidelines for allocating compensation between long-term and immediate compensation, between cash and non-cash compensation, or among different forms of non-cash compensation, other than as described below for the manner in which we make stock option and restricted stock awards to executives.

Our Compensation Committee's current intent is to perform on a regular basis a strategic review of our executive officers' overall compensation packages to determine whether they provide adequate incentives and motivation and whether they adequately compensate our executive officers relative to comparable officers in our peer group companies.

### **Cash Compensation Element**

Our Compensation Committee reviews the base salaries of our executives annually and may adjust an officer's salary if it determines that such a change is merited on the basis of the officer's personal performance and market conditions. In light of challenging world-wide economic conditions and the impact of these conditions on our operating results, our executive officers did not receive salary increases in either of 2010 or 2009.

Our 2010 incentive plan was, and our 2011 incentive plan is, based on the attainment of the pre-tax earnings measure that is contained in the business plan approved by our Board of Directors for the operation of our business for the full year. We choose this single metric because we believe that over time our earnings are the key driver of stockholder returns. We chose pre-tax earnings in particular as various factors, some of which we have limited ability to control, impact our effective tax rate. For purposes of our annual incentive plan, pre-tax earnings are adjusted if our actual results are affected by discrete events that we did not anticipate, and if we believe these are events for which our management should not bear the benefit or detriment in the current period, by adjusting the pre-tax earnings up or down based on the estimated impact of those events. We also may adjust individual compensation based on our assessment of individual performance. We believe that the use of a single metric for all executives motivates our executives to work cohesively. Further, we think the benefits of this type of incentive plan that encourages a concerted effort among our executive team outweigh the potential benefits that we could achieve by seeking to motivate executives on an individual basis with personal performance targets.

In December 2009, our Compensation Committee approved the 2010 Cash Incentive Plan for our executive officers for 2010. The target performance factor under our 2010 Cash Incentive Plan was set based on our achieving the GAAP income before provision for income tax target contained in the 2010 business plan adopted by our Board of Directors in December 2009, which was \$24.1 million. The target bonus for our Chief Executive Officer was set at 80% of base salary compared to 75% of base salary for 2009 and the target bonus for Dr. Chung and Messrs. Mince and Murphy was set at 45% of their respective 2010 base salaries compared to 40% of base salary for 2009. The target bonus for Mr. Traverso was set at 32% of base salary compared to 27% of base salary for 2009. The target bonus percentage was increased by five points for each of our executives due to our determination that target bonus had fallen far below the peer group median than we thought was desirable.

Under the 2010 Cash Incentive Plan, if the income before provision for income tax presented in our GAAP based financial statements, as adjusted (adjusted GAAP results), was 100% of the pre-tax profit contained in

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the business plan (the business plan profit ) then the bonus amount was the target amount. If the adjusted GAAP results were less than 80% of the business plan profit then no bonus was payable under the plan. If the adjusted GAAP results were between 80% and 120% of the business plan profit, then the bonus payable under the plan was adjusted linearly from 50% of the target amount to 150% of the target amount. The Chief Executive Officer's cash bonus could have ranged from 40% to a maximum of 120% of 2010 base salary, and the cash bonuses for Dr. Chung and Messrs. Mince and Murphy could have ranged from 22.5% to a maximum of 67.5% of their respective 2010 base salaries. Mr. Traverso's cash bonus could have ranged from 16% to 48% of his 2010 base salary.

Our 2010 pre-tax profit, as adjusted to eliminate restructuring costs related to the Alpine Biomed and Medix acquisitions, which were consummated in September 2009 and October 2010, respectively, and the acquisition costs associated with the Medix acquisition, was 91% of the pre-tax profit contained in the business plan and, therefore, incentive payments of 78% of the target bonus amounts were earned under the plan and paid in March 2011. In December 2010, the Compensation Committee approved 2011 salary increases of approximately 7% for the executive officers. We increased salaries after determining that our executives' salaries had fallen further below the median of our peer group than we had deemed desirable after leaving salaries unchanged the prior two years, and after considering where the executives stood relative to the peer group median for aggregate compensation. Also in December 2010, the Committee approved the 2011 Cash Incentive Plan. The 2011 incentive plan remained unchanged from the prior year, having the same percentage minimums, targets and maximums for each of the executive officers as described above for the 2010 incentive plan. As in 2010, in addition to his 2011 base salary and any incentive plan payments, Mr. Traverso will receive payments made pursuant to a sales commission plan that is paid on a regular basis. Payment of any bonus under the 2011 incentive plan is, once again, based on the attainment of adjusted GAAP results compared to the pre-tax profit contained in the Company's 2011 business plan.

