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UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA

_____ , Individually and on Behalf of All Others Similarly Situated,)	Case No.
)	
Plaintiff,)	<u>CLASS ACTION</u>
)	
vs.)	COMPLAINT FOR VIOLATION OF THE FEDERAL SECURITIES LAWS
)	
NATUS MEDICAL INCORPORATED, JAMES B. HAWKINS and JONATHAN A. KENNEDY,)	
)	
Defendants.)	
_____)	<u>DEMAND FOR JURY TRIAL</u>

1 Plaintiff _____, individually and on behalf of all others similarly situated, by
2 plaintiff's undersigned attorneys, for plaintiff's complaint against defendants, alleges the following
3 based upon personal knowledge as to plaintiff and plaintiff's own acts and upon information and
4 belief as to all other matters based on the investigation conducted by and through plaintiff's
5 attorneys, which included, among other things, a review of Securities and Exchange Commission
6 ("SEC") filings by Natus Medical Incorporated ("Natus Medical" or the "Company"), as well as
7 media and analyst reports about the Company and conference call transcripts. Plaintiff believes that
8 substantial additional evidentiary support will exist for the allegations set forth herein after a
9 reasonable opportunity for discovery.

10 **NATURE OF THE ACTION**

11 1. This is a securities class action on behalf of all purchasers of the common stock of
12 Natus Medical between October 16, 2015 and April 3, 2016, inclusive (the "Class Period"), alleging
13 violations of §§10(b) and 20(a) of the Securities Exchange Act of 1934 ("Exchange Act").
14

15 2. Defendant Natus Medical designs, manufactures and markets newborn care and
16 neurology healthcare products and services worldwide. On October 16, 2015, Natus Medical
17 announced that its Argentinian subsidiary had entered into a three-year supply contract with the
18 Ministry of Health of Venezuela (the "Ministry of Health") pursuant to which the Company would
19 receive \$232.5 million, including \$69 million in prepayments "expected" during the first quarter of
20 2016, ending March 31, 2016 (the "Supply Contract"). Thereafter, on October 21, 2015, citing the
21 "\$232.5 million equipment and supply contract" with the Ministry of Health, Natus Medical issued a
22 press release in which it increased its revenue and earnings guidance for its fiscal year ending
23 December 31, 2015. The Company stated that for the fourth quarter of 2015 it had "increased its
24 revenue guidance to \$102.0 million to \$105.0 million and guided non-GAAP earnings per share of
25 \$0.47 to \$0.49," and that for fiscal 2015 its "earnings guidance was increased with expected non-
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1 GAAP earnings per share of \$1.51 to \$1.53” and its “revenue guidance also increased to \$378
2 million to \$381 million compared to previous guidance of \$376 million to \$378 million.”

3 3. Unbeknownst to investors, the Supply Contract was not as defendants had publicly
4 portrayed it. Specifically, defendants did not disclose: (i) that the Venezuelan government had failed
5 to make tens of millions of dollars in prepayments to Natus Medical, which were required to have
6 been paid beginning in October 2015; (ii) that Natus Medical had no means to effectively enforce its
7 rights under the Supply Contract, as Venezuela was the exclusive forum for dispute resolution; (iii)
8 that Natus Medical’s receipt of revenues pursuant to the Supply Contract was contingent on the
9 outcome of Venezuelan elections; (iv) that the Supply Contract was subject to foreign currency
10 exchange risks; (v) that the Supply Contract did not have the economic benefits or certitude that
11 defendants had represented; and (vi) that as a result of the foregoing, Natus Medical was not on track
12 to achieve the increased guidance provided by defendants and such guidance lacked a reasonable
13 basis.
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15
16 4. As a result of defendants’ false and misleading statements, Natus Medical stock
17 traded at artificially inflated prices during the Class Period, reaching prices above \$50 per share in
18 intraday trading on December 18, 2015 – an all-time high. Certain of the Company’s senior
19 executives immediately cashed in, including the two defendants named herein who alone collectively
20 sold more than \$10.7 million worth of Natus Medical stock in the days following these
21 announcements. In total, Natus Medical insiders collectively sold \$14.5 million worth of their
22 personally held stock to the unsuspecting public.
23

24 5. On January 11, 2016, Natus Medical issued a press release revealing that it expected
25 to fall short of its fourth quarter and fiscal year 2015 guidance, and now only expected to report
26 fourth quarter revenues of approximately \$100 million, compared to its prior guidance of \$102
27 million to \$105 million, and fiscal year 2015 revenues of \$375.9 million, compared to its prior
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1 guidance of \$378 million to \$381 million. The Company also disclosed that “[t]he guidance
2 provided by the Company in October for the fourth quarter of 2015 included expected revenue of
3 approximately \$4 million under the new Venezuelan Ministry of Health contract,” but “[t]he
4 Company was not able to ship product on the anticipated schedule because the prepayment under the
5 contract was delayed.” The release further represented that “[t]he Company believes the delay was
6 most likely due to a combination of important national elections that occurred in Argentina in
7 November and Venezuela in December, Argentina’s currency devaluation in December as well as
8 national Christmas holidays.” As a result, defendants stated that “[t]he Company now expect[ed] to
9 receive prepayment and begin shipments in the first quarter of 2016,” and that the first quarter 2016
10 “guidance include[d] \$5 million of revenue from Venezuela and \$60 million of revenue for [fiscal
11 year 2016] guidance.” The Company also provided revenue guidance of \$96.5 million to \$97.5
12 million for the first quarter of 2016 and \$445 million to \$450 million for fiscal year 2016.
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15 6. On this revelation of a purported “delay” in the payments from the Ministry of
16 Health, the price of Natus Medical common stock declined, falling from its close of \$43.20 per share
17 on January 8, 2016 to close at \$38.25 per share on January 11, 2016, a decline of almost \$5 per
18 share, or 11%, on usually high trading of approximately 1.4 million shares, or more than four times
19 the average daily volume over the preceding ten trading days. However, due to defendants’
20 mischaracterization of the Ministry of Health’s failure to perform as a mere “delay” and their failure
21 to disclose the true terms and risks under the Supply Contract, the price of Natus Medical stock
22 remained artificially inflated.
23

24 7. On January 27, 2016, Natus Medical issued a press release reaffirming that the
25 revenue shortfall in the fourth quarter of 2015 was the result of a purported “delay” in receiving
26 prepayments under the Supply Contract, and that Natus Medical’s guidance depended on revenues
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1 from the Supply Contract. The release also disclosed unspecified “risks associated with [the
2 Company’s] Venezuela contract.”

