Conquest Petroleum Inc
Form 10-K/A
November 16, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K/A

(Amendment No. 1)

x ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the year end period ended: December 31, 2008

¨ TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from: to

Commission File No.: 000-53093

Conquest Petroleum Incorporated
(Exact name of registrant as specified in its charter)

TEXAS	20-0650828

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

Payment of Filing Fee (Check the appropriate box):

x	No fee required.	
o	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 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):
	(4)	Proposed maximum aggregate value of transaction:
	(5)	Total fee paid:
o	Fee paid previously with preliminary materials.	
o	Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.	
	(1)	Amount Previously Paid:
	(2)	Form, Schedule or Registration Statement No.:
	(3)	Filing Party:
	(4)	Date Filed:

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Natus Medical Incorporated
6701 Koll Center Parkway Suite 120
Pleasanton, CA 94566
www.natus.com
(925) 223-6700

Preliminary Proxy Statement - Subject to Completion

NOTICE OF 2018 ANNUAL MEETING OF STOCKHOLDERS

TO OUR STOCKHOLDERS:

The 2018 Annual Meeting of Stockholders of Natus Medical Incorporated will be held on [ ], 2018, at [ ], Eastern Time, at [ ], for the following purposes:

1. To elect two directors to serve for a term of three years;
2. To ratify the appointment of KPMG LLP as our independent registered public accounting firm for the year ending December 31, 2018;
3. Advisory approval of the Company's named executive officer compensation;
4. Act upon a stockholder proposal submitted by Voce Catalyst Partners LP (together with its affiliates and related parties, "Voce") to repeal certain provisions or amendments to the amended and restated by-laws of the company adopted without stockholder approval after March 22, 2018 and up to and including the date of the Annual Meeting (the "Voce bylaw proposal"), if properly introduced at the Annual Meeting; and
5. Transaction of such other business as may properly come before the Annual Meeting or any adjournment thereof.

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 [____], 2018, are entitled to attend and vote at the Annual Meeting. A complete list of these stockholders will be available during normal business hours for ten days prior to the Annual Meeting at [ ]. A stockholder may examine the list for any legally valid purpose related to the Annual Meeting. The list will also be available during the Annual Meeting for inspection by any stockholder present at the Annual Meeting.

It is extremely important that your shares are represented and vote. Whether or not you plan to attend the Annual Meeting, please vote as soon as possible. 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 not be voted on any matter other than approval of the appointment of our independent accountants.

Please note that Voce has stated its intention to (1) propose two alternate director nominees for election at the Annual Meeting in opposition to the nominees recommended by your Board of Directors, (2) propose the removal of the Chairman of your Board of Directors, Robert A. Gunst and (3) seek the election of a director candidate to fill the vacancy caused by Mr. Gunst's removal. You may receive solicitation materials from Voce, including proxy statements and proxy cards. We are not responsible for the accuracy of any information provided by or relating to Voce or its nominees contained in solicitation materials filed or disseminated by or on behalf of Voce or any other statements Voce or its representatives may make.

Your Board of Directors unanimously recommends a vote "FOR" both nominees proposed by your Board of Directors on the enclosed WHITE proxy card. Your Board of Directors does NOT endorse any Voce nominee or any of the Voce proposals and strongly urges you to DISCARD all proxy cards or other materials sent to you by Voce. If you have previously submitted a proxy card sent to you by Voce, you can revoke that proxy by signing and dating the enclosed WHITE proxy card and returning it in the postage-paid envelope provided or by voting via the Internet or by telephone by following the instructions provided on the enclosed WHITE proxy card. Only your last-dated proxy will count, and the proxy may be revoked at any time prior to its exercise at the Annual Meeting as described in the accompanying Proxy Statement. Stockholders who have questions or would like additional information should contact Natus's proxy solicitor, Morrow Sodali, toll-free at (800) 662−5200 or by e-mail at BABY@morrowsodali.com.

YOUR VOTE IS IMPORTANT
PLEASE SUBMIT YOUR PROXY AS PROMPTLY AS POSSIBLE BY FOLLOWING THE INSTRUCTIONS ON THE ENCLOSED WHITE PROXY CARD

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For the Board of Directors of
Natus Medical Incorporated

JAMES B. HAWKINS
Chief Executive Officer
Pleasanton, California
[ ], 2018

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON [ ], 2018

The proxy materials, including this Notice, the accompanying Proxy Statement and our annual report are available at the Investor Relations pages of our website at http://www.natus.com.

If you have any questions or require assistance with voting your shares, please contact our proxy solicitor using the information set forth below:
Morrow Sodali LLC
509 Madison Avenue, Suite 1608
New York, NY 10022
Call Toll-Free 1-800-662-5200
BABY@morrowsodali.com

YOUR VOTE IS IMPORTANT
PLEASE SUBMIT YOUR PROXY AS PROMPTLY AS POSSIBLE BY FOLLOWING THE INSTRUCTIONS ON THE ENCLOSED WHITE PROXY CARD

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PROXY STATEMENT
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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," or "our"), a Delaware corporation, is providing these proxy materials to you in connection with the annual meeting of stockholders that will take place on [ ], 2018 (the "Annual Meeting"). As a stockholder as of the record date, [ ], 2018, 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 [ ], 2018.

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: 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 KPMG LLP as our independent registered public accounting firm for the year ending December 31, 2018;
- Advisory approval of the Company's named executive officer compensation;
- the Voce bylaw proposal, if properly introduced; and
- any other proposals that are properly introduced.

Q: How does the Board recommend that I vote?

A: Our Board recommends that you vote your shares using the WHITE proxy card "FOR" both the nominees to the Board as set forth in Proposal No. 1, "FOR" the ratification of KPMG LLP as our independent registered public accounting firm for the year ending December 31, 2018, "FOR" the advisory vote on named executive officer compensation and "AGAINST" the Voce bylaw proposal.

The Board does NOT endorse any of the Voce proposals and strongly urges you NOT to sign or return any proxy card sent to you by Voce.

Q: Why might I be receiving proxy materials from Voce?

A: Voce, a hedge fund with beneficial ownership of approximately 2% of the outstanding common stock, has provided notice that (1) it may nominate at the Annual Meeting its own slate of two nominees to stand for election as directors and has submitted the Voce bylaw proposal for a vote at the Annual Meeting, (2) it may propose the removal of our Chairman, Mr. Gunst from the Board (the "Voce removal proposal") and (3) it may nominate an additional candidate (together with the two nominees, the "Voce nominees") to fill the vacancy created by our Chairman's removal (the "Voce replacement proposal"). You may receive solicitation materials from Voce seeking your proxy to vote for the Voce nominees, for the removal of our Chairman and for the Voce bylaw proposal.

We are not responsible for the accuracy of any information provided by or relating to Voce or its nominees contained in solicitation materials filed or disseminated by or on behalf of Voce or any other statements Voce or its representatives may make.

Q: What should I do if I receive proxy materials from Voce or another third party?

A: The Board does NOT endorse any Voce nominee or the Voce bylaw proposal, nor does it endorse the Voce removal proposal or the Voce replacement proposal, and urges you to vote using the WHITE proxy card. The Board unanimously recommends a vote "FOR" the election of each of the board's nominees, whose names are set forth on the enclosed WHITE proxy card and "AGAINST" the Voce bylaw proposal.

IF YOU DO RECEIVE ANY MATERIALS FROM VOCE OR ANOTHER THIRD PARTY, THE BOARD URGES YOU TO DISCARD ANY PROXY CARD SENT TO YOU BY VOCE OR SUCH THIRD PARTY. IF YOU HAVE ALREADY VOTED USING A PROXY CARD SENT TO YOU BY VOCE, YOU HAVE EVERY RIGHT TO CHANGE YOUR VOTE.

Voting to "withhold" with respect to any of the Voce nominees on its proxy card is not the same as voting for our Board's nominees. This is because a vote to "withhold" with respect to any of the Voce nominees on its proxy card will revoke any previous proxy submitted by you. DO NOT RETURN ANY PROXY CARD SENT TO YOU BY VOCE

EVEN AS A PROTEST VOTE AGAINST VOCE OR THE VOCE NOMINEES.
Q: What shares can I vote?

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A: Each share of Natus common stock issued and outstanding as of the close of business on [ ], 2018, 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 [ ] 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 Annual 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 WHITE 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 WHITE 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 Annual Meeting unless you obtain “legal proxy” from the broker, trustee or nominee that holds your shares, giving you the right to vote the shares at the Annual 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.

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, we urge you to also vote by returning a WHITE proxy card or by submitting your proxy or voting instructions as described below so that your vote will be counted if you later decide not to attend the Annual 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 Annual Meeting. If you are a stockholder of record, you may vote by signing and returning in the envelope provided the WHITE proxy card. If you hold shares beneficially in street name, you may vote by submitting voting instructions to your broker, trustee or other nominee. The WHITE proxy card also contains instructions on how to vote via the Internet or by telephone. 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 Mail - Stockholders of record of Natus common stock may submit proxies by completing, signing and dating their WHITE 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.

By Internet - Stockholders of record of Natus common stock with Internet access may submit proxies by following the “Vote by Internet” instructions on their WHITE 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 WHITE 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.

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, including on

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your vote on all matters set forth on such earlier proxy whether or not such matter is listed on the newly submitted 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 Annual 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.

Your Board urges you to revoke any proxy card you may have returned that you received from Voce. If you have previously signed a proxy card sent to you by Voce, you have every right to change your vote. You may revoke that proxy and vote as recommended by our Board by signing, dating and returning the enclosed WHITE proxy card in the enclosed postage-paid envelope or by voting via the Internet or by telephone by following the instructions provided on the enclosed WHITE proxy card. Only your latest-dated proxy will be counted. Submitting a Voce proxy card-even if you withhold your vote on the Voce nominees, vote against the Voce removal proposal and vote against the Voce bylaw proposal-will revoke any votes that you previously made on the WHITE proxy card. Accordingly, if you wish to vote pursuant to the recommendation of our Board, you should disregard any proxy card that you receive that is not a WHITE proxy card. Do not return any proxy card that you may receive from Voce, even as a protest vote against Voce or the Voce nominees. Your Board of Directors does NOT endorse any Voce nominee or any of the Voce proposals and strongly urges you to DISCARD all proxy cards or other materials sent to you by Voce.

Q: How many shares must be present or represented to conduct business at the Annual Meeting?

A: Holders of a majority of shares of our common stock issued and outstanding and entitled to vote as of the record date must be present in person or represented by proxy to meet the quorum requirement pursuant to our amended and restated bylaws (“Bylaws”) 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: How are votes counted?

A: In the election of directors, you may vote “FOR” or “ABSTAIN” with respect to the nominees. If you elect to abstain from the election of directors, the abstention will not have any effect on the election of directors.

You may vote “FOR,” “AGAINST,” or “ABSTAIN” with respect to: (i) the ratification of the appointment of KPMG LLP as our independent registered public accounting firm, (ii) on an advisory basis, the compensation of our named executive officers, and (iii) the Voce bylaw proposal, if properly introduced. If you elect to abstain from voting on any of these proposals, the abstention will have the same effect as an “AGAINST” vote with respect to such proposal.

We strongly urge you not to vote on: (i) the Voce removal proposal and (ii) the Voce replacement proposal by submitting the enclosed WHITE proxy card. Not voting on the Voce removal proposal will have the same effect as an “AGAINST” vote with respect to such proposal. If the Natus stockholders disapprove the Voce removal proposal, the Voce replacement proposal will be rendered moot, and even if such proposal is properly brought, not voting on the Voce removal proposal will have the same effect as an “AGAINST” vote with respect to such proposal. Even voting against the Voce removal proposal and the Voce replacement proposal on Voce’s proxy card does not have the same effect as failing to vote at all, because voting on a card you receive from Voce will revoke any votes that you previously made on the WHITE proxy card. Your Board urges you to DISCARD all proxy cards or other materials sent to you by Voce. Do not return any proxy card that you may receive from Voce, even as a protest vote against Voce or the Voce nominees. If you are a stockholder of record and sign and return your WHITE proxy card or WHITE voting instruction form without giving specific voting instructions, your shares will be voted as recommended by our Board. If you are a beneficial holder and do not return a voting instruction form, your broker may only vote on “routine” matters, such as the ratification of the appointment of KPMG LLP. However, because Voce has indicated its intention to deliver proxy materials in opposition to our Board to your broker to forward to you on their behalf, with respect to the accounts to which Voce mails its proxy materials, the broker nominee will not be able to exercise its discretion to vote with respect to such accounts on any of the proposals at the Annual Meeting, including, the ratification of the appointment of KPMG LLP and, if properly brought, the Voce removal proposal and the Voce replacement proposal.

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

A: In the absence of a contested election, a director must be elected by the affirmative vote of a majority of the votes cast with respect to such director by the shares of common stock present in person or represented by proxy and entitled to vote. However, under our Bylaws, in a contested election of directors in which the number of nominees exceeds the number of directors to be elected (which is the case this year as a result of Voce's nomination of the Voce nominees), the two nominees receiving the highest number of affirmative votes will be elected as directors.

Voting to "withhold" with respect to any of the Voce nominees on its proxy card is not the same as voting for our Board's nominees. This is because a vote to "withhold" with respect to any of the Voce nominees on its proxy card

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will revoke any previous proxy submitted by you. DO NOT RETURN ANY PROXY CARD SENT TO YOU BY VOCE EVEN AS A PROTEST VOTE. Your Board strongly urges you to DISCARD all proxy cards or other materials sent to you by Voce.