We believe that the 2011 business plan was developed using the same philosophy as was employed in setting the plans for 2010, 2009 and 2008.

### **Equity-Based Compensation Element**

Equity-based compensation provides employees with a common interest with our stockholders to increase the value of our common stock. Equity awards are granted to employees, including our executive officers, in the form of stock options, restricted stock and restricted stock units, which in the case of options are granted with an exercise price equal to the fair market value on the date of grant. Stock options have value only if the stock price increases over time and the value of restricted stock awards increases over time as the stock price increases. In addition, equity grants help retain key employees because they typically cannot be fully exercised or are subject to a right of repurchase for four years and, in the case of options, if not exercised, are forfeited if the employee leaves the employ of the Company. The four-year vesting schedule also helps focus our employees on long-term performance. In 2006, our Board of Directors reduced the term of options that we grant from ten years to six years in order to reduce the expense of such options under Financial Accounting Standards Board, Accounting Standards Codification Topic 718, *Compensation - Stock Compensation* (ASC Topic 718).

We intend to grant equity awards to our executives having a fair market value such that the level of each of our executives' aggregate compensation is generally consistent with the median level of our peer group assuming the achievement of target levels of performance. Since 2006, we have sought to achieve the equity portion of aggregate compensation through stock option grants and restricted stock awards, with each form approximating half of the value of the annual equity award.

Equity-based compensation is granted to executive officers when the executive first joins us. Additional equity-based compensation may be granted in connection with a significant change in responsibilities. Further, we typically make annual equity awards to our executive officers, as was the case in 2010 based on the factors noted above. The Compensation Committee's procedure for timing of equity awards (restricted stock and stock options) provides assurances that grant timing is not being manipulated to result in a price that is favorable to

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employees. We generally expect to make annual equity awards at the Compensation Committee meeting held in connection with the Company's annual meeting of stockholders. The exercise price for all option grants is the closing price on the last completed day of trading prior to the meeting of the Compensation Committee at which the options are granted.

**Employment Agreements and Change in Control Arrangements**

We entered into employment agreements with William M. Mince and Kenneth M. Traverso in November 2002, with D. Christopher Chung, M.D. in March 2003, with Steven J. Murphy in May 2003, all of which agreements were amended in December 2008, and with James B. Hawkins in April 2004, which agreement was amended in April 2008 and again in December 2008. We entered into an employment agreement with John T. Buhler on February 14, 2011. Other than Mr. Hawkins, the terms of these agreements are substantially the same. Upon termination of employment for cause, death, or disability, the executive will only be eligible for severance benefits, if any, in accordance with the Company's established policies for all employees as then in effect, which consist primarily of short-term disability and group life insurance benefits.

Should an officer's, other than Mr. Hawkins', employment with us terminate for other than cause, death or disability, the officer shall be entitled to:

Receive continuing payments of severance pay, less applicable withholding taxes, at a rate equal to the officer's then current base salary rate for a period of twelve months commencing with the latest payroll date that is also within 70 days from the date of separation from service (with earlier commencement possible only if in compliance with Section 409A of the Internal Revenue Code and with payments that would have been made on earlier payroll dates, but for this provision, cumulated and paid on such payroll date);

The immediate vesting and exercisability of any unvested stock options, restricted stock, or other equity awards, which in the case of stock options would be exercisable for a period of 30 days after such termination; and

Continued payment by the Company of COBRA benefits through the lesser of (i) eighteen months from the effective date of such termination, (ii) the date upon which the officer and the officer's eligible dependents become covered under similar plans, or (iii) the date the officer no longer constitutes a Qualified Beneficiary, as such term is defined in Section 4980B(g) of the Internal Revenue Code of 1986, as amended.