3 8. Following this release, numerous analysts expressed skepticism that the Supply
4 Contract would convey the economic benefits that defendants had previously reported. For instance,
5 stock research analysts from William Blair stated in their January 27, 2016 research report that while
6 they still held out hope that the Ministry of Health prepayments would come in, they were removing
7 them from their modeling, stating in pertinent part as follows:
8

9 As the company alluded to in its prerelease, the top line fell short of original
10 guidance by about \$4 million due to a delay with the implementation of a recently
signed contract with the Venezuelan Ministry of Health. . . .

11 Regarding Venezuela, management remains optimistic the contract will be
12 executed fairly. *However, it seems clear that the timing of payments and ability to*
13 *actually record revenue from the prepayments is still uncertain and we remain*
14 *skeptical that the full \$60 million of revenue attributable to the Venezuela contract*
in 2016 will materialize this year. As a result, we continue to strongly advise
investors to focus exclusively on the impressive performance in the base business.

15 The company also reiterated first-quarter guidance (revenue of \$96.5 million-
16 \$97.5 million and adjusted EPS of \$0.34-0.35) and 2016 guidance (\$445 million-
17 \$450 million in revenues and \$1.84-\$1.88 in EPS), both of which include
contribution from Venezuela. *Excluding Venezuela, guidance appears to call for*
2%-4% revenue growth and EPS of around \$1.67 or \$1.68.

18 9. On this news, the price of Natus Medical stock fell once again, from its close of
19 \$37.15 per share on January 27, 2016 to close at \$34.71 per share on January 28, 2016, a decline of
20 \$2.44 per share, on abnormally high trading volume.

21 10. On February 29, 2016, Natus Medical filed its Annual Report on Form 10-K for fiscal
22 year 2015 with the SEC (the “10-K”). The filing disclosed that, “[f]ollowing the announcement of
23 [the Ministry of Health] contract, there ha[d] been elections in both Venezuela and Argentina leading
24 to significant political changes in those countries” and “it [had been] reported that Venezuela [was]
25 experiencing a highly inflationary economy and recessionary economic conditions,” stating that
26 “[t]hese developments may impact the likelihood of the Venezuelan Ministry of Health’s following
27 through with orders under the agreement, and Medix [Natus Medical’s Argentinian subsidiary] ha[d]

1 not yet received any prepayments under the agreement and no products or services ha[d] been
2 shipped or provided.” The 10-K now warned that “[i]f, for these or any other reasons, the
3 Venezuelan Ministry of Health does not make the required prepayments to initiate deliveries under
4 the Medix agreement, we will not receive any benefit from it.” The Company finally attached a
5 copy of the Supply Contract to the 10-K, which disclosed that the \$69 million in prepayments by the
6 Ministry of Health had been due by the end of 2015 (with more than \$24 million due in *October*
7 *2015*) – and thus the prepayments had been late for months – not the first quarter of 2016 as
8 defendants had represented. As to Natus Medical’s ability to legally enforce the terms of the Supply
9 Contract, the contract provided that it was governed solely by Venezuelan law, meaning the
10 Venezuelan government could unilaterally renege on all aspects of the agreement.

11
12 11. On this news, the price of Natus Medical stock once again declined, falling from its
13 close of \$37.21 per share on February 26, 2016 to close at \$36.32 per share on February 29, 2016.
14 However, because defendants failed to remove their prior guidance, which incorporated purportedly
15 expected revenues from the Supply Contract and represented that they expected timely performance
16 under the contract, the stock price remained artificially inflated.

17
18 12. Then, on April 4, 2016, Natus Medical issued a press release pre-announcing its
19 preliminary first quarter 2016 results. The release disclosed that “[r]evenue for the first quarter of
20 2016 [was] expected to be approximately \$87.5 million versus previous guidance of \$91.5 million to
21 \$92.5 million, excluding revenue from the Venezuela Ministry of Health contract.” The release
22 specifically disclosed that Natus Medical did not have “any revenue associated with the Venezuela
23 Ministry of Health contract as [it] did not receive any prepayments during the quarter.” On this
24 news, the price of Natus Medical stock declined precipitously, falling from its close of \$39.64 per
25 share on April 1, 2016 to close at \$31.84 per share on April 4, 2016, a decline of \$7.80 per share, or
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1 nearly 20%, on unusually high trading volume of more than 2.7 million shares, or more than eight
2 times the average daily trading volume over the preceding ten trading days.

3 13. When the Company finally released its first quarter 2016 results on April 20, 2016,
4 defendants slashed the Company's fiscal year 2016 guidance, finally publicly conceding that they
5 could "no longer include revenue or earnings from the agreement in . . . guidance until there is more
6 clarity" on Venezuela's performance under the agreement.
7

8 14. As a result of defendants' materially false and misleading statements, Natus Medical
9 stock traded at artificially inflated prices during the Class Period. However, after the above
10 revelations seeped into the market, the Company's shares were hammered by massive sales, sending
11 them down more than \$19 per share, or 37%, from their Class Period high.
12

13 **JURISDICTION AND VENUE**

14 15. The claims asserted herein arise under §§10(b) and 20(a) of the Exchange Act, 15
15 U.S.C. §§78j(b) and 78t(a), and Rule 10b-5, 17 C.F.R. §240.10b-5. Jurisdiction is conferred by §27
16 of the Exchange Act, 15 U.S.C. §78aa.

17 16. Venue is proper in this district pursuant to §27 of the Exchange Act. The acts and
18 transactions giving rise to the violations of law complained of occurred and Natus Medical's
19 headquarters are located in this District.
20

21 **THE PARTIES**

22 17. Plaintiff _____ purchased Natus Medical common stock during the Class
23 Period as described in the Certification attached hereto and incorporated herein by reference and
24 suffered damages.

25 18. Defendant Natus Medical, based in Pleasanton, California, designs, manufactures,
26 and markets newborn care and neurology healthcare products and services worldwide. During the
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1 Class Period, shares of Natus Medical traded in an efficient market on the NASDAQ under the ticker
2 symbol “BABY.”

3 19. Defendant James B. Hawkins (“Hawkins”) is, and was at all relevant times, the
4 President and Chief Executive Officer (“CEO”) of Natus Medical and a member of its Board of
5 Directors.