The affirmative vote of a majority of the shares of common stock present in person or represented by proxy and entitled to vote is required to approve each of the following proposals: (i) the ratification of the appointment of KPMG LLP as our independent registered public accounting firm, and (ii) the approval, on an advisory basis, of the compensation of our named executive officers, and (iii) approval of the Voce bylaw proposal, if properly introduced. In the event the Voce removal proposal is properly introduced, the affirmative vote of a majority of all of the then-outstanding shares of common stock would be required for the approval of such proposal. In the event the Voce removal proposal has succeeded and the Voce replacement proposal is properly introduced, the affirmative vote of a majority of all of the then-outstanding shares of common stock would be required to appoint the Voce nominee to fill the vacancy so created.

If you are a beneficial owner and do not provide the stockholder of record with voting instructions, your shares may constitute broker non-votes (see "What are broker non-votes and what effect do they have on the proposals?" below).

Q: What are broker non-votes and what effect do they have on the proposals?

A: Generally, broker non-votes occur when shares held by a broker, bank, or other nominee in "street name" for a beneficial owner are not voted with respect to a particular proposal because the broker, bank, or other nominee (i) has not received voting instructions from the beneficial owner and (ii) lacks discretionary voting power to vote those shares with respect to that particular proposal.

A broker is entitled to vote shares held for a beneficial owner on "routine" matters, such as the ratification of the appointment of KPMG LLP as our independent auditors (Proposal No. 2), without instructions from the beneficial owner of those shares. On the other hand, absent instructions from the beneficial owner of such shares, a broker is not entitled to vote shares held for a beneficial owner on "non-routine" matters, such as the election of our directors (Proposal No. 1), the vote, on an advisory basis, of the compensation of our named executive officers (Proposal No. 3) or the vote on the Voce bylaw proposal, if properly introduced (Proposal No. 4). However, because Voce has indicated its intention to deliver proxy materials in opposition to our Board to your broker to forward to you on their behalf, with respect to the accounts to which Voce mails its proxy materials, the broker nominee will not be able to exercise its discretion to vote with respect to such accounts on any of the proposals at the Annual Meeting, including, if properly brought, the Voce removal proposal or the Voce replacement proposal.

Thus, if you hold your shares in street name, it is critical that you cast your vote and instruct your broker about how you wish your shares to be voted if you want it to count in any of the proposals, including Proposal 2.

Broker non-votes are counted for purposes of determining whether or not a quorum exists for the transaction of business, but will not be counted for purposes of determining the number of shares represented and voted with respect to an individual proposal, and therefore will have no effect on the outcome of the vote on an individual proposal. Thus, if you do not give your broker specific voting instructions, your shares will not be voted on the proposals and will not be counted in determining the number of shares necessary for approval.

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 holder may cast all of their votes "For" or "Against" a single candidate or may distribute them among any number of candidates.

However, you will NOT be permitted to distribute your votes between the candidates recommended by our Board listed on the WHITE proxy card and the Voce nominees on the proxy card sent to you by Voce. This is because any vote with respect to any of the Voce nominees on its proxy card will revoke any previous proxy submitted by you, including FOR any of the Board's nominees. DO NOT RETURN ANY PROXY CARD SENT TO YOU BY VOCE, EVEN AS A PROTEST VOTE AGAINST VOCE OR THE VOCE NOMINEES. Your Board strongly urges you to DISCARD all proxy cards or other materials sent to you by Voce.

Q: What happens if additional matters are presented at the Annual Meeting?

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A: Other than the items of business described in this proxy statement, including the Voce removal proposal and the Voce replacement proposal, we are not aware of any other business to be acted upon at the Annual Meeting. If you grant a proxy using the enclosed WHITE proxy form, the persons named as proxy holders, James B. Hawkins and Jonathan A. Kennedy, will have the discretion to vote your shares on any additional matters properly presented for a vote at the Annual Meeting. In addition, voting on the enclosed WHITE proxy form will have the same effect as an "AGAINST" vote with respect to the Voce removal proposal and an abstention on the Voce replacement proposal. 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.

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 from us, including multiple WHITE proxy cards or WHITE 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 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 WHITE proxy card and WHITE voting instruction card that you receive.

Voce has provided notice that it may nominate at the Annual Meeting the Voce nominees to stand for election as directors. As a result, you may receive proxy solicitation material from Voce. If you wish to vote pursuant to the recommendation of our Board, you should disregard any proxy card that you receive that is not a WHITE proxy card. If you withhold your vote on any Voce nominee using Voce's proxy card, your vote will not be counted as a vote for our Board's nominees and will result in the revocation of any previous vote that you may have cast on the WHITE proxy card. OUR BOARD URGES YOU NOT TO RETURN ANY PROXY CARD THAT MAY BE SENT TO YOU BY VOCE, EVEN AS A PROTEST VOTE AGAINST VOCE OR THE VOCE NOMINEES.

A number of brokers with account holders who beneficially own our common stock will be "householding" our annual report and proxy materials. 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, or provide, their consent at any time by contacting Broadridge ICS, either by calling toll-free 800-542-1061, or by writing to Broadridge ICS, Householding Department, 51 Mercedes Way, Edgewood, New York 11717. Upon such request, we will promptly deliver a separate copy of the annual report and/or, as applicable, the proxy materials to any stockholder at a shared address to which we delivered a single copy of any of the materials.

Any stockholders who share the same address and currently receive multiple copies of our proxy materials or annual report 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 us to request a separate copy of these materials from our principal executive offices at: Natus Medical Incorporated, Attn: Investor Relations, 6701 Koll Center Parkway, Suite 120, Pleasanton, CA, 94566, or by calling us at (925) 223-6700.

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. Appendix A sets forth information relating to our directors, nominees, executive officers and employees who are considered "participants" in our solicitation under

SEC rules.

As a result of the potential proxy contest initiated by Voce, we may incur substantial additional costs in connection with the solicitation of proxies. We have retained Morrow Sodali LLC (“Morrow”) to assist us in the solicitation of proxies for a fee of up to $[ ] plus out-of-pocket expenses. Morrow expects that approximately [ ] of its employees will assist in the solicitation. Our expenses related to the solicitation of proxies from stockholders this year may substantially exceed those normally spent for an annual meeting of stockholders if a contest is initiated. Such additional costs are expected to

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aggregate to approximately $[ ], exclusive of any costs related to any litigation in connection with the Annual Meeting. These additional solicitation costs are expected to include: the fee payable to our proxy solicitor; fees of outside counsel to advise the Company in connection with a contested solicitation of proxies; increased mailing costs, such as the costs of additional mailings of solicitation material to stockholders, including printing costs, mailing costs and the reimbursement of reasonable expenses of banks, brokerage houses and other agents incurred in forwarding solicitation materials to beneficial owners of our shares and the costs of retaining an independent inspector of election.

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 2018 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 [ ], 2019. 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 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, 6701 Koll Center Parkway, Suite 120, Pleasanton, CA 94566.

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 2019 annual meeting of stockholders, any such notice must be received by the Company not later than the close of business on [ ], 2019 (the “Submission Deadline”), provided that if the date of the 2019 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 2019 annual meeting) then such notice must be received a reasonable time before we begin the solicitation of proxies for the 2019 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 the Submission Deadline, provided that if the date of the 2019 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 2019 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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BACKGROUND OF THE SOLICITATION

From time to time, consistent with the Company's commitment to engaging with its stockholders, representatives of the Company met with representatives of Voce, including Mr. J. Daniel Plants, at investor conferences and at the 2015 annual meeting of stockholders. At one of these meetings, Mr. Plants had an opportunity to address the Board as a stockholder of the Company.

On March 1, 2018, Mr. Plants sent a letter to the Board (the "March 1 letter") that stated Voce's views regarding stockholder value. Mr. Plants requested in the March 1 letter an in-person meeting with the Chairman of the Board and other independent directors to communicate these concerns.

On March 7, 2018, Mr. James Hawkins, the chief executive officer of Natus, responded in a letter to Mr. Plants that he had delivered the March 1 letter to Mr. Robert Gunst, the Chairman of the Board, and that Mr. Gunst had stated that Mr. Hawkins and Mr. Jonathan Kennedy, the chief financial officer of Natus, were the representatives of Natus that would be best able to describe the Company's plans for building value for its stockholders. Mr. Hawkins noted that he was scheduled to meet with Mr. Plants in a one-on-one meeting at the ROTH conference on March 12, 2018.

On March 8, 2018, Mr. Plants sent a letter reiterating his request to meet with Mr. Gunst and the directors and noted that the March 12 meeting was not a suitable venue or appropriate group to discuss the concerns he wished to address.

On March 12, 2018, Mr. Hawkins and Mr. Kennedy attended the ROTH conference in Dana Point, California. Although they had previously been scheduled to meet with Mr. Plants, Mr. Plants did not attend the meeting but sent a junior representative of Voce instead. Mr. Hawkins and Mr. Kennedy inquired about Voce's holdings of Natus shares and the junior representative responded that the holdings were "substantial", while also admitting that Voce did not hold a meaningful number of shares as of December 31, 2017.

On March 14, 2018, Mr. Gunst sent a letter to Mr. Plants expressing his disappointment that Mr. Plants had refused to attend a meeting with senior management of the Company. Mr. Gunst also asked Mr. Plants to provide information on Voce's current holdings of Natus shares and the length of time that Voce had held them, as well as Voce's past history as a Natus shareholder.

On March 20, 2018, Mr. Plants sent a letter to the Board, which was accompanied by a notice of intent to nominate Mr. Plants and Mr. Joshua H. Levine for election to the Board, and to present a stockholder proposal at the 2018 annual meeting of stockholders (the "Notice"). Mr. Plants further confirmed that Voce beneficially owned approximately 670,801 shares of common stock, or approximately 2% of the outstanding shares, almost all of which had been acquired by Voce since January 1, 2018.

On March 20, 2018, the Wall Street Journal reported that Voce had nominated two directors to the Board.

Over the following days, representatives of Voce and the Company sought to arrange a meeting between the members of the Board and Mr. Plants and determined to schedule the meeting for Tuesday, March 27, 2018. Mr. Plants requested that the Company provide a list of the participants who would be attending such meeting.

On March 26, 2018, Mr. Gunst sent a letter to Mr. Plants stating that Mr. Hawkins, Mr. Ken Ludlum and Dr. Barbara Paul would be attending the meeting, in addition to Mr. Gunst himself. Mr. Gunst made clear that if there was something that Mr. Plants wanted to discuss with just the independent directors, Mr. Hawkins would be asked to leave for the last 10 minutes of the meeting.

Later that day, Mr. Plants sent a response to Mr. Gunst stating that Voce would only be meeting the three independent directors of the Board. Mr. Hawkins informed Mr. Gunst, Mr. Ludlum and Dr. Paul that in light of the conditions set by Voce for the meeting, he would not attend so that the meeting could take place.

On March 27, 2018, Mr. Gunst, Mr. Ludlum and Dr. Paul met with Mr. Plants at the Company's headquarters in Pleasanton, California. At the beginning of the meeting Mr. Gunst informed Mr. Plants that he, Mr. Ludlum and Dr. Paul had agreed to meet with Mr. Plants in order to give Mr. Plants an opportunity to share his ideas for Natus with members of the Natus Board.

Following the meeting on March 27, 2018, Mr. Gunst sent a letter to Mr. Plants expressing the Board's interest in maintaining an open channel of communication and its openness to stockholder input that may help drive growth and enhance shareholder value. Mr. Gunst invited Mr. Plants to provide any ideas to further this objective.

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On March 28, 2018, Mr. Plants sent a response to Mr. Gunst in which he expressed frustration that the Board had been in “listen-only mode” for the March 27 meeting.

The Board determined that it was in the best interest of the Natus stockholders to seek to avoid a costly and unnecessary proxy fight and authorized representatives of Fenwick & West (“FW”), outside counsel to Natus, to call Voce’s counsel to discuss a potential settlement.

On April 12, 2018, representatives of FW called a representative of Schulte Roth & Zabel LLP (“SRZ”), counsel to Voce, to discuss whether Voce would consider a settlement offer in order to avoid a costly and unnecessary proxy fight. The representatives of FW then communicated the offer that had been authorized by the Board to increase the size of the Board by adding a new independent director who had a proven track record as an executive of a medical company. They also noted that the Nominating and Governance Committee would interview Mr. Plants and Mr. Levine for such newly created seat. The representatives of FW asked the representative of SRZ how quickly Natus should expect to hear Voce’s response. The SRZ representative said she could not confirm a precise time but that Voce was not interested in wasting time.

On April 19, 2018, a representative of FW contacted SRZ and left a voicemail inquiring when Voce would respond to the Natus settlement offer because there had been no communication from either SRZ or Voce.

On April 20, 2018, a representative of SRZ delivered a supplement to the Notice (the “Supplement”) to Natus. The Supplement stated that Voce intended to nominate Ms. Lisa Wipperman Heine in place of Mr. Plants for election to the Board in addition to Mr. Levine , and further that it intended to propose the removal of Mr. Gunst from the Board and seek the election of Mr. Mark G. Gilreath to fill the vacancy this would create. Shortly after the delivery of the Supplement, a representative of SRZ left a voicemail for a representative of FW stating that although Voce had submitted the Supplement in view of the fact that the earlier settlement offer by Natus was grossly inadequate, Voce desired to keep the channels of communication open to see if a compromise could be reached.