These agreements also provide for the same severance benefits as above if the officer terminates his employment for good reason within 12 months following a change-in-control transaction. Employment termination is for good reason if it follows a material reduction in the officer's duties or responsibilities, a reduction in base salary, a material reduction in employee benefits, relocation of more than 35 miles from the officer's present location, or the failure of a successor entity to assume the employment agreement. A change in control for such employment agreements is a transaction by which someone acquires more than 50% of the Company's outstanding voting power, a change in the Board of Directors within a two year period such that fewer than a majority are incumbent directors, a merger or consolidation following which the stockholders of the Company own 40% or less of the combined voting power of the Company or the surviving entity, or the sale of all or substantially all of the assets of the Company.

Should Mr. Hawkins' employment with us terminate for other than cause, death or disability, Mr. Hawkins shall be entitled to:

Receive a lump sum payment due and payable within thirty (30) days after the date of separation, less applicable withholding taxes equal to his then current base salary;

The immediate vesting of any unvested stock options, restricted stock, or other equity awards, which in the case of stock options would be exercisable for a period of 30 days after such termination; and

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Continued payment by the Company of COBRA benefits through the lesser of (i) twelve months from the effective date of such termination, or (ii) the date upon which he or his eligible dependents become covered under similar plans.

Pursuant to the amendment to Mr. Hawkins employment agreement in April 2008, the agreement provides that if within twelve months of a change in control transaction Mr. Hawkins terminates his employment for good reason or is terminated without cause, then Mr. Hawkins will receive a lump sum payment due and payable within thirty (30) days after the date of separation, less applicable withholding taxes, equal to two times the sum of (i) the greater of his then current base salary rate and his base salary rate in effect immediately prior to the change in control transaction and (ii) the greater of 100% of his target bonus then in effect and 100% of his target bonus as in effect immediately prior to the change in control transaction; (iii) continued provision of COBRA or similar benefits through the lesser of twenty-four months or the date upon which Mr. Hawkins becomes covered under similar plans; and (iv) the immediate vesting of unvested stock options, restricted stock and other equity awards. Employment termination is for good reason if it follows a material reduction in the officer's duties or responsibilities, a material reduction in base salary, a material reduction in employee benefits, relocation of more than 35 miles from the officer's present location, or the failure of a successor entity to assume the employment agreement. A change in control for purposes of this employment agreement is a transaction by which someone acquires more than 50% of the Company's outstanding voting power, a merger or consolidation following which the stockholders of the Company own 40% or less of the combined voting power of the Company or the surviving entity, stockholder approval of a plan to liquidate the Company, or the sale of all or substantially all of the assets of the Company.

To be eligible for termination benefits, the executive must comply with certain non-compete and non-solicitation provisions and retention is conditioned on execution of a release of claims.

The base salaries for our executive officers for 2010 were as follows: James B. Hawkins, \$425,000; Steven J. Murphy, \$250,000; D. Christopher Chung, \$240,000; William M. Mince, \$260,000; and Kenneth M. Traverso, \$240,000. Mr. Traverso also received payments made pursuant to a sales commission plan totaling \$82,874 that were paid on a regular basis throughout the year.

We believe that these agreements appropriately balance our needs to offer a competitive level of severance protection to our executives and to induce our executives to remain in our employ through the potentially disruptive conditions that may exist around the time of a change in control, while not unduly rewarding executives for a termination of their employment. We note that our change in control terms include so-called double trigger provisions, so that the executive is not entitled to the severance payment by the mere occurrence of the change in control. This feature, we believe, will be an incentive to the executive to remain in the employ of the Company if such continuation is required by our partner in a change in control transaction.

Our Amended and Restated 2000 Stock Awards Plan provides for the grant of options to purchase our common stock to employees and consultants. Prior to June 14, 2006, options granted to employees had a contractual term of ten years; options granted since June 14, 2006 have a contractual term of 6 years. The plans provide that after certain change in control events (as defined in the plan), including, for example, our merger with or into another corporation or the sale of all or substantially all of our assets, outstanding options may be assumed or equivalent options may be substituted, by the successor corporation. Thereafter, if the optionee's status as our employee or employee of the successor corporation is terminated within 12 months other than by a voluntary resignation or termination for cause, the option may become fully exercisable. Further, if the successor corporation does not assume an outstanding option or substitute for it an equivalent option, the option becomes fully vested and exercisable.