6 20. Defendant Jonathan A. Kennedy (“Kennedy”) is, and was at all relevant times, the
7 Executive Vice President and Chief Financial Officer of Natus Medical.

8 21. Defendants Hawkins and Kennedy are referred to herein as the “Individual
9 Defendants.”

10 22. During the Class Period, the Individual Defendants ran Natus Medical as “hands-on”
11 managers overseeing Natus Medical’s operations and finances and made the material false and
12 misleading statements described herein. The Individual Defendants had intimate knowledge about
13 core aspects of Natus Medical’s financial and business operations, including its major contracts and
14 revenue sources, such as the Supply Contract. They were also intimately involved in deciding which
15 disclosures would be made by Natus Medical. Indeed, the Individual Defendants made various
16 public statements for Natus Medical during the Class Period and participated in all Class Period
17 investor conferences, wherein they represented to investors that they were knowledgeable on the
18 topics about which they spoke.
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22 **MATERIALLY FALSE AND MISLEADING**
23 **CLASS PERIOD STATEMENTS**

24 23. The Class Period starts on October 16, 2015. On that day, Natus Medical filed a
25 Current Report on Form 8-K with the SEC which stated that on October 15, 2015, the Company’s
26 Argentinian subsidiary, Medix I.C.S.A (“Medix”), had entered into a supply agreement with the
27 Ministry of Health “to provide medical equipment, supplies and services over a three-year period,
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1 including certain third party products.” The filing purported to describe the terms of the Supply
2 Agreement, stating in pertinent part as follows:

3 Under the terms of the Supply Agreement, products and services *will be delivered*
4 pursuant to prepayments made by the Ministry of Health. ***Prepayments totaling***
5 ***approximately \$69 million are expected by the first quarter of 2016.*** Payments will
6 be received in Argentine Pesos based on the current exchange rate of the U.S. dollar
7 and the Argentine Peso at the time of payment. The agreement may be canceled at
8 any time by the Ministry of Health except for the amount of any prepayments. If
9 fully performed, the total sales under the agreement would aggregate \$232.5 million.

10 Medix has partnered with a local distributor to provide distribution and
11 technical service support to hospitals in Venezuela.

12 Natus expects the operating profitability over the life of the Supply
13 Agreement to be similar to the company’s corporate average operating margin.

14 24. The Supply Contract was not attached to the Form 8-K despite the fact that Item 1.01
15 of the Instructions to SEC Form 8-K and the SEC’s interpretive releases mandate the disclosure of
16 the material terms of any “Material Definitive Agreement” entered into by issuers within four
17 business days. These rules also expressly state that the SEC “*encourage[s] companies to file the*
18 *[contract as an] exhibit with the Form 8-K when feasible, particularly when no confidential*
19 *treatment is requested.*”¹ The Company’s description of the Supply Contract thus failed to provide
20 the “brief description of the terms and conditions of the agreement or amendment that are material to
21 the registrant,” as required by Item 1.01 of the Instructions to Form 8-K.²

22 25. On October 21, 2015, Natus Medical issued a press release announcing its third
23 quarter 2015 results. Defendant Hawkins commented on the results and spoke positively about the
24 Supply Contract, stating in pertinent part as follows:

25 “I am most satisfied that we achieved a 20% non-GAAP operating profit
26 margin during the quarter and am now confident that we will exceed our full year
27 non-GAAP operating margin goal of 18%. ***We are increasingly confident that we***
28 ***can achieve and potentially exceed our long term operating margin goal of 20% in***
2016. . . . In addition to our record performance during the quarter, we recently

¹ See Final Rule: Additional Form 8-K Disclosure Requirements and Acceleration of Filing Date, 69 F.R. 15594, at 15597 (Mar. 25, 2004).

² *Id.* at 15620.

1 *secured a \$232.5 million, three-year agreement between our Argentina subsidiary,*
2 *Medix, and the Venezuelan Ministry of Health. This agreement will provide over*
3 *fifty hospitals with a broad range of obstetric and neonatal devices, supplies and*
4 *services including more than \$50 million of Medix and Natus equipment and*
5 *supplies”*

6 26. The release further provided the following increased “Financial Guidance”:

7 For the fourth quarter of 2015, the Company increased its revenue guidance
8 to *\$102.0 million to \$105.0 million and guided non-GAAP earnings per share of*
9 *\$0.47 to \$0.49.*

10 Full year 2015 earnings guidance was increased with *expected non-GAAP*
11 *earnings per share of \$1.51 to \$1.53.* Full year 2015 revenue guidance also
12 increased to *\$378 million to \$381 million* compared to previous guidance of \$376
13 million to \$378 million.

14 27. Following the earnings release, Natus Medical held a conference call with analysts
15 and investors to discuss the Company’s earnings and operations. During the conference call,
16 defendants made additional positive statements about the Supply Contract. Defendant Hawkins
17 stated in pertinent part as follows:

18 Last Friday we announced that Medix, our Argentine subsidiary, signed a
19 three-year agreement with the Ministry of Health of Venezuela for \$232.5 million to
20 supply Venezuela with neonatal and obstetric equipment supplies and services. *As*
21 *stated in our filing, we are to receive three payments totaling \$69 million by the*
22 *end of the first quarter of 2016. Prepayments are to continue throughout the*
23 *contract period as we fulfill our requirements.* We expect to commence on this
24 contract in our fourth quarter, but revenue is expected to be minimal in the fourth
25 quarter.

26 28. During the conference call, defendant Hawkins concluded his prepared remarks by
27 emphasizing the value of the Supply Contract to Natus Medical, stating in pertinent part as follows:

28 Our newborn care business continues to perform well, leveraging our leading
29 newborn care products and our salesforce with our rapidly growing Peloton hearing
30 screening service business, combined with the recent addition of fast-growing
31 NicView, *and now the large order from Venezuela, uniquely positions Natus for an*
32 *exciting future.*

33 29. Defendants further emphasized the purported benefits of the Supply Contract in their
34 question and answer session with analysts. For example, a ROTH Capital Partners analyst asked
35 defendant Hawkins to “provide a little bit more color just on how we should think about that contract
36 contributing next year, both in terms of revenues and earnings, and the cadence of when those