On April 20, 2018, a representative of FW contacted SRZ to inform them that a meeting of the Natus Board had been scheduled to take place on April 23, 2018, to consider the proposals in the Supplement.

On April 23, 2018, Bloomberg reported that Voce had made a proposal to remove Mr. Gunst from the Board and Voce published a press release summarizing the proposals made in the Supplement. Mr. Plants also gave a television interview on Bloomberg News regarding Voce’s proposals. Natus issued a press release acknowledging receipt of Voce’s proposals.

Later on that same day, the Board met to consider how to respond to the proposals in the Supplement and whether it could make a settlement offer that would allow the parties to avoid a costly and distracting proxy fight.

Also on April 23, 2018, representatives of FW called the representative of SRZ to make an updated settlement offer that had been authorized by the Board. The offer provided that the Board would agree not to nominate incumbent Mr. William Moore at the end of his term, but would nominate Ms. Doris Engibous and the Voce nominee, Mr. Levine, for election at the upcoming Annual Meeting. The Board would further increase the size of the Board to immediately appoint a high quality independent director who had a proven track record as an executive of a medical company that had been identified by the Board (the “High Quality Independent Director”). In addition, following the Annual Meeting, the Board would direct the Nominating and Governance Committee to conduct a search for a new independent director. The settlement offer provided that the Voce nominee, Mr. Levine, would be appointed to the Nominating and Governance Committee as of the 2018 Annual Meeting so that he would be part of such search. This settlement offer by the Board would result in the addition of three new independent directors to the Natus Board, including the Voce nominee, Mr. Levine.

On April 24, 2018, the representative of SRZ reached out to a representative of FW to ask for certain clarifications on the latest proposal from the Board and on April 25, 2018, a representative of FW called SRZ to respond with clarification.

On April 26, 2018, a representative of SRZ sent a term sheet that outlined a settlement proposal from Voce which term sheet contained two alternatives. Both alternatives required that Natus nominate Mr. Levine to the Board to run for election with Ms. Engibous at the Annual Meeting, instead of Mr. Moore. Both alternatives also required the removal of Mr. Gunst from the role of Chairman of the Board and would permit Natus to appoint the High Quality Independent Director after Voce had an opportunity to interview and approve such person. The first alternative also involved removing Mr. Gunst from the Board entirely and permitting the Nominating and Governance Committee, to which Mr. Levine would be appointed, to appoint a new independent director prior to the 2019 Annual Meeting. The second alternative allowed Mr. Gunst to remain on the Board but required that he immediately resign from the Board committees and also allowed Voce to designate a second nominee to run for election at the 2018 Annual Meeting with Mr. Levine and Ms. Engibous, which second nominee would be appointed as a member of the Compensation Committee. The proposal also called for the declassification of the Board in a phased elimination of the classified structure over a three-year period and a standstill period that ended 30 days prior to the end of the nomination window for the 2019 annual meeting.

On April 27, 2018, the Board met to consider the term sheet and the settlement proposal provided by Voce. The Board determined that neither alternative proposed by Voce was in the best interest of the Natus stockholders or the Company. The Board then authorized the representatives of FW to send a counterproposal to SRZ that would (1) agree to nominate Mr. Levine as the Voce nominee to the Board with Ms. Engibous at the 2018 Annual Meeting, (2) agree to permit Voce to approve (without an interview) the High Quality Independent Director, who would be appointed to the Board as soon as practical and (3) commit to appoint an additional director to the Board subject to approval by the Nominating and Governance Committee and by Voce. This proposal would result in Voce having approval rights over all three new independent directors being added to the Board. The proposal also included a standstill provision that would expire at the conclusion of the 2019 annual meeting.

On April 30, 2018, the representatives of FW sent the counterproposal to SRZ. A representative of SRZ responded that Voce believed that a change in the Chairman role was essential and declined to respond to the Natus counterproposal since it did not address this issue.

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PROPOSALS

The proposals being presented for shareholder action are set forth on your WHITE 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 Annual 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: Doris E. Engibous and Robert S. Weiss. If elected, each director will serve a three-year term until our annual meeting in 2021 and until his or her respective successor is elected. There are no family relationships among our executive officers and directors. Information regarding the business experience and age as of the record date of each nominee and other members of the Board is provided below. In addition to the information set forth below, Appendix A sets forth information relating to certain of our directors, officers, and employees who are considered "participants" in this proxy solicitation under the rules of the SEC by reason of their position as Company directors or because they may be soliciting proxies on our behalf. Mr. Moore's term will expire as of the date of the Annual Meeting.

If you sign your WHITE 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 WHITE proxy or voting instruction card.

Our Bylaws provide that in a contested election the standard for election of directors will be a plurality of the shares represented in person or by proxy at any such meeting, in which a quorum is present, and entitled to vote on the election of directors. Because of Voce's nomination of the Voce nominees, the election of directors at the Annual Meeting will be a contested election. Accordingly, the two nominees receiving the highest number of affirmative votes will be elected as directors.

Our Bylaws provide that in an uncontested election, directors are to be elected by the majority of the votes cast with respect to such director. In the case of an uncontested election, under our Board Governance Guidelines, any director who fails to receive at least a majority of the votes cast in an uncontested election must tender his or her resignation to our Board. Our Nominating and Governance Committee would then evaluate the tendered resignation and make a recommendation to our Board within 90 days from the date the election results are certified whether to accept the resignation. Our Board would consider such recommendation promptly and publicly disclose its decision with respect to such resignation. The director who tenders his or her resignation would not participate in our Board's decision. In an uncontested election, if a nominee who was not already serving as a director does not receive at least a majority of the votes cast for such director at the Annual Meeting that nominee will not become a director.

Board of Directors' Recommendation

Our Board recommends a vote FOR the election to the Board of Ms. Engibous and Mr. Weiss on the WHITE proxy card. Please note that Voce has stated its intention to propose two alternate director nominees for election at the Annual Meeting in opposition to Ms. Engibous and Mr. Weiss. Our Board does NOT endorse any Voce nominee and strongly urges you NOT to sign or return any proxy card sent to you by Voce.

Nominees for Election

Doris E. Engibous
Director since 2004
Age 63

Ms. Engibous has served as a consultant and advisor to medical technology companies and executives since 2010. From 2004 to 2010, she served as President and CEO of Hemosphere Inc., an early commercialization stage, venture capital funded, medical technology company, prior to its acquisition by CryoLife Inc. (NYSE: CRY). Prior to 2004, Ms. Engibous served from 2000 through 2003 as President of Nellcor, a business of Tyco Healthcare Group/Tyco International Ltd. (now Covidien/Medtronic, NYSE: MDT). From 1986 through 2000, Ms. Engibous served in several executive capacities at Nellcor and its successors Nellcor Puritan Bennett Inc. and Mallinckrodt Inc., including as vice president, general manager and global business leader and senior director of marketing, and was responsible for the integration of Nellcor into Mallinckrodt and later Tyco Healthcare. Ms. Engibous has served on the board of directors of GI Supply, Inc., a family-owned medical technology company since 2014 and as its Chair since 2016. Ms. Engibous served on the board of directors of the 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 is distinguished by her technical background, coupled with strong operational experience in manufacturing, regulatory affairs, quality assurance and marketing. She brings to the Natus Board over 30 years of experience in the medical

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device industry, including knowledge of organizational and operational management, financial expertise, marketing, R&D, human resources and integration experience relevant to a public company in the healthcare industry.

Robert S. Weiss
Director Nominee
Age: 71

Mr. Weiss has served as a member of the board of directors of The Cooper Companies, Inc., a global medical device company, since 1996. Until his retirement on April 30, 2018, he also served in the capacity of The Cooper Companies' President since March 2008 and as its Chief Executive Officer since November 2007. From March 2007 to February 2008, Mr. Weiss served as President of CooperVision, the contact lens subsidiary of The Cooper Companies. In addition, he served as The Cooper Companies' Chief Operating Officer from 2005 to 2007, as its Executive Vice President from 1995 to 2007 and as its Chief Financial Officer from 1989 to 2005. Mr. Weiss has also served on the board of directors of Accuray Incorporated since January 2007 and has served on the board of trustees of the University of Scranton in Pennsylvania since September 2015. Mr. Weiss holds a Bachelor of Science degree in Accounting from the University of Scranton. Mr. Weiss brings to the Board decades of financial and leadership experience in the medical devices field.

Continuing Directors

James B. Hawkins
Chief Executive Officer
Director Since 2004
Age: 62

James B. Hawkins has served as Chief Executive Officer, and as a member of the Board, since joining Natus in April 2004 and as President since June 2013. He previously served as President from April 2004 through January 2011. Since December 2015, he has served as a member of the board of directors of OSI Systems, Inc., and he has served as a member of the board of directors of El Dorado Resorts since September 2014. Mr. Hawkins previously served as a director at Iradimed Corporation from 2005 until June 2016, IRIDEX Corporation from October 2007 until December 2014 and Digirad Corporation from April 2012 to October 2014. 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 August 1985 through January 2004. 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.

Robert A. Gunst
Chairman of the Board
Director Since 2004
Age: 70

Robert A. Gunst is Chairman of the Board of Directors of Natus Medical. Currently a private investor, Mr. Gunst served from 1990 to 1999 as President and Chief Executive Officer of The Good Guys, Inc., one of the largest specialty retailers of higher-end entertainment electronics in the nation. During that time he grew the business from a few stores in the San Francisco area to a chain of stores in four western states with approximately $1 billion in revenue. Earlier in his career, he held executive positions at several large corporations, including Shaklee Corporation, La Petite Boulangerie, Inc. and PepsiCo Foods International (both subsidiaries of PepsiCo, Inc.), Victoria Station

Incorporated and The First National Bank of Chicago.

Mr. Gunst has served on a variety of public and private boards, including serving as a Director of The Good Guys, Inc. from 1986 to 1999, Director of Phoenix Footwear Group, Inc. from 2006 to 2007, Director of PortalPlayer, Inc. from 2005 to 2007, Director of AmNet Mortgage, Inc. (formerly American Residential Investment Trust Inc.) from 2004 to 2005, Director of Garden Fresh Restaurant Corp. from 1996 to 2004 and Chairman of Garden Fresh Restaurant Corp. from 2003 to 2004. He served as a member of the Deans Advisory Council of the Graduate School of Management at the University of California, Davis from 1997 to 2008. Mr. Gunst holds an MBA in Finance from the University of Chicago's Graduate School of Business and a Bachelor of Arts degree in Economics from Dartmouth College.

Mr. Gunst brings to the Board nearly five decades of leadership, strategy, financial and operational experience, as well as experience in overseeing the operations of companies in various stages of development and is therefore uniquely qualified to serve as chairman of the Board.

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Kenneth E. Ludlum
Director since 2002
Age 64

Ken Ludlum currently serves a board member, has acted as an advisor to and investor in a number of private medical and biotechnology companies. Previously, he served as Chief Financial Officer of CareDx, Inc., a medical diagnostic company, from March 2014 to April 2016. From April 2011 to October 2013, Mr. Ludlum served as Vice President and Chief Financial Officer, and Head of Operations for Endogastric Solutions, Inc., a medical device company. Prior to that, Mr. Ludlum also served as CFO for two other publicly-held companies, Perclose, Inc. from 1995 to 2000, and Alteon, Inc. from 1992 to 1994. He has also served on the board of directors and as Chair of the Audit Committee of several public and private medical or biotechnology companies. Mr. Ludlum holds a B.S. in Business Administration from Lehigh University and a M.B.A. from Columbia University Graduate School of Business. Mr. Ludlum brings to the Board over 30 years of business and financial experience working with healthcare and biotechnology 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.
Barbara R. Paul, M.D.
Director since 2016
Age 64

Dr. Paul serves as an advisor and board member to healthcare companies. In addition to her role on the board of Natus Medical, she serves on the board of Quorum Health Corporation, an owner and operator of general acute care hospitals and outpatient service providers. She served as Senior Vice President & Chief Medical Officer at Community Health Systems (CHS) from July 2007 to January 2015. Prior to CHS, Dr. Paul was Senior Vice President & Chief Medical Officer for Beverly Enterprises, Inc. (now Golden Living, Inc.). She also worked at the federal Medicare program (Centers for Medicare & Medicaid Services, CMS), where she was Director of the Department of Quality Measurement & Health Assessment. Dr. Paul is a board-certified internist and she practiced as a full-time primary care physician for twelve years. She has a bachelor of science from the University of Wisconsin - Madison and earned her medical degree from Stanford University School of Medicine. Dr. Paul brings the perspective of a physician to the Board as well as insights into quality measures and reporting, compliance with federal regulatory and payment policies, and hospital and health system operations.

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PROPOSAL NO. 2

RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee of the Board has appointed KPMG LLP, an independent registered public accounting firm, to audit Natus' consolidated financial statements for the year ending December 31, 2018.

Stockholder ratification of the selection of KPMG LLP as our independent registered public accounting firm is not required by applicable law, our certificate of incorporation, our Bylaws or otherwise. However, the Board is submitting the selection of KPMG 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 retaining KPMG LLP. Even if the selection is ratified, the Audit Committee in its discretion may direct the appointment of a different independent registered public accounting firm 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 KPMG 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.

Fees Paid to KPMG LLP for 2016 and 2017, respectively

	2016	2017
Audit Fees (1)	$ 1,891,679	$ 3,058,102
Audit-Related Fees (2)	—	70,345
Tax Fees (3)	35,473	35,024
All Other Fees (4)	1,780	1,780
Total	$ 1,928,933	$ 3,165,251

(1) Audit fees associated with the annual audit of our consolidated financial statements and statutory audits.