For further detailed financial information concerning the severance and change in control arrangements with our executive officers, please see the tabular information contained in the section entitled Potential Payments Upon Termination or Change in Control.

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### **Other Benefits**

Executive officers are eligible to participate in all of our employee benefit plans, such as medical, dental, vision, group life, disability, and accidental death and dismemberment insurance, and our 401(k) plan, in each case on the same basis as other employees, subject to applicable law. We also provide vacation and other paid holidays to all employees, including our executive officers, which we intend to be comparable to those provided at peer companies.

### **Accounting Treatment**

We account for equity compensation paid to our employees under ASC Topic 718 which requires us to estimate and record an expense over the service period of the award. Our cash compensation is recorded as an expense at the time the obligation is accrued. We structure the cash compensation element of our incentive compensation so that it is taxable to our executives at the time it becomes available to them. We currently intend that all cash compensation paid will be tax deductible by us. However, with respect to equity compensation awards, while any gain recognized by employees from nonqualified options granted at fair market value should be deductible, to the extent that an option constitutes an incentive stock option, gain recognized by the optionee will not be deductible if there is no disqualifying disposition by the optionee. In addition, if we grant restricted stock or restricted stock unit awards that are not subject to performance vesting, they may not be fully deductible by us at the time the award is otherwise taxable to employees.

### **Tax Deductibility of Executive Compensation**

Section 162(m) of the Internal Revenue Code of 1986, as amended, provides that compensation in excess of \$1 million paid to the chief executive officer or to any of the other four most highly compensated executive officers of a company will not be deductible for federal income tax purposes unless such compensation is paid pursuant to one of the enumerated exceptions set forth in Section 162(m). Our primary objective in designing and administering compensation policies is to support and encourage the achievement of our long-term strategic goals and to enhance stockholder value. When consistent with this compensation philosophy, we also intend to attempt to structure compensation programs such that compensation paid thereunder will be tax deductible by us. In general, stock options granted under our stock option plans are intended to qualify under and comply with the performance based compensation exemption provided under Section 162(m), thus excluding from the Section 162(m) compensation limitation any income recognized by executives pursuant to such stock options. The Compensation Committee intends to review periodically the potential impacts of Section 162(m) in structuring and administering our compensation programs.



**Table of Contents****SUMMARY COMPENSATION TABLE**

The following table sets forth information concerning compensation of our Chief Executive Officer, Chief Financial Officer, and the other three most highly compensated executive officers (the named executive officers), all of whom were serving as executive officers of the Company as of December 31, 2010<sup>1</sup>.

Name and Principal Position	Year	Salary	Bonus <sup>3</sup>	Stock Awards <sup>4</sup>	Option Awards <sup>4</sup>	Non-Equity Incentive Plan Compensation <sup>5</sup>	All Other Compensation <sup>6</sup>	Total
James B. Hawkins President and Chief Executive Officer	2010	\$ 425,000	\$	\$ 839,000	\$ 559,350	\$ 270,000	\$ 4,306	\$ 2,097,656
	2009	425,000	216,900	804,750	550,860		3,466	2,000,976
	2008	425,000		753,375	474,533	189,461	3,466	1,845,835
Steven J. Murphy Vice President Finance and Chief Financial Officer	2010	250,000		218,140	145,431	88,000	4,306	705,877
	2009	250,000	68,000	139,490	146,896		4,306	608,692
	2008	250,000		200,900	126,542	59,439	4,306	641,187
D. Christopher Chung, M.D. Vice President Medical Affairs and R&D	2010	240,000		218,140	145,431	85,000	3,130	691,701
	2009	240,000	65,300	139,490	146,896		3,130	594,816
	2008	240,000		200,900	126,542	57,061	3,130	627,633
William M. Mince Vice President North American Operations	2010	260,000		218,140	145,431	92,000	4,306	719,877
	2009	260,000	70,700	139,490	146,896		4,306	621,392
	2008	260,000		200,900	126,542	61,816	4,306	653,564
Kenneth M. Traverso <sup>2</sup> Vice President, Marketing and Sales	2010	322,874		218,140	145,431	60,000	3,466	749,911
	2009	288,910	44,200	139,490	146,896		3,183	622,679
	2008	309,011		200,900	126,542	38,516	3,183	678,152