1 prepayments expected by the first quarter will be recognized as revenues throughout 2016.” In
2 response, defendant Hawkins stated that the Company’s revenue under the Supply Contract “*will*
3 *probably be fairly even throughout the three years.*” Defendant Hawkins continued: “*We expect to*
4 *receive some payments here by the end of the year, to start those three payments totaling the \$69*
5 *million. And then to – most likely those would extend into the first quarter of next year.*”
6 Defendant Hawkins also emphasized that Natus Medical is “*going to be prepaid throughout the*
7 *entire contract.* So we’ll ship after we get prepaid. We’ll get more prepayments, and it will have
8 that kind of cadence.” Later in the call, defendant Kennedy claimed that the revenues under the
9 Supply Contract would be frontloaded, allowing the Company to “always” be ahead: “The contract
10 has a little bit heavier prepayments in the front and as it tails down, *so we will always be in a*
11 *position of being ahead.*”
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14 30. In response to another analyst question regarding how the Supply Contract would
15 impact the Company’s gross profits, defendant Hawkins stated: “We believe *it will carry about the*
16 *same operating profit margin that our regular business has.*” Defendant Hawkins would later
17 confirm that revenue from the Supply Contract had factored into the Company’s fourth quarter 2015
18 guidance, stating that “we put in a couple million dollars in there,” but claiming that this estimate
19 and the other forecasted economic impact of the Supply Contract was “*conservative,*” and that “*it’s*
20 *sort of a practice of ours anyway. We’d rather be on the conservative side,* and if we do better,
21 great.”
22

23 31. On the conference call, defendants Hawkins and Kennedy not only failed to disclose
24 the highly contingent and unenforceable nature of the Supply Contract, they instead stated that the
25 Supply Contract was likely to lead to continued business and additional revenues with the
26 Venezuelan government after the three-year Supply Contract expired. For example, defendant
27 Hawkins broke down the purported economic benefit of the Supply Contract as follows:
28

1 Of Natus product itself, it's about \$50 million between Natus and Medix that it we'll
2 [sic] be supplying. Then there's the biggest component of that will be for other
3 products that we don't manufacture. And then there's also a service, installation, and
4 training component to it that totals the \$232.5 million.

5 ***And yes, we think you're right: after this contract expires, we do believe
6 there will be a continuing relationship for supplies, other products going forward.
7 So, yes, this contract was a long time in the making, and we're very excited to have
8 it and very pleased about it.***

9 I think we had mentioned a few different times that it was a possibility, even
10 when we acquired Medix five years ago, this was certainly something that we had
11 thought as a possibility. And ***here it's happened really bigger than we thought. So,
12 very excited.***

13 32. Continuing on the theme that the economics of the Supply Contract were "really
14 bigger than we thought," defendant Kennedy stated:

15 ***The other comment to make about this, this isn't the first contract with
16 Venezuela that Medix has entered into. So this is a continuation of an ongoing
17 relationship. While it's lumpy, it comes over the course of several years. The orders
18 are typically very large, and stretch out over many years. So when we acquired
19 Medix in 2010, they had just completed, I want to say, about a \$100 million deal
20 with Venezuela. So there is an ongoing relationship between Medix and other
21 South American countries that is valuable.***

22 33. Later in the call, defendant Kennedy assured investors that the currency risk of
23 dealing with a South American buyer was adequately addressed in the Supply Contract and that any
24 such risk was "minimal," stating in pertinent part as follows:

25 There is foreign exchange, no doubt. Any time you deal with the countries in South
26 America, there is currency controls and there's exchange risk. ***The thing that's the
27 most protective on us here is that we do get – the contract is denominated in
28 dollars, and our payment is a dollar-denominated payment.*** So over time, we will
be recognizing – we're taking prepayments in a constant currency. Once we convert
the currency into pesos to pay our vendors and employees, then we will take the
currency risk, to the extent that that peso stays on our balance sheet.

***But our intent would be to time that to go equally timed, so that as we're
collecting pesos we're paying pesos, and it minimizes the currency risk. But there
is some risk, although I'd call it minimal.***

34. On November 19, 2015, defendant Hawkins presented for Natus Medical at the
Jefferies Autumn Global Healthcare Conference. Opening his remarks, defendant Hawkins
reiterated the guidance provided on October 21, 2015, stating in pertinent part that "[t]o look at our
financials, which we are very proud of, we've been able to show very consistent revenue growth

1 over the last few years. *And we have guided to almost \$380 million mid guidance this year.*”

2 Expressly lauding the *bona fides* of the Supply Contract, defendant Hawkins went on to state in
3 pertinent part as follows:

4 *We also recently announced a major contract, supply agreement, with*
5 *Venezuela where our Argentine subsidiary received a \$232 million agreement to*
6 *supply medical products and services to Venezuela over a three-year period.* Not
7 only is this for our products, but a variety of newborn care and obstetric products to
8 service over 50 hospitals in Venezuela.

9 You can see that the Natus products represent about \$50 million and the other
10 products that we will be bringing in and then also the service, warranty, installation
11 and all that is for the rest of the contract. It is a very exciting piece of business. *We*
12 *will be paid up front as we go on this business.*

13 *We are looking to get our first payment in by the end of the year, and those*
14 *payments would continue throughout the life of the contract.* It is not really good
15 for Natus, but it’s great for the Venezuelan newborns that have been somewhat
16 deprived of great medical care over the last number of years due to financial reasons,
17 *but this money has come free* and it is something that we are very happy to be
18 involved in.

19 35. In response to a question from his Jefferies host as to how confident the Company
20 was that the Ministry of Health would make good on its payments under the contract, defendant
21 Hawkins downplayed any risks and reaffirmed his “*confidence*” in Natus Medical receiving
22 payment, because they had been told that the “*money is set aside,*” stating:

23 Yes, so, always a potential risk with any contract. The one thing I would say
24 with this one, before we bought our subsidiary, which is located in Buenos Aires,
25 which is who received this order, a company called Medix, they had received an \$82
26 million order maybe seven years ago and it came through just fine. The money
27 showed up as expected, and it did happen.

28 *So, we have pretty good confidence that it should happen. We have been*
told the money is set aside, and we are looking to get our first payment here by the
end of December.

35. Later in the call, defendant Hawkins stated that the Supply Contract would lead to
earnings “growth” at the Company in the coming years, stating in pertinent part that “with
Venezuela we are going to have rate growth. . . . So, we are quite happy overall of just keeping to
what we are doing and *growing the business and growing earnings.*”

1 37. On December 1, 2015, defendant Hawkins presented for Natus Medical at the Piper
2 Jaffray Healthcare Conference. He opened his remarks by stating that “[y]ou can see that our
3 revenues have been growing nicely, **and we’ve guided this year to \$378 million to \$381 million.**”
4 He went on to again laud the *bona fides* of the Supply Contract, stating in pertinent part as follows:

5
6 Another announcement that we recently made: ***we have a very large order
7 that we received from Venezuela totaling \$232.5 million*** for newborn and obstetric
8 equipment along with supplies and service for over 50 hospitals in Venezuela. This is
9 an order that will be over three years. We have a Venezuelan partner that will be
10 responsible for doing all the installation, training, and service and we’re going to be
11 the ones selling our products along with purchasing other products.