(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.

(4) Includes fees for online research tools.

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.

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.

Board of Directors' Recommendation

Our Board recommends a vote FOR ratification of this appointment.

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

PROPOSAL NO. 3

ADVISORY APPROVAL OF THE COMPANY'S NAMED EXECUTIVE OFFICER COMPENSATION

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

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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 22 to 33 of this proxy statement, is hereby approved by shareholders."
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 Approval of the Company's Named Executive Officer Compensation.

PROPOSAL NO. 4
STOCKHOLDER PROPOSAL TO REPEAL CERTAIN PROVISIONS OF OR AMENDMENTS TO THE BY-LAWS OF THE COMPANY ADOPTED SINCE MARCH 22, 2018
We received notice from Voce of its intention to present the following resolution for action at our Annual Meeting, which would have the effect of repealing any amendments to our Bylaws that are adopted by our Board without stockholder approval subsequent to March 22, 2018 and up to and including the date of our Annual Meeting.
RESOLVED, that each provision or amendment of the Bylaws of Natus Medical Incorporated (the "Company") adopted by the Board of Directors of the Company (and not by the Company's stockholders) subsequent to March 22, 2012 and prior to the approval of this resolution be, and hereby is, repealed, effective as of the time this resolution is approved by the Company's stockholders.
Voce's proposal seeks to repeal any provisions or amendments of our Bylaws without considering their subject matter. No provisions or amendments to our Bylaws have been adopted subsequent to March 22, 2018. While our Board does not currently expect to adopt any amendments to our Bylaws prior to the Annual Meeting, our Board could determine prior to the Annual Meeting that an amendment is necessary and in the best interest of our stockholders.
Our Board believes that the automatic repeal of any Bylaw amendment duly adopted by our Board, without considering subject matter of the amendment, could have the effect of repealing one or more properly adopted Bylaws amendments that the Board adopted in furtherance of its fiduciary duties, including in response to future events not yet known to us, and determined to be in the best interests of our stockholders. Furthermore, as a public company subject to the federal proxy rules, it might be impracticable - if not impossible - for our Company to obtain stockholder approval for a necessary Bylaw amendment within a timeframe necessary to serve the best interests of the Company and its stockholders.
As our Board is fully empowered by its governing documents and applicable law to alter, amend, or repeal provisions of our Bylaws in accordance with its fiduciary duties and, we believe that this proposal serves no purpose other than limiting Board actions that are otherwise permitted by our Company's governing documents and Delaware law.

For these reasons, our Board urges stockholders to vote AGAINST the Voce bylaw proposal.

Board of Directors' Recommendation

Our Board recommends a vote AGAINST the Voce bylaw proposal.
Our Board does not endorse the Voce bylaw proposal and unanimously recommends that you disregard any proxy card that may be sent to you by Voce. If you have already voted using a proxy card sent to you by Voce, you have every right to change it and we urge you to revoke that proxy by voting against the Voce bylaw proposal by using the enclosed

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WHITE proxy card. Only the latest validly executed proxy that you submit will be counted. Your Board strongly urges you to DISCARD all proxy cards or other materials sent to you by Voce.

CORPORATE GOVERNANCE PRINCIPLES AND BOARD MATTERS

The Board believes that good corporate governance practices are essential to fostering good shareholder relations and creating shareholder value. The Board Governance Guidelines (which include director independence criteria), the charters of the Board's Audit, Compensation and Nominating and Governance Committees, and the Company's Code of Business Conduct and Ethics are available on the Investor Relations pages of our website at www.natus.com. Shareholders may request copies of these documents free of charge by writing to Natus Medical Incorporated, Attn: Investor Relations, 6701 Koll Center Parkway Suite 120, Pleasanton, CA, 94566.

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. We continually review our governance practices to ensure their relevance and appropriateness for Natus and all of our shareholders.

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, 2017, our Board had six directors divided into three classes with a three-year term for each class. As of December 31, 2017, the classes were comprised as follows:

Nominees for director whose terms will expire in 2018	Present directors whose terms will expire in 2019	Present directors whose terms expire in 2020
Doris E. Engibous	James B. Hawkins	Barbara R. Paul
William M. Moore	Robert A. Gunst	Kenneth E. Ludlum

Mr. Moore's term will expire at the Annual Meeting. The Board nominated Mr. Weiss for election at the Annual Meeting, along with Ms. Engibous.

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 of the Board 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. The roles of Chief Executive Officer and Chairman of the Board have been separated since September 2004 when Mr. Gunst was appointed Chairman.

The Board has a standing Audit Committee, Compensation Committee, Nominating and Governance Committee and Compliance & Quality Committee ("Compliance Committee"). The membership during the last year and the function of each of the committees are described below. The charters can be found in the "Governance" section of our "Investor" webpage. During 2017, each director attended at least 75% of all Board and applicable committee meetings. The table below lists our directors and the committees on which they served as of December 31, 2017, and on which they currently serve, and the number of meetings of the Board and committees.

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Name of Director	Board	Audit	Compensation	Nominating and Governance	Compliance
Non-Employee Directors					
Robert A. Gunst	X	X	X	X	
Doris E. Engibous	X		X	X	X
Kenneth E. Ludlum*	X	X	X		
William M. Moore±	X	X			X
Barbara R. Paul	X			X	X
Employee Director					
James B. Hawkins	X				
Number of Meetings in 2017	4	12	5	4	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.

± Mr. Moore’s term will expire at the Annual Meeting. If appointed, Mr. Weiss would be appointed to serve on the Audit Committee following the Annual Meeting.

We encourage our directors to attend our Annual Meeting of stockholders and we typically hold a regularly scheduled meeting of our Board on the same day as the Annual Meeting of stockholders. All of our directors attended the 2017 annual meeting of stockholders.

Audit Committee

Our Audit Committee oversees and monitors our financial reporting and disclosure processes, our financial statement audits, the integrity of our financial statements, 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 2017 is included in this proxy statement.

Compensation Committee

Our Compensation Committee has overall responsibility for approving and evaluating our executive officer compensation plans, policies and programs and for reviewing our general policies relating to compensation and benefits.

Under Delaware law the Compensation Committee has the ability to delegate powers to a subcommittee of its members. The Board 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 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.”

Nominating and Governance Committee

Our Nominating and Governance Committee is responsible for ensuring the Board is properly constituted to meet its fiduciary obligations to shareholders and that we have appropriate governance standards. The Committee assists the Board by identifying prospective director nominees and develops and recommends corporate governance principles and policies. The Nominating and Governance Committee also supervises the Board’s annual review of director independence and the Board’s performance self-evaluation.

Compliance Committee

Our Compliance Committee is responsible for assisting the Board in its oversight of the Company's policies and procedures on quality assurance, as well as regulatory and legal compliance of our products and operations.

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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;
- Our Compliance Committee assists the Board in monitoring risks related to regulatory compliance and to product quality matters; 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; or mail to the Chair of our Nominating and Governance Committee, or to our Chairman of the Board, care of: Corporate Secretary, Natus Medical Incorporated, 6701 Koll Center Parkway Suite 120, Pleasanton, CA, 94566.

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.

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
- 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 as an independent director of a publicly-traded company;
-

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

- Experience with Wall Street, transactions, and managing operations; and
- Some understanding of the medical device market.

Members of the Nominating and Governance Committee will use their professional contacts to identify nominees. If necessary, outside recruiters will also be used. The Chair 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 other members of the Board, 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.

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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, 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, under "Investors/Governance/Governance Documents." We intend to disclose any future amendments to certain provisions of the Code, or waivers of these provisions, on our website and/or in public filings.

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

The Code requires that covered persons report to the Company's 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, 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.

Policy on Hedging Transactions

Our insider trading policy generally prohibits insiders, as defined in the policy, from engaging in short sales of our common stock, or any hedging of their ownership of our common stock.

Compensation Committee Interlocks and Insider Participation

Our Compensation Committee consists of Ms. Engibous, Mr. Ludlum and Mr. Gunst. Mr. Moore, who served on the Compensation Committee for a portion of 2017, served as our Chief Executive Officer 26 years ago, from April 1989 to May 1992. Mr. Moore has informed our Board that he does not intend to stand for re-election at the Annual Meeting.

Communicating with our Board of Directors

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, 6701 Koll Center Parkway, Suite 120, Pleasanton, CA, 94566. Stockholders may also communicate with the Board on a confidential basis by sending an email to 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 March 31, 2018, 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 measurement 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, 6701 Koll Center Parkway Suite 120, Pleasanton, CA, 94566. 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 33,273,137 shares of common stock outstanding on March 31, 2018, plus the number of shares of common stock that such person or group had the right to acquire on or within 60 days after March 31, 2018.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

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Name and Address of Beneficial Owner	Shares Beneficially Owned	Right to acquire beneficial ownership under options exercisable within 60 days	Total Beneficially Owned	Percent of Class
Principal Stockholders				
BlackRock, Inc. 55 East 52nd Street New York, NY 10055 (1)	4,032,681	--	4,032,681	12.2%
Dimensional Fund Advisors LP Building One 6300 Bee Cave Road Austin, TX 78746 (2)	1,619,337	--	1,619,337	4.9%
Janus Henderson Group plc (3)	2,164,927	--	2,164,927	6.5%
Silvercrest Asset Management Group LLC 1330 Avenue of the Americas, 38th Floor New York, NY 10019 (4)	1,587,355	--	1,587,355	4.8%
Vanguard Group, Inc. 100 Vanguard Blvd. Malvern, PA 19355 (5)	2,245,064	--	2,245,064	6.8%
Wellington Management Group LLP 280 Congress Street Boston, MA 02210 (6)	1,924,157	--	1,924,157	5.8%
Directors, Nominees and Named Executive Officers				
Mr. Noll (7)	81,901	43,625	125,526	*
Dr. Chung (8)	136,373	45,358	181,731	*
Ms. Engibous (9)	21,750	13,000	34,750	*
Mr. Gunst (10)	50,850	13,000	63,850	*
Mr. Hawkins (11)	639,257	420,000	1,059,257	3.1%
Mr. Ludlum (12)	88,825	8,000	96,825	*
Mr. Moore (13)	123,962	8,000	131,962	*
Mr. Kennedy (14)	107,588	48,945	156,533	*
Mr. Traverso (15)	107,889	86,000	193,889	*
Dr. Paul (16)	7,460	--	7,460	*
Officers and Directors as a group (17)	1,366,855	685,928	2,051,783	6.0%

* Represents holdings of less than one percent.

(1) Based on information reported on Schedule 13-G/A filed with the Securities and Exchange Commission on January 19, 2018 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 power with respect to 3,962,335 of the shares and sole dispositive power with respect to 4,032,681 of the shares. The Schedule 13-G/A states that the following subsidiaries of Blackrock acquired the securities reported on the schedule:

BlackRock (Netherlands) B.V.; BlackRock Advisors, LLC; BlackRock Asset Management Canada Limited; BlackRock Asset Management Ireland Limited; BlackRock Asset Management Schweiz AG; BlackRock Financial Management, Inc.; BlackRock Fund Advisors; BlackRock Institutional Trust Company, National Association.; BlackRock Investment Management (Australia) Limited; BlackRock Investment Management (UK) Ltd; and

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BlackRock Investment Management, LLC. The Schedule 13-G/A indicates that BlackRock Fund Advisors beneficially owns 5% or greater of the outstanding shares of our common stock.