- (1) Each of the named executive officers has an Employment Agreement with us that provided for an initial base salary that is subject to subsequent review and to adjustments. These agreements provide that the executive's employment with us is on an at will basis. These agreements also provide for certain payments and other benefits upon termination of employment in certain circumstances, as further described under Employment Agreements and Change in Control Arrangements in the Compensation Discussion and Analysis above, and in the Potential Payments Upon Termination or Change in Control section below.
- (2) For Mr. Traverso, the amount included in the Salary column consists of a base salary plus a commission that is based on sales of the Company that is paid on a regular basis throughout the year.
- (3) The amounts in this column represent discretionary cash bonuses approved by our compensation committee for 2009 performance that were paid in March 2010.
- (4) The amounts included in the Stock Awards and Option Awards columns represent the grant-date fair value of the awards on the date of grant, computed in accordance with ASC Topic 718, except that in the case of option awards, a forfeiture rate of zero percent has been used. The assumptions we use in calculating these amounts, other than the exclusion of the impact of estimated forfeitures, are discussed in Note 11-Share Based Compensation of the Notes to our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2010. See the Grants of Plan Based Awards Table for more information regarding the equity awards granted by the Company in 2010. Refer to the Compensation Discussion and Analysis above for a discussion of these awards.
- (5) The amounts reflect bonuses under our cash incentive plan for 2008 and 2010 performance that were paid in March 2009 and March 2011, respectively. See the Grants of Plan Based Awards Table for more information regarding non-equity incentive plan compensation. Refer to the Compensation Discussion and Analysis above for a discussion of non-equity incentive plan compensation.
- (6) The amounts included in the All Other Compensation column consist of matching contributions paid by the Company into our 401(k) plan on behalf of the named executive officers and the value of group life insurance benefits.

**Table of Contents****GRANTS OF PLAN BASED AWARDS FISCAL 2010**

This table discloses the actual numbers of stock options and restricted stock awards granted to our Named Executive Officers in 2010 and the grant date fair value of these awards. It also captures estimated possible payouts under the Company's 2010 non-equity incentive plan.

Name	Grant Date	Estimated Possible Payouts Under Non-equity Incentive Plan Awards <sup>1</sup>			All Other Stock Awards: Number of Shares of Stock or Units <sup>2</sup>	All Other Option Awards: Number of Securities Underlying Options <sup>3</sup>	Exercise or Base Price of Option Awards (\$/Share)	Grant Date Fair Value of Stock and Option Awards (\$) <sup>4</sup>
		Threshold (\$)	Target (\$)	Maximum (\$)				
Mr. Hawkins	06/03/2010	\$ 170,000	\$ 340,000	\$ 510,000	50,000	100,000	\$ 16.78	\$ 839,000
	06/03/2010							559,350
Mr. Murphy	06/03/2010	\$ 56,250	\$ 112,500	\$ 168,750	13,000	26,000	16.78	218,140
	06/03/2010							145,431
Dr. Chung	06/03/2010	\$ 54,000	\$ 108,000	\$ 162,000	13,000	26,000	16.78	218,140
	06/03/2010							145,431
Mr. Mince	06/03/2010	\$ 58,500	\$ 117,000	\$ 175,500	13,000	26,000	16.78	218,140
	06/03/2010							145,431
Mr. Traverso	06/03/2010	\$ 35,100	\$ 70,200	\$ 105,300	13,000	26,000	16.78	218,140
	06/03/2010							145,431