12 As you can see from the graph here, approximately \$51 million is products
13 that Natus manufactures, with the remainder being other people’s products. And that
14 also then breaks down into equipment, supplies, and services, as you can see in the
15 bar chart.

16 ***We look for some of these revenues to start in December. We expect to get
17 our first \$23 million payment in the weeks ahead and then we’ll be prepaid on all
18 of this as we go forward on a rolling basis. It’s quite a big order for us and we are
19 very excited to not only have it ourselves, but also for the babies and mothers in
20 Venezuela.***

21 38. During the Q&A session, defendant Hawkins gave what he called “a little more
22 color” on the Supply Contract “and certainty of revenue,” without disclosing the fact that the
23 Venezuelan government had ***already*** failed to make tens of millions of dollars in prepayments under
24 the Supply Contract and that the Company had no means of enforcing the Supply Contract.
25 Similarly, instead of disclosing the fact that the Supply Contract was contingent on political and
26 economic circumstances in Venezuela, defendant Hawkins claimed that Venezuela was following
27 through on a “commitment” to make the required payments, stating in pertinent part as follows:

28 Sure. The question was for those that are listening on the Venezuela contract,
a little more color on that and the certainty of revenue. How are we going to get paid
and all of that.

Well, certainly, it’s a very interesting situation. The order has come through
our Argentinean subsidiary, which is one of the largest, if not the largest, medical
device company in Argentina. Argentina has a very strong relationship with
Venezuela that Argentina historically has had a commitment: whenever they buy oil
outside of Argentina, they buy it from Venezuela. And Venezuela has said whenever
we buy medical devices, when appropriate, we’ll buy them through Argentina.

1 And with that, there's been this balance of trade situation that Argentina has
2 bought a lot more oil than Venezuela has bought medical devices. So it's now such
3 that *Venezuela is now exercising this commitment to fund the medical device*
4 *purchases.*

5 The money is being [sic] that we are receiving for this purchase is all in US
6 dollars. And there always is some potential currency risk as we transfer those dollars
7 into Argentine pesos to do the purchasing and delivering of product. *But overall,*
8 *over this three-year period, we are convinced it's going to be a good piece of*
9 *business for us.*

10 *It will have average corporate margins of 18% to 20%.* And although the
11 gross profits won't be near that, but the bottom line operating margin should be the
12 same. So we are quite encouraged. *We're expecting to get payment here in the next*
13 *few weeks and looking for this to kick off, Bill.*

14 39. The statements referenced above in ¶¶23 and 25-38 were materially false and
15 misleading because they failed to disclose the following material facts that were known to
16 defendants and recklessly disregarded by them:

17 (a) the Venezuelan government had failed to make tens of millions of dollars in
18 prepayments to Natus Medical under the Supply Contract, \$24 million of which was required to have
19 been paid in October 2015;

20 (b) Natus Medical had no means to effectively enforce its rights under the Supply
21 Contract, as Venezuela was the exclusive forum for dispute resolution;

22 (c) Natus Medical's receipt of revenues under the Supply Contract was contingent
23 on the outcome of Venezuelan elections;

24 (d) the Supply Contract was subject to foreign currency exchange risks;

25 (e) the Supply Contract did not have the economic benefits or certitude that
26 defendants had represented; and

27 (f) as a result of the forgoing, Natus Medical was not on track to achieve the
28 increased guidance defendants had led the market to believe the Company was on track to achieve
during the Class Period and such guidance lacked a reasonable basis.

1 40. On January 11, 2016, Natus Medical issued a release announcing its first quarter and
2 fiscal year 2016 financial guidance, which revealed that Venezuela had not made expected payments
3 under the Supply Contract due to a purported “delay,” causing Natus Medical to miss its earnings
4 guidance:

5 For the full year 2016, the Company expects to report revenue of \$445
6 million to \$450 million and non-GAAP earnings per share of \$1.84 to \$1.88. For the
7 first quarter of 2016, the Company expects to report revenue of \$96.5 million to
8 \$97.5 million and non-GAAP earnings per share of \$0.34 to \$0.35, an increase of
9 10% to 13% over the first quarter of 2015 non-GAAP earnings per share of \$0.31.

10 The Company expects to report revenue of approximately \$100.0 million for
11 the fourth quarter of 2015, compared to prior guidance of \$102.0 million to \$105.0
12 million and full year 2015 revenue of \$375.9 million compared to prior guidance of
13 \$378.0 million to \$381.0 million. ***The guidance provided by the Company in
14 October for the fourth quarter of 2015 included expected revenue of approximately
15 \$4 million under the new Venezuelan Ministry of Health contract. The Company
16 was not able to ship product on the anticipated schedule because the prepayment
17 under the contract was delayed. The Company believes the delay was most likely
18 due to a combination of important national elections that occurred in Argentina in
19 November and Venezuela in December, Argentina’s currency devaluation in
20 December as well as national Christmas holidays. The Company now expects to
21 receive prepayment and begin shipments in the first quarter of 2016.*** The first
22 quarter 2016 guidance includes \$5 million of revenue from Venezuela and \$60
23 million of revenue for the full year guidance.

24 41. On this revelation, the price of Natus Medical common stock declined, falling from
25 its close of \$43.20 per share on January 8, 2016 to close at \$38.25 per share on January 11, 2016, a
26 decline of almost \$5, or 11%, on usually high trading of approximately 1.4 million shares, or more
27 than four times the average daily volume over the preceding ten trading days.