(2) Based on information reported on Schedule 13-G filed with the Securities and Exchange Commission on February 9, 2018 by Dimensional Fund Advisors LP (“Dimensional”). Dimensional is an investment advisor in accordance with Rule 13d-1(b)(1)(ii)(E) of the Securities Exchange Act of 1934. Dimensional reported that is has sole power to vote or to direct the vote of 1,528,550 and sole power to dispose or to direct the disposition of 1,619,337 shares. The shares as to which the Schedule 13-G are filed represent shared held by certain investment companies, trusts and accounts to which Dimensional furnishes investment advice and are not held by Dimensional itself.
(3) Based on information reported on Schedule 13-G filed with the Securities and Exchange Commission on February 12, 2018 by Janus Henderson Group plc. (“Janus”). Janus 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. Janus reported that is has shared voting power as to 2,164,927 shares and has shared dispositive power as to 2,164,927. The Schedule 13-G states that the following subsidiaries of Janus acquired the securities reported on the schedules: Janus Capital Management LLC, Intech Investment Management LLC, Perkins Investment Management LLC, Geneva Capital Management LLC, Henderson Global Investors Limited, Janus Henderson Investors Australia Institutional Funds Management Limited, and Henderson Global Investors North America Inc. The shares as to which the Schedule 13-G are filed represent shares held by individual and/or institutional clients of Janus and its named subsidiaries.
(4) Based on information reported on Schedule 13-G filed with the Securities and Exchange Commission on February 14, 2018 by Silvercrest Asset Management Group LLC (“Silvercrest”). Silvercrest is an investment advisor in accordance with Rule 13d-1(b)(1)(ii)(E) of the Securities Exchange Act of 1934 and a parent holding company or control person in accordance with Rule 240.13d-(b)(1)(ii)(G). Silvercrest reported that it has shared voting power with respect to 1,587,355 shares and shared dispositive power with respect to 1,587,355 shares. The shares as to which the Schedule 13-G are filed represent shares held by investment advisory clients of Silvercrest Asset Management Group LLC.
(5) Based on information reported on Schedule 13-G/A filed with the Securities and Exchange Commission on February 9, 2018 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. Vanguard reported that it has sole power to vote or direct the vote of 60,127 shares that it beneficially owns, has shared power to vote or direct the vote of 4,500 shares, has sole power to dispose or to direct the disposition of 2,183,137 shares and has shared power to dispose or to direct the disposition of 61,927 shares. Vanguard further reported that (a) Vanguard Fiduciary Trust Company, a wholly-owned subsidiary of Vanguard, is the beneficial owner of 57,427 shares, or 0.17%, of our common stock as a result of its serving as investment manager of collective trust accounts and (b) Vanguard Investments Australia, Ltd., a wholly-owned subsidiary of The Vanguard Group, Inc., is the beneficial owner of 7,200 shares, or 0.02%, of our common stock as a result of its serving as investment manager of Australian investment offerings.
(6) Based on information reported on Schedule 13-G filed with the Securities and Exchange Commission on February 8, 2018 by Wellington Group Holdings LLP (“Wellington”). Wellington is an investment advisor in accordance with Rule 13d-1(b)(1)(ii)(E) of the Securities Exchange Act of 1934 and a parent holding company or control person in accordance with Rule 240.13d-(b)(1)(ii)(G). Wellington reported that is has shared voting power with respect to 1,632,404 shares and shared dispositive power with respect to 1,924,157 of the shares. The Schedule 13-G states that the following holding companies of Wellington acquired the securities reported on the schedule: Wellington Group Holdings LLP, Wellington Investment Advisors LLP, Wellington Management Global Holdings, Ltd (“Wellington Holding Companies”). The shares as to which the Schedule 13-G are filed are held by the Wellington Holding Companies and owned of record by clients of Wellington Management Company LLP, Wellington Management Canada LLC, Wellington Management Singapore Pte Ltd., Wellington Management Hong Kong Ltd., Wellington International Ltd., Wellington Management Japane Pte Ltd., and Wellington Management Australia Pty Ltd.
(7) Includes 24,950 shares subject to a right of repurchase that expire as to 14,037 shares in 2019, 6,913 shares in 2020, and 4,000 shares in 2021 and 43,625 shares that Mr. Noll has the right to acquire within 60 days after March 31,

2018.
(8) Includes 14,495 shares subject to a right of repurchase that expire as to 8,247 shares in 2019, 3,948 shares in 2020, and 2,300 shares in 2021 and 45,358 shares that Dr. Chung has the right to acquire within 60 days after March 31, 2018.
(9) Includes 4,100 shares subject to a right of repurchase by the Company that expires in 2018 and 13,000 shares that Ms. Engibous has the right to acquire within 60 days after March 31, 2018.
(10) Includes 4,100 shares subject to a right of repurchase by the Company that expires in 2018 and 13,000 shares that Mr. Gunst has the right to acquire within 60 days after March 31, 2018.
(11) Includes 181,455 shares subject to a right of repurchase by the Company that expires with respect as to 100,477 shares in 2019, 51,478 shares in 2020, and 29,500 shares in 2021 and 420,000 shares that Mr. Hawkins has the right to acquire within 60 days after March 31, 2018.

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(12) Includes 4,100 shares subject to a right of repurchase by the Company that expires in 2018 and 8,000 shares that Mr. Ludlum has the right to acquire within 60 days after March 31, 2018.
(13) Includes 4,100 shares subject to a right of repurchase by the Company that expires in 2018 and 8,000 shares that Mr. Moore has the right to acquire within 60 days after March 31, 2018.
(14) Includes 48,990 shares subject to a right of repurchase by the Company that expires as to 27,495 shares in 2019, 13,495 shares in 2020, and 8,000 shares in 2021 and 48,945 shares that Mr. Kennedy has the right to acquire within 60 days after March 31, 2018.

(15) Includes 22,770 shares subject to a right of repurchase by the Company that expires as to 12,822 shares in 2019, 6,348 shares in 2020, and 3,600 shares in 2021 and 86,000 shares that Mr. Traverso has the right to acquire within 60 days after March 31, 2018.

(16) Includes 4,100 shares subject to a right of repurchase by the Company that expires in 2018.

(17) Includes all shares referenced in notes (1) through (16) 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 2017, 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, named executive officers and 10% stockholders.

COMPENSATION DISCUSSION AND ANALYSIS

General

Our executive compensation program is designed to:
- attract and retain individuals with the skills and performance needed to achieve our business objectives
- reward and incentivize individuals fairly over time
- align the short and long-term compensation of those individuals with the Company’s performance

Executive Summary

In 2017 we completed two significant acquisitions that we believe lay the groundwork for our future revenue growth and growth in profitability, the Otometrics acquisition completed in January 2017, and the acquisition of neurocritical care and neurosurgical product lines from Integra LifeSciences in October 2017. In addition, we continued our efforts to strengthen our neurology and newborn care franchises. With our acquisitions, we achieved record revenue in 2017, exceeding the goal of $500 million in annual revenue that we have shared with investors in recent years. Notwithstanding our revenue growth of 31.2% in 2017, our net income was below our target levels and below the net income achieved in 2016. This was primarily due to lower profitability in our newborn care business unit driven by lower gross profit margins due to unfavorable revenue mix and increased investments in product engineering and required to meet regulatory standards.
Similar to the cash bonus plans we adopted in prior years, our executive officers were eligible to receive cash bonuses for 2017 based on the attainment of specific performance objectives, as further described below. The 2017 plan included a threshold requirement for all executive officers that consolidated earnings must exceed 85% of the plan target as a condition to the payment of any cash bonuses. While many of the other performance metrics were attained at a level that would result in the payment of cash bonuses, no cash bonuses were paid for 2017 because our earnings per share did not meet the threshold. We believe that the cash bonus plan operated effectively in 2017 to establish meaningful performance criteria, resulting in no bonus payments as our earnings target was not satisfied. This being

the case, we recognize that the responsibilities of our executive officers were increased substantially with the addition of the Otometrics and neurocritical care/neurosurgical product lines in 2017, and that our executives expended significant additional efforts to integrate these new businesses.

At our annual meeting in 2017, approximately 91% of the stockholders who voted on our 2017 Say on Pay proposal voted in favor of the proposal. Considering this outcome, the Compensation Committee determined that it would continue to

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apply the same philosophy and guiding principles to the 2018 compensation for the Company's named executive officers, and, as a result, did not change the structure of our executive compensation for 2018.

Our Business and Our Compensation Philosophy

We believe that opportunities exist for us to increase stockholder value by increasing our per-share earnings, and believe that the optimal manner of doing so is to increase the revenue base of the Company. We seek revenue growth through organic growth involving, primarily, the introduction of existing products into new markets and the internal development of new products, as well as via 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 overall growth than could be achieved through either method 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. We also seek to achieve earnings growth by managing our business efficiently and implementing cost reduction efforts from time to time when we determine that we can do so without impairing our ability to operate effectively. 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. During the period from 2003 to 2017 we have substantially increased the size of our company. In this time period, we have completed 28 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 corporate headquarters is 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.

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 to time. For example, in February 2018 we added two new executive officers to head our newborn care and Otometrics operations. For us to be appropriately positioned to attract new talent as needed, we must be prepared to, and be perceived as an employer that is willing to, offer competitive compensation.

Link Compensation to Achievement of Our Business Objectives. 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 goals that our Compensation Committee has determined are most capable of increasing stockholder value for the Company. Accordingly, our annual bonus plan has been tied to earnings and revenue goals and, for certain of our executives, the attainment key business objectives.

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 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, as evidenced by our paying no cash bonuses for 2017 and paying cash bonuses in the range of 17% to 64% of target for 2016. Our long-term equity-based incentive awards are designed to provide a competitive compensation package and to motivate our executives to increase stockholder value.

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

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Committee works with an outside compensation consultant, Willis Towers Watson, 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 in the United States. In addition, we select companies that are similar to our size, limiting the peer group to companies whose trailing twelve-month revenue is generally within a range of approximately 0.5x to 2.0x of our projected annual revenue.

Our Compensation Committee requested and received a formal report from Willis Towers Watson to assist it in its deliberations for 2017 cash and equity compensation. The peer companies used in that report were: ABIOMED, Inc.; Accuray; Analogic; AngioDynamics; CONMED Corporation; Globus Medical, Inc.; Haemonetics Corporation; ICU Medical; Insulet Corporation; Integra LifeSciences; Masimo Corporation; Merit Medical Systems, Inc.; NuVasive, Inc.; Nxstage Medical, Inc.; Omnicell; and The Spectranetics Corporation. For the purpose of establishing competitive compensation ranges for elements of compensation, Willis Towers Watson 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. The peer group was revised from the previous year group with the assistance of Willis Towers Watson in establishing compensation with two companies removed, as one company was acquired (Cyberonics), and another was deemed too small (Abaxis). Three companies were added (Integra LifeSciences, Insulet and Haemonetics) to the peer group based on the criteria described above. In addition to the reports from Willis Towers Watson, in determining the compensation of each of our executive officers other than that the Chief Executive Officer, our Compensation Committee considers the recommendations of the Chief Executive Officer.

Willis 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, Willis Towers Watson has not undertaken any projects for management or for the Company other than advising the Compensation Committee with respect to compensation matters and assisting the Company in the preparation of the pay ratio disclosure required for the first time in 2017. The Compensation Committee has concluded that none of Willis Towers Watson's work to date has raised any conflicts of interest that will prevent Willis Towers Watson from being independent consultants to the Compensation Committee.

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 between the median and the 75^{th} percentile of our peer group, assuming achievement of target level of performance, with the understanding that we may from time to time elect to provide compensation above this level in connection with the hiring of a new executive if we determine that it is necessary to provide compensation at this level to attract an executive with skills and experience we desire. We target aggregate compensation at this level because we compete for executive talent in a market that is extremely competitive and, further, because we expect a substantial commitment from our executives to implement our business plan.

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 attain, and we believe that if our executives exceed the demanding targets in these plans they should be eligible to receive higher levels of compensation.

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 vesting period of the restricted stock. 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 in this Compensation Discussion and Analysis for the manner in which we make restricted stock awards to executives.

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Our Compensation Committee's 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.

Base Salaries

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. As set forth in the "Summary Compensation" table below, the Compensation Committee approved 2017 salary increases for executive officers based on market conditions, individual performance of the executives, the Company's growth and the Company's increased complexity of operation.

Cash Incentive Plan

As noted above, one element of our cash compensation has been a performance-based incentive plan. In 2015, upon the recommendation of the Board and Compensation Committee, our stockholders approved a Cash Incentive Plan, or CIP, for the Company to preserve our ability to deduct "performance-based compensation" awards pursuant to Section 162(m) of the Internal Revenue Code of 1986. The 2017 CIP further described below, which is the performance-based cash incentive plan for 2017, was adopted pursuant to the CIP.

Maximum Bonus and Performance Goals

The 2017 CIP applied the same performance metrics, with the same weighting, as the 2016 CIP for our CEO and CFO. In both plans, the bonus opportunity for our CEO and CFO was based primarily on consolidated adjusted pre-tax earnings per share with a lesser weighting for consolidated revenue. For our CEO and CFO the target bonus for 2017 was weighted (i) at 80% for attainment of the consolidated pre-tax earnings per share contained in the Company's 2017 business plan approved by the Board ("2017 Plan") and (ii) at 20% for attainment of the consolidated revenue contained in the 2017 Plan.

For Mr. Noll, the Vice President and General Manager of our Neurology strategic business units ("SBUs") and Mr. Traverso, who served through the first quarter of 2017 as the general manager of our Newborn care SBU, the target bonus under the 2017 CIP was based on the achievement of five metrics: (i) the consolidated pre-tax earnings per share contained in the 2017 Plan weighted at 15%, (ii) the consolidated revenue contained in the 2017 Plan weighted at 15% (iii) the pre-tax earnings per share of their respective strategic business units contained in the 2017 Plan weighted at 25%, (iv) the revenue of their SBUs contained in the 2017 Plan weighted at 25%, and (v) successful completion of discrete operational goals for their respective SBUs in 2017 weighted at 20%. These performance metrics were the same performance categories implemented in the 2016 CIP. Dr. Chung's bonus was based on the achievement of the following three metrics: (i) the consolidated pre-tax earnings per share contained in the 2017 Plan weighted at 60%, (ii) the consolidated revenue contained in the 2017 Plan weighted at 20% and (iii) the successful completion of discrete operational goals weighted at 20%. These performance metrics were the same performance categories implemented in the 2016 CIP for Dr. Chung.

The target consolidated revenue for 2017 was $519,400,000.00. The target amount of consolidated non-GAAP EPS was $ 1.89. The 2017 CIP required as a threshold to the payment of cash bonuses to any executive officers that we achieve the non-GAAP EPS target at a minimum of the 85% level. Because it was clear that no bonus payments would be made for 2017 in light of our actual operating results, the actual adjustments to EPS were not calculated. Had it been necessary to determine adjusted EPS for 2017, the likely adjustments would have been to eliminate restructuring costs, costs of acquisitions, and remediation costs at the Company's Seattle facility.