- (1) Each of the named executive officers had a range of payouts targeted for 2010 non-equity incentive compensation under our 2010 Cash Incentive Plan, based on the Company's performance as described in Compensation Discussion and Analysis above.
- (2) Each of the named executive officers received a grant of restricted shares in 2010 that vest as follows: 50% in August 2012, 25% in August 2013, and 25% in August 2014.
- (3) Each of the named executive officers received a grant of stock options in 2010. Options were granted with an exercise price equal to the fair market value on the date of grant, which was based on the closing price of the Company's common stock immediately prior to the award. The shares vest ratably over a 48 month period and may be exercised for six years from the date of grant. Refer to the Compensation Discussion and Analysis above for a description of our equity based compensation practices.
- (4) Represents the grant-date fair market value of restricted stock awards and stock options granted to the named executive officers in 2010 computed in accordance with ASC Topic 718, except that in the case of option awards, a forfeiture rate of zero percent has been used. The assumptions we use in calculating these amounts, other than the exclusion of the impact of estimated forfeitures, are discussed in *Note 11-Share Based Compensation* of the Notes to our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2010.

**Table of Contents****OUTSTANDING EQUITY AWARDS AT 2010 FISCAL YEAR-END**

Name	Option Awards <sup>1</sup>				Stock Awards	
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$) <sup>5</sup>
Mr. Hawkins	12,500	87,500	\$ 16.78	06/03/2016 <sup>4</sup>	151,250	\$ 2,144,725
	56,250	93,750	10.73	06/03/2015 <sup>4</sup>		
	46,875	28,125	20.09	06/09/2014 <sup>4</sup>		
	46,875	28,125	20.09	06/09/2014 <sup>4</sup>		
	52,500	7,500	15.92	06/13/2013 <sup>4</sup>		
	80,000		11.32	06/14/2012 <sup>4</sup>		
	120,000		10.03	06/09/2015 <sup>3</sup>		
	319,834		4.07	04/08/2014 <sup>2</sup>		
Mr. Murphy	3,250	22,750	16.78	06/03/2016 <sup>4</sup>	40,500	574,290
	15,000	25,000	10.73	06/15/2015 <sup>4</sup>		
	12,500	7,500	20.09	06/09/2014 <sup>4</sup>		
	17,500	2,500	15.92	06/13/2013 <sup>4</sup>		
	30,000		11.32	06/15/2012 <sup>4</sup>		
	50,000		10.03	06/09/2015 <sup>3</sup>		
	40,000		4.51	02/25/2014 <sup>3</sup>		
	35,000		4.11	05/30/2013 <sup>3</sup>		
	25,000		3.45	11/12/2012 <sup>2</sup>		
Dr. Chung	3,250	22,750	16.78	06/03/2016 <sup>4</sup>	40,500	574,290
	15,000	25,000	10.73	06/15/2015 <sup>4</sup>		
	12,500	7,500	20.09	06/09/2014 <sup>4</sup>		
	17,500	2,500	15.92	06/13/2013 <sup>4</sup>		
	30,000		11.32	06/15/2012 <sup>4</sup>		
	50,000		10.03	06/09/2015 <sup>3</sup>		
	50,000		4.51	02/25/2014 <sup>3</sup>		
	50,000		3.50	05/30/2013 <sup>3</sup>		
	25,000		3.45	11/12/2012 <sup>2</sup>		
	10,000		4.70	04/12/2012 <sup>3</sup>		
Mr. Mince	3,250	22,750	16.78	06/03/2016 <sup>4</sup>	40,500	574,290
	15,000	25,000	10.73	06/15/2015 <sup>4</sup>		
	12,500	7,500	20.09	06/09/2014 <sup>4</sup>		
	17,500	2,500	15.92	06/13/2013 <sup>4</sup>		
	30,000		11.32	06/15/2012 <sup>4</sup>		
	50,000		10.03	06/09/2015 <sup>3</sup>		
	25,000		4.51	02/25/2014 <sup>3</sup>		
Mr. Traverso	3,250	22,750	16.78	06/03/2016 <sup>4</sup>	40,500	574,290
	15,000	25,000	10.73	06/15/2015 <sup>4</sup>		
	12,500	7,500	20.09	06/09/2014 <sup>4</sup>		
	17,500	2,500	15.92	06/13/2013 <sup>4</sup>		
	30,000		11.32	06/15/2012 <sup>4</sup>		
	50,000		10.03	06/09/2015 <sup>3</sup>		
	50,000		4.51	02/25/2014 <sup>3</sup>		