28 42. However, due to defendants’ mischaracterization of the Ministry of Health’s failure to
perform as a mere “delay” and their failure to disclose the true terms and risks under the Supply
Contract, the stock price remained artificially inflated. For instance, stock analyst Roth Capital
Partners’ January 12, 2016 “Company Note” stated in pertinent part that “[w]hile Venezuela remains
an uncertainty, ***management is confident shipments will begin in 1Q,***” referring to a mere “delay
with its Venezuela contract.” Similarly, on January 20, 2016, Roth Capital Partners sent a “FLASH
NOTE” to its brokerage customers entitled “BABY 4Q Preview: Preannouncement Should Leave

1 Little Surprise,” in which it claimed to have received the following additional reassurances from
2 Natus Medical’s management:

- 3 • . . . Based on our discussions, management remains confident the contract
4 should begin this quarter after political elections in Argentina and Venezuela,
5 along with the Argentinian currency devaluation, all of which occurred in
6 4Q, caused the delay.
- 7 • Management has assumed it will receive Venezuelan prepayments by the end
8 of February and begin shipping on the contract thereafter, which would allow
9 Natus to record ~\$5 million of revenues in 1Q and remain on track with the
10 \$60 million revenue assumption imbedded in its 2016 guidance.

11 43. On January 27, 2016, Natus Medical issued a press release reaffirming that the
12 revenue shortfall in the fourth quarter of 2015 was a result of the purported “delay” in receiving
13 prepayments under the Supply Contract, and that Natus Medical’s guidance depended on revenues
14 from the Supply Contract. The release also disclosed unspecified “risks associated with our
15 Venezuela contract.”

16 44. Later that day, when Natus Medical held a conference call with analysts and investors
17 to discuss the press release, defendant Hawkins again acknowledged that, “[a]s previously
18 announced, the guidance . . . provided in October 2015 included expected revenue of approximately
19 \$4 million under the new \$232 million Venezuela Ministry of Health contract to supply neonatal and
20 obstetric equipment,” but claimed that the Company “did not ship product on the anticipated
21 schedule because the prepayment under the contract was delayed.” Later in the call, discussing
22 guidance, defendant Hawkins confirmed that “[t]he first-quarter revenue guidance include[d]
23 approximately \$5 million from the Venezuela contract” and that the “[f]ull-year revenue guidance
24 include[d] approximately \$60 million from the Venezuela contract.” Defendant Hawkins concluded
25 his opening remarks by emphasizing that “*the large order from Venezuela uniquely positions Natus
26 for an exciting future.*”

27 45. Later on the call, when asked by an analyst “[w]hat gives you confidence that that
28 contract will begin this quarter,” defendant Hawkins reiterated that he was “*very confident that this*

1 **business will happen.**” Hawkins also responded “yes” to an analyst questioning whether it was
2 “**safe to assume guidance implies about \$0.20 in earnings from Venezuela this year.**” He later
3 stated, “We look to grow, **hopefully, faster than we’ve guided,** and also earnings.”

4 46. Defendant Kennedy provided a similar confidence in the economic benefits of the
5 Supply Contract, stating in response to an analyst’s question: “**The operating piece we can pretty**
6 **much predict. If I had a gun to my head and had to predict, it’s probably in the mid-40% for a**
7 **gross profit margin, and Jim said just under 20% for the operating.**”

8 47. Following the release and conference call, numerous analysts expressed skepticism
9 that the Supply Contract would convey the economic benefits that defendants had previously
10 reported. For instance, stock research analysts from William Blair stated in their January 27, 2016
11 research report that while they still held out hope the Ministry of Health prepayments would come
12 in, they were removing them from their modeling, stating in pertinent part as follows:
13
14

15 As the company alluded to in its prerelease, the top line fell short of original
16 guidance by about \$4 million due to a delay with the implementation of a recently
17 signed contract with the Venezuelan Ministry of Health. . . .

18 Regarding Venezuela, management remains optimistic the contract will be
19 executed fairly. **However, it seems clear that the timing of payments and ability to**
20 **actually record revenue from the prepayments is still uncertain and we remain**
21 **skeptical that the full \$60 million of revenue attributable to the Venezuela contract**
22 **in 2016 will materialize this year. As a result, we continue to strongly advise**
23 **investors to focus exclusively on the impressive performance in the base business.**

24 The company also reiterated first-quarter guidance (revenue of \$96.5 million-
25 \$97.5 million and adjusted EPS of \$0.34-0.35) and 2016 guidance (\$445 million-
26 \$450 million in revenues and \$1.84-\$1.88 in EPS), both of which include
27 contribution from Venezuela. **Excluding Venezuela, guidance appears to call for**
28 **2%-4% revenue growth and EPS of around \$1.67 or \$1.68.**

48. On this news, the price of Natus Medical stock fell once again, from its close of
\$37.15 per share on January 27, 2016 to close at \$34.71 per share on January 28, 2016, a decline of
\$2.44 per share, on abnormally high trading volume.

49. On February 29, 2016, Natus Medical filed the 10-K, disclosing that, “[f]ollowing the
announcement of [the Ministry of Health] contract, there ha[d] been elections in both Venezuela and

1 Argentina leading to significant political changes in those countries” and “it [had been] reported that
2 Venezuela [was] experiencing a highly inflationary economy and recessionary economic
3 conditions,” stating that “[t]hese developments may impact the likelihood of the Venezuelan
4 Ministry of Health’s following through with orders under the agreement, and Medix ha[d] not yet
5 received any prepayments under the agreement and no products or services ha[d] been shipped or
6 provided.” The 10-K now warned that “[i]f, for these or any other reasons, the Venezuelan Ministry
7 of Health does not make the required prepayments to initiate deliveries under the Medix agreement,
8 we will not receive any benefit from it.”

10 50. The Company finally attached a copy of the Supply Contract to the 10-K, which
11 disclosed that the \$69 million in prepayments by the Ministry of Health were due by the end of 2015,
12 including more than \$24 million that was due in *October 2015* – and thus the prepayments had been
13 past due for months – not the first quarter of 2016 as defendants had represented. As to Natus
14 Medical’s ability to legally enforce the terms of the Supply Contract, the Supply Contract provide
15 that “all aspects relative to the interpretation, application, performance and compliance of this
16 Agreement, shall be ruled by the Laws of the Bolivarian Republic of Venezuela and they have
17 chosen the City of Caracas as their special domicile for such effects.” This choice of law provision
18 rendered the Supply Contract essentially unenforceable by Natus Medical against the Venezuelan
19 government.³

21 51. On this news, the price of Natus Medical stock once again declined, falling from its
22 close of \$37.21 per share on February 26, 2016 to close at \$36.32 per share on February 29, 2016.