Target amounts for our named executive officers under the 2017 CIP were established as a percentage of the base salaries of the respective officers and were as follows:

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Name:	($) Minimum Bonus	($) Target Bonus	($) Maximum Bonus
James B. Hawkins, Chief Executive Officer	400,000	800,000	1,600,00
Jonathan A. Kennedy, Senior Vice President Finance and Chief Financial Officer	156,000	312,000	624,000
Austin A. Noll, III, Vice President, General Manager, Neurology	90,000	180,000	360,000
Kenneth M. Traverso, Vice President, General Manager, Newborn Care (1)	82,500	165,000	330,000
D. Christopher Chung, M.D., Vice President Medical Affairs, Quality and Regulatory Affairs	60,000	120,000	240,000

(1) Mr. Traverso served as the general manager of our Newborn Care SBU, and as an executive officer, through the first quarter of 2017, following which time he continued as an employee.

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 restricted stock and restricted stock units. Equity grants help retain key employees because they typically cannot be fully exercised or are subject to a right of repurchase for four years. In addition, the four-year vesting schedule also helps focus our employees on long-term performance.

From 2006 until December 2014, we sought to achieve the equity portion of aggregate compensation through stock option grants and restricted stock awards, with each comprising approximately half of the value of the annual equity award. From December 2014 forward, the annual equity award is comprised solely of restricted stock awards.

Equity-based compensation is granted to an executive officer 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. In making these awards our Compensation Committee applied the compensation philosophy discussed above. In particular, the Compensation Committee used equity awards to help to provide total annual compensation that was consistent with its goals for total compensation, to incent our executives to increase the per share value of the Company over the course of the vesting period of these awards and to provide a mechanism for the retention of the executives over the course of the vesting of the awards. The Compensation Committee's procedure for timing of equity awards provides assurances that grant timing is not being manipulated to result in a price that is favorable to employees. In 2015, the Compensation Committee revised its practice with regard to the granting of equity awards to employees and did so at the beginning of the year in connection with its establishment of cash compensation. Previously, equity awards were made promptly following the annual meeting of stockholders, typically in June of each year. 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.

In 2018 we revised the form of award agreement for our equity-based awards to provide that unvested awards would vest upon retirement if the employee had attained the age of 65 and had been continuously employed for at least 10 years. Our Compensation Committee elected to make this change because it sought to have the ability to continue to motivate employees to remain in our employ following the attainment of age 65, even if the employee might not otherwise be committed to working through the full customary vesting term. This provision applies to all recipients of equity awards made after the adoption of this change, including Executive Officers.

Employment Agreements and Change in Control Arrangements

We entered into employment agreements with Kenneth M. Traverso in November 2002 and D. Christopher Chung, M.D. in February 2003, both of which were amended in December 2008, and with James B. Hawkins in April 2004, which was amended in April 2008, December 2008, and April 2014. We entered into an employment agreement with Austin A. Noll, III on August 1, 2012 and Jonathan A. Kennedy on April, 11, 2013. In addition, with the exception of Mr. Hawkins and Mr. Kennedy, the other executives entered into Amended Employment Agreements with the Company in August, 2014. 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.

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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 and of 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) six to 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 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, in which case the executive also is eligible to receive a cash payment equal to the amount of the officer's target bonus in effect at the time of the change-in-control event occurs or the actual bonus at the time of the officer's termination. 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 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 two times 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
- Continued payment by the Company of COBRA benefits through the lesser of (i) 18 months from the effective date of such termination, or (ii) the date upon which he or his eligible dependents become covered under similar plans

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 (i) 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 (A) 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 (B) 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; (ii) 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 (iii) 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, all executives 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 named executive officers for 2017 were as follows: James B. Hawkins, $820,000; Jonathan A. Kennedy, $490,000; Austin A. Noll, III, $370,000; Kenneth M. Traverso, $340,000; and D. Christopher Chung, M.D., $310,000.

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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 2011 Stock Awards Plan provides for the grant of options to purchase our common stock to employees, directors and consultants. Under the predecessor plan, 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 six years. The 2011 plan and the predecessor plan provide that after certain “change in control” events, 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. The plans provide that the plan administrator may provide that if an optionee’s options are assumed or substituted and 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.”

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 Tax Code generally disallows public companies a tax deduction for federal income tax purposes of remuneration in excess of $1 million paid to certain executive officers. While our Compensation Committee may consider the deductibility of awards as one factor in determining executive compensation, our Compensation Committee also looks at other factors in making its decisions and retains the flexibility to award compensation that it determines to be consistent with the goals of our executive compensation program even if the awards are not deductible by us for tax purposes.

Recent changes to Section 162(m) in connection with the passage of the Tax Cuts and Jobs Act repealed exceptions to the deductibility limit that were previously available for “qualified performance-based compensation” (including stock option grants, performance-based cash bonuses and performance-based equity awards, such as performance-based restricted stock units) effective for taxable years after December 31, 2017. As a result, any compensation paid to certain of our executive officers in excess of $1 million following December 31, 2017 will be non-deductible. However, compensation payable pursuant to certain binding arrangements in effect on November 2, 2017 may qualify for transition relief afforded by the Tax Cuts and Jobs Act and remain deductible. Because of uncertainties in the interpretation and implementation of the changes to Section 162(m) in the Tax Cuts and Jobs Act, including the scope of the transition relief, we can offer no assurance of such deductibility.

Compensation Risk

The Compensation Committee regularly reviews the Company’s compensation policies and practices, including the risks created by the Company’s compensation plans. The Compensation Committee concluded that the compensation plans reflected

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the appropriate compensation goals and philosophy and that any risks arising from the Company's compensation policies and practices are not reasonably likely to have a material adverse effect on the Company.

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, 2017, except for Mr. Traverso, who served as an executive officer through the first quarter of 2017, following which time he continued as an employee [(1)].

Name and Principal Position	Year	Salary	Stock Awards [3]	Option Awards [2]	Non-Equity Incentive Plan Compensation ($) [3]	All Other Compensation [4]	Total
James B. Hawkins Chief Executive Officer	2017 2016 2015	$820,000 750,000 700,000	$4,106,400 3,999,905 2,811,120	$-- -- --	$ 0 985,502 1,080,301	$6,144 6,064 7,522	$4,932,544 5,741,471 4,598,943
Jonathan A. Kennedy Senior Vice President Finance and Chief Financial Officer	2017 2016 2015	490,000 440,000 410,000	1,113,600 1,000,090 792,159	-- -- --	0 375,195 410,514	5,578 5,560 4,250	1,609,178 1,820,845 1,616,923
Austin A. Noll, III Vice President, General Manager, Neurology	2017 2016 2015	370,000 340,000 320,000	556,800 530,075 419,866	-- -- --	0 139,859 197,060	6,020 1,242 828	932,820 1,011,176 937,754
Kenneth M. Traverso Vice President, General Manager, Newborn Care	2017 2016 2015	340,000 330,000 310,000	501,120 500,045 225,000	-- -- --	0 225,229 156,055	7,124 7,072 4,319	848,244 1,062,346 945,008
D. Christopher Chung, M.D. Vice President Medical Affairs, Quality and Regulatory	2017 2016 2015	310,000 286,000 277,000	320,160 299,845 237,504	-- -- --	0 146,637 152,083	6,020 5,992 6,114	636,180 742,474 673,906

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(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) 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 14-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, 2017. See the "Grants of Plan Based Awards Table" for more information regarding the equity awards granted by the Company in 2017. Refer to the "Compensation Discussion and Analysis" above for a discussion of these awards.

(3) The amounts in this column reflect bonuses under our CIP for 2015 and 2016 that were paid in March 2016 and 2017. 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.
(4) 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, the value of group life insurance benefits.

GRANTS OF PLAN BASED AWARDS - FISCAL 2017
This table discloses the actual numbers of stock options and restricted stock awards granted to our named executive officers in 2017 and the grant date fair value of these awards. It also captures the payouts under the Company’s 2017 Management EMIP.

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Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards [1] Threshold ($)	Target ($)	Maximum ($)	All Other Stock Awards: Number of Shares of Stock or Units [2]	All Other Option Awards: Number of Securities Underlying Options	Exercise or Base Price of Option Awards ($/Share)	Grant Date Fair Value of Stock and Option Awards ($)[3]
Mr. Hawkins	1/2/2017	400,000	800,000	1,600,000	118,000			$4,106,400
Mr. Kennedy	1/2/2017	156,000	312,000	624,000	32,000			1,113,600
Mr. Noll	1/2/2017	90,000	180,000	360,000	16,000			556,800
Dr. Chung	1/2/2017	60,000	120,000	240,000	9,200			320,160
Mr. Traverso	1/2/2017	82,500	65,000	330,000	14,400			501,120

(1) Each of the named executive officers had a range of payouts targeted for 2017 non equity incentive compensation under our 2017 CIP 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 2017 that vest as follows: 50% in January 2019, 25% in January 2020, and 25% in January 2021.
(3) Represents the grant date fair market value of restricted stock awards granted to the named executive officers in 2016 computed in accordance with ASC Topic 718. The assumptions we use in calculating these amounts are discussed in Note 14-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, 2017.

OUTSTANDING EQUITY AWARDS AT 2017 FISCAL YEAR-END

Name	Option Awards [1] Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price ($)	Option Expiration Date	Stock Awards Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($) [3]
Mr. Hawkins	160,000	--	10.69	06/07/2018[2]		
	150,000	--	14.34	06/03/2019[2]	181,455	6,931,581
	107,708	2,292	22.50	01/01/2020[2]		
Mr. Kennedy	31,345	--	13.24	04/08/2019[2]	48,990	649,018
	16,767	833	22.50	01/01/2020[2]		

Mr. Noll	9,375	--	11.92	06/07/2018[2]	24,950	953,090
	14,250	--	14.34	02/14/2019[2]		
	19,583	417	22.50	01/01/2020[2]		
	15,358	--	10.69	06/07/2018[2]		
Dr. Chung	16,000	--	14.34	06/07/2019[2]	14,495	553,709
	13,708	292	22.50	01/01/2020[2]		
Mr. Traverso	36,000	--	10.69	06/07/2018[2]	22,770	869,814
	30,000	--	14.34	06/07/2019[2]		
	19,583	417	22.50	01/01/2020[2]		

(1) Initial grants of options to the named executive officers upon employment vest 1/8th after the completion of six months of service with the remainder vesting ratably over the next 42 months. Subsequent grants of options vest ratably over a 48 month period.
(2) Options expire 6 years from the date of grant.

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(3) Represents the value of these awards based on the closing price of our stock on December 30, 2017 of $38.20.

OPTION EXERCISES AND STOCK VESTED - FISCAL 2017

The following table sets forth certain information regarding options and stock awards exercised and vested, respectively, during 2017 for the named executive officers.

Name	Option Awards Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($)	Stock Awards Number of Shares Acquired on Vesting (#) [1]	Value Realized on Vesting ($) [1]
Mr. Hawkins	—	—	148,705	5,425,244
Mr. Kennedy	—	—	53,990	2,009,868
Mr. Noll	—	—	24,700	895,565
Mr. Chung	12,642	407,333	14,795	537,519
Mr. Traverso	32,000	633,738	22,870	830,397

(1) Represents the value of restricted stock awards that were granted on June 7, 2013, and January 1, 2014, and January 1, 2015, and January 4, 2016 that vested in 2017.

POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE IN CONTROL

Under the employment agreements between the Company and the named executive officers, 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. The table that follows reflects the amount of compensation due to our named executive officers if their employment is terminated for other than cause, death or disability, or their employment is terminated or the executive terminates his employment for good cause, following a change in control, as more fully described under "Employment Agreements and Change in Control Arrangements" in the "Compensation Discussion and Analysis" above. The amounts shown below assume that such termination or change in control event was effective as of December 31, 2017. For a discussion of the amount of compensation due to our named executive officers if their employment is terminated without cause other than in connection with a change of control, see "Employment Agreements and Change in Control Arrangements" in the "Compensation Discussion and Analysis" above.

Name	Cash Severance Payment	Continuation of Medical and Welfare Benefits	Acceleration of Equity Awards [1]	Total Termination Benefits
Mr. Hawkins	$2,440,000	$ 42,030	$ 6,967,565	$ 9,449,595
Mr. Kennedy	810,000	38,543	1,884,496	2,773,039
Mr. Noll	550,000	38,543	959,637	1,548,180
Dr. Chung	430,000	38,543	558,293	1,026,836
Mr. Traverso	505,000	38,543	876,361	1,419,904

(1) The amounts shown in the table represent the payments to which the officer is entitled for a termination following a change in control. For termination without cause other than in connection with a change of his control, his cash severance payment and other benefits are detailed in the "Employment Agreements and Change in Control

Arrangements" Section, above.

PAY RATIO DISCLOSURE

Our ratio of the annual total compensation of our Chief Executive Officer to the median of the annual total compensation of all our employees (excluding our Chief Executive Officer) for 2017 is 90 to 1. We believe this ratio, which was calculated in a manner consistent with Item 402(u) of Regulation S-K, to be a reasonable estimate, based upon the assumptions and adjustments described below. As disclosed in the 2017 Summary Compensation Table, the annual total compensation for 2017 for our Chief

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Executive Officer was $4,932,544. The annual total compensation for 2017 for our median employee was $55,061. In identifying the median employee under Item 402(u), reporting companies are permitted to use reasonable estimates, assumptions and methodologies based on their own facts and circumstances. As a result, the disclosure regarding the compensation of our median employee may not be directly comparable to similar disclosure by other reporting companies.