24 ³ For example, the International Commission of Jurists (“ICJ”) has identified “key deficiencies in
25 the Venezuelan legal system, which threaten the rule of law,” and issued a 2014 report which
26 documented “failures by the authorities, as well as interference, intimidation, arbitrary suspensions
27 and other pressures, that have undermined the independence and impartiality of the country’s judges
28 rights.” ICJ, *Venezuela: weak legal system threatens democracy* (June 5, 2014),
<https://www.icj.org/venezuela-weak-legal-system-threatens-democracy-and-human-rights-reforms-urgently-needed-new-report-says/> (last visited Jan. 26, 2017).

1 However, because defendants failed to remove their prior guidance, which incorporated purportedly
2 expected revenues from the Supply Contract and represented that they expected timely performance
3 under the contract, the stock price remained artificially inflated.

4 52. On a March 14, 2016, defendants Hawkins and Kennedy presented at the ROTH
5 investor conference call. On the call, defendant Hawkins conceded that analysts could discount the
6 expected revenues from the Supply Contract, but stated “*we really believe this is going to happen.*”
7 However, instead of the misleading confidence and certainty that he had previously conveyed
8 regarding the Supply Contract, Hawkins acknowledged that “trying to handicap exactly when, with
9 all the changes going on in both governments, Ministry of Health, oil prices, it has made it very
10 difficult.” Later in the call, he characterized Venezuela as being, “quote, in the toilet,” and stated
11 that the Company had “an agent there that is the number one distributor and supplier of product in
12 Venezuela who we rely upon to really give us this feedback.”
13

14 53. Then, on April 4, 2016, Natus Medical issued a press release pre-announcing its
15 preliminary first quarter 2016 results. The release disclosed that “[r]evenue for the first quarter of
16 2016 [was] expected to be approximately \$87.5 million versus previous guidance of \$91.5 million to
17 \$92.5 million, excluding revenue from the Venezuela Ministry of Health contract.” The release
18 revealed that Natus Medical did not have “any revenue associated with the Venezuela Ministry of
19 Health contract as [it] did not receive any prepayments during the quarter.”
20

21 54. On this news, the price of Natus Medical stock declined precipitously, falling from its
22 close of \$39.64 per share on April 1, 2016 to close at \$31.84 per share on April 4, 2016, a decline of
23 \$7.80 per share, or nearly 20%, on unusually high trading volume of more than 2.7 million shares, or
24 more than eight times the average daily trading volume over the preceding ten trading days.
25

26 55. When the Company finally released its first quarter 2016 results on April 20, 2016,
27 defendants slashed the Company’s fiscal year 2016 guidance, finally publicly conceding that they
28

1 could “no longer include revenue or earnings from the agreement in . . . guidance until there is more
2 clarity” on Venezuela’s performance under the agreement.

3 **NO SAFE HARBOR**

4 56. Natus Medical’s “Safe Harbor” warnings accompanying its reportedly forward-
5 looking statements (“FLS”) issued during the Class Period were ineffective to shield those
6 statements from liability. Because most of the false and misleading statements related to existing
7 facts or conditions, the Safe Harbor has no applicability. To the extent that known trends should
8 have been included in the Company’s financial reports prepared in accordance with GAAP, they are
9 excluded from the protection of the statutory Safe Harbor. 15 U.S.C. §78u-5(b)(2)(A).
10

11 57. The defendants are also liable for any false or misleading FLS pleaded because, at the
12 time each FLS was made, the speaker knew the FLS was false or misleading and the FLS was
13 authorized and/or approved by an executive officer and/or director of Natus Medical who knew that
14 the FLS was false. In addition, the FLS were contradicted by existing, undisclosed material facts
15 that were required to be disclosed so that the FLS would not be misleading. Finally, most of the
16 purported “Safe Harbor” warnings were themselves misleading because they warned of “risks” that
17 had already materialized or failed to provide any meaningful disclosures of the relevant risks.
18

19 **ADDITIONAL SCIENTER ALLEGATIONS**

20 58. As alleged herein, defendants acted with scienter in that defendants knew that the
21 public documents and statements issued or disseminated in the name of the Company were
22 materially false and misleading; knew that such statements or documents would be issued or
23 disseminated to the investing public; and knowingly and substantially participated or acquiesced in
24 the issuance or dissemination of such statements or documents as primary violations of the federal
25 securities laws. As set forth elsewhere herein in detail, defendants, by virtue of their receipt of
26 information reflecting the true facts regarding Natus Medical, their control over, and/or receipt or
27
28

1 modification of Natus Medical's allegedly materially misleading misstatements and/or their
2 associations with the Company which made them privy to confidential proprietary information
3 concerning Natus Medical, participated in the fraudulent scheme alleged herein.

4 59. Meanwhile, defendants' false and misleading statements artificially inflated the price
5 of Natus Medical stock, which reached all-time highs of over \$50 per share during the Class Period.
6 While the price of Natus Medical stock was artificially inflated, certain of the Company's senior
7 executives and directors cashed in, selling hundreds of thousands shares of their personally held
8 Natus Medical stock at fraud-inflated prices, including defendants Hawkins and Kennedy, who sold
9 228,958 shares and received more than \$10.7 million in gross proceeds:

				GROSS
DEFENDANT	DATE	SHARES SOLD	PRICE	PROCEEDS
Kennedy	10/27/15	10,496	\$45.75	\$480,192
Kennedy	10/28/15	18,462	\$45.70	\$843,713
Hawkins	10/28/15	56,189	\$45.89	\$2,578,513
Hawkins	10/29/15	6,162	\$45.89	\$282,774
Hawkins	10/30/15	37,649	\$45.53	\$1,714,159
Hawkins	11/10/15	15,731	\$48.12	\$756,976
Hawkins	11/12/15	26,758	\$47.32	\$1,266,189
Hawkins	11/25/15	14,103	\$48.86	\$689,073
Hawkins	11/27/15	<u>43,408</u>	\$49.17	<u>\$2,134,371</u>
Totals:		228,958		\$10,745,960

18
19 **APPLICABILITY OF PRESUMPTION OF RELIANCE:
FRAUD-ON-THE-MARKET DOCTRINE**

20 60. At all relevant times, the market for Natus Medical common stock was an efficient
21 market for the following reasons, among others:

22 (a) Natus Medical stock met the requirements for listing, and was listed and
23 actively traded on the NASDAQ, a highly efficient and automated market;

24 (b) According to the Company's Form 10-Q filed on November 3, 2016, the
25 Company had more than 32.9 million shares outstanding as of October 28, 2016. During the Class
26 Period, on average, 330,000 shares of Natus Medical stock were traded on a daily basis,
27
28