Calculation Methodology

We identified the employee with compensation at the median of the compensation of all of our employees (the “median employee”) by considering our employee population as of December 20, 2017 (the “employee population determination date”). We considered all individuals, excluding our Chief Executive Officer, who were employed by us on a world-wide basis (including our consolidated subsidiaries) on the employee population determination date, whether employed on a full-time, part-time, seasonal or temporary basis, including employees on a partial year leave of absence (our “employee population”), subject to the application of the “de minimis” exemption as described below.

The de minimis exemption allows us to exclude up to 5% of our total employees who are non-U.S. employees. Our total number of employees, including U.S. and non-U.S. employees as of the employee population determination date was 2,176, and we used this number to calculate the maximum number of employees excludable under the de minimis exemption. Accordingly, in identifying the median employee, we used the de minimis exemption to exclude the following numbers of employees who are employed in the following countries: Australia (12), Brazil (1), China (36), Spain (9), Finland (2), Hong Kong (3), India (2), Jordan (2), Lebanon (1), Mexico (2), Malaysia (1), Netherlands (3), Norway (2), New Zealand (1), Portugal (1), Sweden (4), Singapore (4) and South Africa (1).

Multiple consistently applied calculation measures (“CACM”) were reviewed before selecting base salary as the CACM for purposes of identifying the median employee. The employee compensation data under review reflects 2017 figures.

For employees paid other than in U.S. dollars, we converted their compensation to U.S. dollars using foreign exchange rates in effect on the employee population determination date. We did not make any cost-of-living adjustments for employees outside of the United States. For employees hired between January 1, 2017 and the employee population determination date, we calculated their cash compensation described above as if they had been employed for the entire measurement period.

We believe our methodology represents a CACM that strikes a balance in terms of administrative burden while consistently treating all the primary compensation components for our worldwide employee population.

Using this methodology, we identified the median employee who was in the sales department and based in the United States.

We calculated the annual total compensation for the median employee using the same methodology we use to calculate the amount reported for our named executive officers in the “Total” column of the Summary Compensation Table.

DIRECTOR COMPENSATION

Directors who are employees receive no additional compensation for serving on the Board or its committees. The table below discloses the annual compensation provided during the year ended December 31, 2017 to directors who are not employees:

Name	Fees Earned or Paid in Cash ($) [1]	Stock Awards ($) [2]	Option Awards ($) [2, 3]	Total ($)
Mr. Gunst	166,000	149,468	--	312,985
Ms. Engibous[4]	88,775	149,468	--	235,760
Mr. Ludlum[5]	101,000	149,468	--	247,985
Mr. Moore[6]	95,549	149,468	--	242,534
Ms. Paul[7]	77,218	149,468	--	224,203

(1) For 2017, fees earned and paid in cash were based on the following retainer and payment schedule:

Board Retainer	$60,000
Audit Committee Member Retainer	$15,000
Compensation Committee Member Retainer	$10,000
Nominating Committee Member Retainer	$5,000
Chairman of the Board	$75,000

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Audit Chair Retainer	$20,000
Compensation Chair Retainer	$10,000
Nominating Chair Retainer	$7,500
Compliance Chair Retainer	$10,000
Compliance Committee Member Retainer	$10,000

(2) Represents the grant date fair market value of restricted stock awards granted to the directors in 2017 computed in accordance with ASC Topic 718. Assumptions we use in calculating these amounts, other than the exclusion of the impact of estimated forfeitures, are discussed in Note 14-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, 2017.
(3) At December 31, 2017, Ms. Engibous had 18,000 options and 4,400 unvested restricted shares outstanding, Mr. Gunst had 18,000 options and 4,400 unvested restricted shares outstanding, Mr. Ludlum had 13,000 options and 4,400 unvested restricted shares outstanding, Mr. Moore had 13,000 options and 4,400 unvested restricted shares outstanding, and Ms. Paul had 4,400 unvested restricted shares outstanding.

(4) Compensation Committee Chair; also served as Nominating and Governance Committee Chair during 2017.

(5) Audit Committee Chair.

(6) Compliance Committee Chair; also served as Compensation Committee Chair during 2017.

(7) Nominating and Governance Committee Chair; also served as Compliance Chair during 2017.

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REPORT OF THE COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS

Compensation Committee Report

The Compensation Committee of the Board of Natus has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management and, based on such review and discussions, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in this Proxy Statement.

Respectfully submitted by:
THE COMPENSATION COMMITTEE

DORIS E. ENGIBOUS, Chair
ROBERT A. GUNST
KENNETH E. LUDLUM

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REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

The Audit Committee is comprised of three directors who are independent under the applicable rules of the Nasdaq Stock Market and the Securities and Exchange Commission. The Audit Committee assists the Board in its oversight of the Company's financial reporting process and administration of corporate policy in matters of accounting and control. The Board has adopted a written Audit Committee Charter. As stated in the charter, management is responsible for the preparation, presentation and integrity of the Company's financial statements. The Audit Committee has relied on (i) management's representation that such financial statements have been prepared with integrity and objectivity and (ii) the report of the Company's independent auditors with respect to such financial statements. The Company's accounting and financial reporting principles and internal controls and procedures are designed to assure compliance with accounting standards and applicable laws and regulations.

The Audit Committee appoints the independent auditors and periodically reviews their performance and independence from management, and pre-approves all audit and non-audit services provided by the independent auditors. The Audit Committee functions as the liaison with the independent auditors, who are responsible for auditing the Company's financial statements and expressing an opinion as to their conformity with accounting principles generally accepted in the United States. The Audit Committee meets with the independent auditors, with and without management present, to discuss the results of their examination, evaluations of the Company's internal controls and the overall quality of the Company's financial reporting.

In the performance of its oversight function, the Audit Committee has done the following:

- Reviewed and discussed the audited financial statements contained in our Annual Report on Form 10-K for 2017 with management and the independent auditors;
- Discussed with the independent auditors any matters required to be discussed by Auditing Standard No. 1301, Communication with Audit Committees;
- Received and discussed the written disclosures and the letter from the independent auditors required by applicable requirements of the Public Company Accounting Oversight Board (United States) regarding the independent auditor's communications with the Audit Committee concerning independence; and
- Discussed with the independent auditors the firm's independence.

Based upon the review and discussions described above, the Audit Committee recommended to the Board, and the Board has approved, that the audited financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017, for filing with the Securities and Exchange Commission.

Respectfully submitted by:
THE AUDIT COMMITTEE

Kenneth E. Ludlum, Chair
Robert A. Gunst
William M. Moore

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OTHER MATTERS

We know of no other matters to be submitted at the Annual Meeting, other than the Voce removal proposal and the Voce replacement proposal. If the Voce removal proposal and the Voce replacement proposal properly come before the Annual Meeting, any votes on the enclosed WHITE proxy card will have the same effect as an "AGAINST" vote on such proposals. If any other matters properly come before the Annual Meeting, it is the intention of the persons named in the enclosed WHITE proxy card to vote the shares they represent as the Board may recommend.

It is important that your shares be represented at the Annual Meeting, regardless of the number of shares you hold. You are therefore urged to vote via the internet or by phone or, if you have received a paper proxy card, to mark, sign, date, and return the proxy card as promptly as possible in the postage-prepaid envelope enclosed for that purpose.

If you have any questions or require any assistance with voting your shares, please contact our proxy solicitor at the telephone numbers or address set forth below:

Morrow Sodali LLC
509 Madison Avenue, Suite 1608
New York, New York 10022
Call Toll-Free 1-800-662-5200
BABY@morrowsodali.com

THE BOARD OF DIRECTORS OF
NATUS MEDICAL INCORPORATED

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Appendix A

Supplemental Information Regarding Participants

The following tables ("Director and Nominees" and "Officers and Employees") set forth the name and business address of our directors and nominees, and the name, present principal occupation, and business address of our officers and employees who, under the rules of the Securities and Exchange Commission, are considered to be participants in our solicitation of proxies from our stockholders in connection with our 2018 Annual Meeting of Stockholders (collectively, the "Participants").

Directors and Nominees

The principal occupations of our continuing directors and nominees are set forth under the section titled "Proposal No. 1-Election of Directors" of this Proxy Statement. The name and business address of the organization of employment of our directors and nominees are as follow:

Nominees	Business Address
Doris E. Engibous	6701 Koll Center Parkway Suite 120, Pleasanton, CA 94566
Robert S. Weiss	6140 Stoneridge Mall Road, Suite 590, Pleasanton, CA 94588

Directors	Business Address
James B. Hawkins	6701 Koll Center Parkway Suite 120, Pleasanton, CA 94566
Robert A. Gunst	6701 Koll Center Parkway Suite 120, Pleasanton, CA 94566
Kenneth E. Ludlum	6701 Koll Center Parkway Suite 120, Pleasanton, CA 94566
Barbara R. Paul	6701 Koll Center Parkway Suite 120, Pleasanton, CA 94566
William Moore(1)	1212 Terra Bella Avenue, Mountain View, CA 94303

(1) Mr. Moore's term will expire as of the date of the Annual Meeting. Mr. Moore is currently is the Chief Executive Officer and President and Chairman of the board of directors of IRIDEX Corporation, a medical device company.

Officers and Employees

The principal occupations of our executive officers and employees who are considered Participants are set forth below. The principal occupation refers to such person's position with the Company, and the business address for each person is 6701 Koll Center Parkway Suite 120, Pleasanton, CA 94566.

Executive Officers
James B. Hawkins, Chief Executive Officer
Jonathan A. Kennedy, Executive Vice President and Chief Financial Officer
Austin A. Noll, III, Vice President, General Manager, Neurology
D. Christopher Chung, M.D., Vice President Medical Affairs, Quality and Regulatory Affairs
Leslie McDonnell, Vice President and General Manager, Newborn Care
Carsten Buhl, President and CEO, Otometrics

Information Regarding Ownership of Company Securities by Participants

The number of shares of Natus Medical Incorporation held by our directors and named executive officers as of March 31, 2018, including the number of securities for which beneficial ownership may be acquired within 60 days of such date are set forth in the section titled "Security Ownership of Certain Beneficial Owners and Management" of this Proxy Statement.

The following table sets forth the number of shares held as of March 31, 2018, including the number of securities for which beneficial ownership may be acquired within 60 days of March 31, 2018, by our other employees who are deemed

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Participants in our solicitation of proxies. Except as described in this Proxy Statement, shares of the Company's Common Stock owned of record by each Participate are also beneficially owned by such Participant.

Participants	Total Beneficially Owned
Carsten Buhl	23,501
D. Christopher Chung, M.D.	181,731
Doris E. Engibous	34,750
Robert A. Gunst	63,850
James B. Hawkins	1,059,257
Jonathan A. Kennedy	156,533
Kenneth E. Ludlum	96,825
Leslie McDonnell	16,448
William M. Moore	131,962
Austin A. Noll, III	125,526
Barbara R. Paul	7,460
Robert S. Weiss	—

Information Regarding Transactions in the Company's Securities by Participants

The following table sets forth information regarding purchases and sales of the Company's securities by each Participant from May 1, 2016 through April 30, 2018. All transactions were in the public market or pursuant to our equity incentive plans. Each restricted stock unit ("RSU") represents a contingent right to receive one share of our Common Stock. No part of the purchase price or market value of these securities is represented by funds borrowed or otherwise obtained for the purpose of acquiring or holding such securities.

Name	Transaction Date	Number of Shares	Transaction Description
Carsten Buhl	3/21/2018	23,501	RSU Grant
D. Christopher Chung, M.D.	8/15/2016	(3,782)	Restricted Stock Traded on Vesting
	1/1/2017	(3,290)	Restricted Stock Traded on Vesting
	1/1/2017	9,200	Restricted Stock Grant
	8/15/2017	(1,078)	Restricted Stock Traded on Vesting
	11/6/2017	12,642	Option Exercise
	11/6/2017	(12,642)	Sale
	12/31/2017	(3,799)	Restricted Stock Traded on Vesting
	1/2/2018	11,400	Restricted Stock Grant
Doris E. Engibous	6/2/2016	4,400	Restricted Stock Grant
	5/25/2017	5,000	Option Exercise
	5/25/2017	(5,000)	Sale
	6/22/2017	4,100	Restricted Stock Grant
Robert A. Gunst	6/2/2016	4,400	Restricted Stock Grant
	10/24/2016	(3,250)	Sale
	2/9/2017	5,000	Option Exercise
	2/9/2017	(5,000)	Sale
	6/22/2017	4,100	Restricted Stock Grant
	9/14/2017	(4,400)	Sale
James B. Hawkins	8/15/2016	(20,218)	Restricted Stock Traded on Vesting
	9/28/2016	10,000	Purchase
	10/27/2016	10,000	Purchase