1 demonstrating a very active and broad market for Natus Medical stock and permitting a very strong
2 presumption of an efficient market;

3 (c) Natus Medical was qualified to file a less comprehensive Form S-3
4 registration statement with the SEC that is reserved, by definition, to well-established and largely
5 capitalized issuers for whom less scrutiny is required;

6 (d) as a regulated issuer, Natus Medical filed periodic public reports with the
7 SEC;

8 (e) Natus Medical regularly communicated with public investors via established
9 market communication mechanisms, including regular disseminations of press releases on the
10 national circuits of major newswire services, the Internet and other wide-ranging public disclosures,
11 such as communications with the financial press and other similar reporting services;

12 (f) Natus Medical was followed by many securities analysts who wrote reports
13 that were distributed to the sales force and certain customers of their respective firms during the
14 Class Period and each of these reports was publicly available and entered the public marketplace;
15 and

16 (g) unexpected material news about Natus Medical was rapidly reflected in and
17 incorporated into the Company's stock price during the Class Period.

18 61. As a result of the foregoing, the market for Natus Medical common stock promptly
19 digested current information regarding Natus Medical from publicly available sources and reflected
20 such information in Natus Medical's stock price. Under these circumstances, all purchasers of Natus
21 Medical common stock during the Class Period suffered similar injury through their purchase of
22 Natus Medical common stock at artificially inflated prices, and a presumption of reliance applies.
23
24
25
26
27
28

1 **LOSS CAUSATION**

2 62. During the Class Period, as detailed herein, defendants made false and misleading
3 statements and omitted material information concerning Natus Medical’s business and prospects and
4 engaged in a scheme to deceive the market. By artificially inflating and manipulating the price of
5 Natus Medical stock, defendants deceived plaintiff and the Class and caused them losses when the
6 truth was revealed. When defendants’ prior misrepresentations and fraudulent conduct became
7 apparent to the market, this caused Natus Medical’s stock price to fall precipitously as the prior
8 artificial inflation came out of the stock price. As a result of their purchases of Natus Medical stock
9 during the Class Period, plaintiff and other members of the Class suffered economic loss, *i.e.*,
10 damages, under the federal securities laws.
11

12 **CLASS ACTION ALLEGATIONS**

13 63. This is a class action on behalf of all purchasers of Natus Medical common stock
14 during the Class Period (the “Class”). Excluded from the Class are defendants and their families, the
15 officers and directors of the Company, at all relevant times, members of their immediate families and
16 their legal representatives, heirs, successors or assigns, and any entity in which defendants have or
17 had a controlling interest.
18

19 64. Common questions of law and fact predominate and include: (a) whether defendants
20 violated the Exchange Act; (b) whether defendants omitted and/or misrepresented material facts; (c)
21 whether defendants knew or recklessly disregarded that their statements were false; (d) whether the
22 price of Natus Medical common stock was artificially inflated during the Class Period; and (e) the
23 extent of and appropriate measure of damages.
24

25 65. Plaintiff’s claims are typical of those of the Class. Prosecution of individual actions
26 would create a risk of inconsistent adjudications. Plaintiff will adequately protect the interests of the
27
28

1 Class. A class action is superior to other available methods for the fair and efficient adjudication of
2 this controversy.

3 **COUNT I**

4 **For Violation of §10(b) of the Exchange Act**
5 **and Rule 10b-5 Against All Defendants**

6 66. Plaintiff repeats and realleges the above paragraphs as though fully set forth herein.

7 67. Throughout the Class Period, defendants, in pursuit of their scheme and continuous
8 course of conduct to inflate the market price of Natus Medical common stock, had the ultimate
9 authority for making, and knowingly or recklessly made, materially false or misleading statements or
10 failed to disclose material facts necessary to make the statements made, in light of the circumstances
11 under which they were made, not misleading.
12

13 68. During the Class Period, defendants, and each of them, carried out a plan, scheme,
14 and course of conduct using the instrumentalities of interstate commerce and the mails, which was
15 intended to and, throughout the Class Period did: (a) artificially inflate and maintain the market price
16 of Natus Medical common stock; (b) deceive the investing public, including plaintiff and other Class
17 members, as alleged herein; (c) cause plaintiff and other members of the Class to purchase Natus
18 Medical common stock at inflated prices; and (d) cause them losses when the truth was revealed
19 over time. In furtherance of this unlawful scheme, plan and course of conduct, defendants, and each
20 of them, took the actions set forth herein, in violation of §10(b) of the Exchange Act and Rule 10b-5,
21 17 C.F.R. §240.10b-5.
22

23 69. In addition to the duties of full disclosure imposed on defendants as a result of their
24 affirmative false and misleading statements to the investing public, defendants had a duty to
25 promptly disseminate truthful information with respect to Natus Medical's operations and
26 performance that would be material to investors in compliance with the integrated disclosure
27 provisions of the SEC, including with respect to the Company's revenue and earnings trends, so that
28

1 the market price of the Company's common stock would be based on truthful, complete and accurate
2 information.

3 70. Defendants had actual knowledge of the misrepresentations and omissions of material
4 facts set forth herein or acted with reckless disregard for the truth in that they failed to ascertain and
5 disclose such facts, even though such facts were either known or readily available to them.
6

7 71. As a result of the dissemination of the materially false and misleading information
8 and failure to disclose material facts as set forth above, the market price of Natus Medical common
9 stock was artificially inflated during the Class Period. In ignorance of the fact that the market price
10 of Natus Medical common stock was artificially inflated, and relying upon the integrity of the
11 market in which the shares traded, plaintiff and other members of the Class purchased Natus Medical
12 stock during the Class Period at artificially high prices and, when the truth was revealed, were
13 damaged thereby.
14

15 72. Had plaintiff and the other members of the Class and the marketplace known of the
16 true facts, which were knowingly or recklessly concealed by defendants, plaintiff and the other
17 members of the Class would not have purchased their Natus Medical shares during the Class Period,
18 or if they had purchased such shares during the Class Period, they would not have done so at the
19 artificially inflated prices which they paid.
20

21 73. By virtue of the foregoing, defendants Natus Medical and the Individual Defendants
22 have violated §10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder, 17 C.F.R.
23 §240.10-5.

24 **COUNT II**

25 **For Violation of §20(a) of the Exchange Act**
26 **Against All Defendants**

27 74. Plaintiff repeats and realleges the above paragraphs as though fully set forth herein.
28