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	11/28/2016	709	ESPP purchase
	12/16/2016	10,000	Purchase
	1/1/2017	(27,730)	Restricted Stock Traded on Vesting
	1/1/2017	118,000	Restricted Stock Grant
	4/30/2017	357	ESPP purchase
	5/31/2017	6,000	Purchase
	6/15/2017	4,000	Purchase
	8/15/2017	(9,783)	Restricted Stock Traded on Vesting
	12/31/2017	(40,283)	Restricted Stock Traded on Vesting
	1/2/2018	111,300	Restricted Stock Grant
Jonathan A. Kennedy	10/24/2016	4,900	Option Exercise
	10/24/2016	(14,138)	Sale
	10/25/2016	9,905	Option Exercise
	10/25/2016	(16,138)	Sale
	1/1/2017	(9,428)	Restricted Stock Traded on Vesting
	1/1/2017	32,000	Restricted Stock Grant
	4/10/2017	(8,137)	Restricted Stock Traded on Vesting
	12/31/2017	(11,927)	Restricted Stock Traded on Vesting
	1/2/2018	34,100	Restricted Stock Grant
Kenneth E. Ludlum	2/17/2016	(6,625)	Sale
	6/2/2016	4,400	Restricted Stock Grant
	6/22/2017	4,100	Restricted Stock Grant
	3/2/2018	5,000	Option Exercise
	3/2/2018	(4,000)	Sale
Leslie McDonnell	2/12/2018	16,448	Restricted Stock Grant
William M. Moore	6/2/2016	4,400	Restricted Stock Grant
	3/2/2017	(5,000)	Sale
	3/10/2017	5,000	Option Exercise
	6/22/2017	4,100	Restricted Stock Grant
	8/14/2017	(3,000)	Sale
	11/13/2017	(5,000)	Sale
Austin A. Noll, III	8/15/2016	(2,094)	Restricted Stock Traded on Vesting
	9/6/2016	(3,100)	Restricted Stock Traded on Vesting
	1/1/2017	(4,516)	Restricted Stock Traded on Vesting
	1/1/2017	16,000	Restricted Stock Grant
	8/15/2017	(2,231)	Restricted Stock Traded on Vesting
	12/31/2017	(5,677)	Restricted Stock Traded on Vesting
	1/2/2018	15,800	Restricted Stock Grant
Barbara R. Paul	9/21/2016	3,360	Restricted Stock Grant
	6/22/2017	4,100	Restricted Stock Grant

39

lign="top" width="7%">

$ (16,985,908)

Common stock issued for cash

-

3,921,799

39

2,941,307

-

-

-

2,941,347

Common stock with put options issued for cash

-

266,666

3

-

-

-

-

3

Common stock issued for services

-

3,550,753

35

2,663,030

-

-

-

2,663,065

Common stock issued upon the conversion of

debt and accrued interest

-

75,883

1

56,911

-

-

-

56,912

Common stock issued upon the conversion of

debt and accrued interest, related party

-

269,501

3

202,123

-

-

-

202,126

Common stock issued for oil and natural gas

property

-

163,334

2

122,499

-

-

-

122,501

Common stock issued for oil and natural gas

property, related party

-

209,999

2

157,497

-

-

-

157,499

Treasury stock issued for cash

-

-

-

-

-

-

244,000

244,000

Treasury stock issued for services

-

-

-

-

-

6,000

6,000

Common stock offering costs

-

-

-

(1,441,569)

-

-

-

(1,441,569)

Common stock warrants issued as offering costs

-

-

-

1,308,559

-

-

-

1,308,559

Common stock warrants issued in connection

with notes payable, related parties

-

-

-

91,264

-

-

-

91,264

Common stock warrants issued in connection

with notes payable conversion

-

-

-

11,006

-

-

-

11,006

Common stock warrants issued in connection

with notes payable conversion, related parties

-

-

-

14,600

-

-

-

14,600

Common stock warrants issued to extend

notes payable terms

-

-

-

145,521

-

-

-

145,521

Common stock warrants issued to extend

notes payable terms, related party

-

-

-

259,210

-

-

-

259,210

Common stock warrants issued in connection

with purchase of well bores

-

-

-

313,558

-

-

-

313,558

Common stock warrants issued in connection

with purchase of well bores, related party

-

-

-

121,290

-

-

-

121,290

Common stock warrants issued in connection with sale of net revenue interests

-

-

-

26,520

-

-

-

26,520

Common stock warrants issued in connection

with sale of net revenue interests, related party

-

-

6,630

-

-

-

6,630

Common stock options issued to employees

for services

-

-

192,240

-

-

-

192,240

Common stock options issued to

non-employee directors for services

-
-

471,900

-

-

-

471,900

Beneficiary conversion feature in connection with

convertible note payable, related party

-
-

291,264

-

-

-

291,264

Net loss

-
-

-

-

(29,985,540)

-

(29,985,540)

Balance at December 31, 2007

-

$ -

85,604,516
$ 856

$ 50,477,255

$ -

$ (89,244,111)

$ -

$ (38,766,000)

Common stock issued for cash

-

-

1,320,798
13

990,576

-

-

-

990,589
Common stock issued for services, employees

-

-

9,677,544
97

7,258,061

-

-

-

7,258,158

Common stock issued for services,

non employees

-

-

510,000

5

382,495

-

-

-

382,500

Common stock issued upon the conversion of

debt and accrued interest, related party

-

-

7,199,788

72

5,085,592

-

-

-

5,085,664

Common stock issued upon the conversion of

debt and accrued interest

-

-

21,722,223
217

16,291,451

-

-

-

16,291,668

Common stock issued in connection

with sale of net revenue interests

-

-

900,000
9

674,992

-

-

-

675,001

Common stock issued for oil and gas

properties, related party

25,000
-

18,750

-

-

-

18,750

Common stock issued with note payable attached

900,000
9

510,000

-

-

-

510,009

Common stock issued for accrued liabilities

-

Common stock offering costs

-

-

-
-

-

-

-

-

Common stock warrants issued as offering costs

-

-

-
-

-

-

-

-

Common stock warrants issued in connection

with notes payable, related parties

-

-

-
-

83,317

-

-

-

83,317

Common stock warrants issued in connection
with notes payable, unrelated parties

143,891

-

143,891

Common stock warrants issued to extend
notes payable terms

-

-

-
-

8,735

-

-

-

8,735

Common stock warrants issued to extend
notes payable terms, related party

-

-

-

-

6,239

-

-

-

6,239

Common stock warrants issued in connection

with sale of net revenue interests

-

-

-

-

103,267

-

-

-

103,267

Common stock warrants granted to

employees for services

41,972

-

41,972

Common stock options issued to

officers and employees for services

-

-

-

-

863,185

-

-

-

863,185

33

Conquest Petroleum Incorporated
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2008 and 2007

	Year Ended December 31, 2008	2007
Cash flows from continuing operating activities:		
Net income (loss)	$ (6,029,503)	$ (29,985,540)
Net income from discontinued operations	20,823,141	(12,671,174)
Net loss for continuing operations	$ (26,852,650)	$ (16,893,042)
Adjustments to reconcile net loss from continuing operations to net cash used in operating activities:		
Depletion, depreciation and amortization	1,993,100	1,555,939
Accretion of asset retirement obligation	129,010	110,443
Gain on extinguishment of debt	(400,485)	-
Loss on disposal of assets	-	1,365,712
Impairment of oil and gas property	5,291,298	250,000
Impairment of LHD patent technology	4,034,989	-
Amortization of debt discount	523,352	126,552
Amortization of deferred financing costs	61,638	1,332,482
Stock based compensation	11,068,330	2,539,140
Bad debt expense	42,808	-
Loss on note settled with preferred stock	543,722	-
Gain on sale of overriding royalty interest	(421,733)	-
Changes in operating assets and liabilities, net of effects of acquisitions and divestitures:		
Accounts receivable	(211,323)	209,582
Other receivable		(522,735)
Inventories		207,124
Prepaid expenses and other current assets	(170,372)	(25,673)
Accounts payable and accrued expenses	3,463,973	1,005,216
Other current liabilities	(60,000)	-
Accrued payroll and related taxes and benefits	-	645,492
Interest payable and accrued liabilities	-	1,957,272
Deferred revenue	-	40,000
Net cash used in operating activities	(964,344)	(6,096,496)
Cash flows from investing activities:		
Acquisitions of oil and gas property	(582,799)	(50,000)
Capital expenditures for oil and gas properties	-	(6,917,866)
Capital expenditures for property and equipment and other assets	-	(70,714)
Change in oil and gas properties accrual	-	1,377,660
Proceeds from sale of oil and natural gas equipment	-	50,000
Proceeds from disposition of oil & gas properties	1,282,931	2,250,000
Proceeds from sale of net revenue interests and sharing agreements	675,000	620,000
Proceeds from sale of other assets	16,732	500,000
Proceeds from dividend on investments	-	14,022

Purchase of fixed assets	(50,359)	-
Investment in other assets		(225,000)
Net cash used in investing activities	1,341,505	(2,451,898)
Cash flows from financing activities:		
Payment on production payment payable	-	(14,482)
Proceeds - issuance of notes payable	400,000	-
Principal payments on notes payable and production payable	-	(779,475)
Proceeds - issuance of notes payable - related parties	450,000	1,582,333
Principal payments on notes payable - related parties	(2,333)	(312,666)
Proceeds - issuance of common stock	1,350,598	2,941,349
Proceeds from issuance of common stock with put options	606+9-	200,000
Proceeds - issuance of treasury shares	-	(18,750)
Purchase of treasury shares		244,000
Common stock offering costs	-	(133,010)
Net cash provided by financing activities	2,198,265	3,709,299

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Conquest Petroleum Incorporated
Consolidated Statements of Cash Flows (Continued) (Audited)

	For the Year Ended December 31 2008	2007
Net cash (used in) and provided by discontinued operations	(2,695,266)	2,060,544
Decrease in cash and cash equivalents	(119,840)	(2,778,551)
Cash and cash equivalents - beginning of year	187,342	2,965,893
Cash and cash equivalents - end of year	$ 67,503	$ 187,342
Supplementary cash flow information:		
Cash paid for interest	$ 248,097	$ 1,889,215
Non-cash investing and financing activities:		
Notes payable and accrued interest exchanged for common stock, related party	$ -	$ 202,126
Notes payable and accrued interest exchanged for common stock	-	56,912
Notes payable and accrued interest exchanged for oil and gas properties	8,267,685	-
Reserve report revisions to asset retirement obligations	(579,879)	-
Discount recorded on debt with attached warrants	242,180	-
Common stock issued for the purchase of oil and gas properties	18,750	-
Beneficial conversion feature on related party notes payable	50,537	-
Common stock issued upon expiration of put options	433,330	-
Common stock issued for working interest in oil and natural gas well	-	122,501
Common stock issued for working interest in oil and natural gas well, related party	-	157,499
Common stock issued to settle accrued payroll	-	788,065
Treasury stock issued to settled accrued payroll	-	6,000
Notes payable and accrued interest exchanged for preferred stock	-	1,750,000
Notes payable and accrued interest exchanged for preferred stock, related party	-	1,250,000
Asset retirement obligation incurred	-	330,299
Common stock warrants granted in connection with note payable conversion	-	11,006
Common stock warrants granted in connection with note payable conversion, related party	-	14,600
Common stock warrants granted in connection with sale of net revenue interest	-	26,520
Common stock warrants granted in connection with sale of net revenue interest, related party	-	6,630
Common stock warrants granted to extend notes payable terms	-	145,521
Common stock warrants issued in connection with notes payable , related party	-	91,264
Common stock warrants granted to extend notes payable terms, related party	-	259,210
Common stock warrants granted as offering costs	-	1,131,636

See accompanying notes to consolidated financial statements

Conquest Petroleum Incorporated and Subsidiaries
Notes to the Consolidated Financial Statements

Note 1 – Financial Statement Presentation

Organization and nature of operations

Conquest Petroleum Incorporated was formed in 2004 as a Texas corporation to acquire, develop, produce and exploit oil and natural gas properties. The Company's major oil and natural gas properties are located in Louisiana, Kentucky, Arkansas, and New Mexico. The Company's executive offices are located in The Woodlands (Houston), Texas.

Going concern

The Company's auditors have concluded there is substantial doubt about our ability to continue as a going concern, specifically if the Company is unable to secure adequate funding in 2009.

The Company has done much to alleviate financial pressures from debt service by converting or repaying a substantial portion of our outstanding debt and interest and by lowering our overall cash cost of operations through the significant reduction of personnel and other general cost cutting measures. In the twelve months ended December 31, 2008, the Company has paid off and/or converted over $51.0 million in principal and interest owed related to indebtedness. Concurrently, in the same time period, the Company has undergone a major cost restructuring in an effort to streamline operations and transform the Company into an efficient operation. It has eliminated over 35 contracted and non contracted personnel at both the corporate and field levels with annualized saving of over $3.5 million. The cost reductions extended to consulting services and day to day operating costs which amounted to approximately $2.1 million in annual savings of the total estimate that will be saved. Management believes that the reduction in debt and its enhanced balance sheet in conjunction with the cost restructurings should allow the Company to raise additional financing. In addition, management continues to negotiate to settle certain trade payables with stock, deferral of certain scheduled payments, and from sales of certain non-core properties, as considered necessary. In addition, management is pursuing business partnering arrangements for the acquisition and development of its properties as well as debt and equity funding through private placements.

Nonetheless, the Company has no future borrowings or funding sources available under existing financing arrangements as additional capital expenditures will be necessary to develop the Company's oil and natural gas properties, which consist primarily of proved reserves that are non-producing, before significant positive operating cash flows will be achieved. In addition, given dropping commodity prices, lack of funding alternatives and a worsening financial environment, the Company is under significant liquidity constraints that hinder its ability to continue as a going concern.

Note 2 – Summary of Significant Accounting Policies

Principles of consolidation

The accompanying consolidated financial statements are presented in accordance with U.S. generally accepted accounting principles. The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries after elimination of all significant intercompany transactions and balances. The financial statements reflect necessary adjustments, all of which were of a recurring nature and are in the opinion of management necessary for a fair presentation.

Property and equipment are recorded at cost. Cost of repairs and maintenance are expensed as they are incurred. Major repairs that extend the useful life of equipment are capitalized and depreciated over the remaining estimated useful life. When property and equipment are sold or otherwise disposed, the related costs and accumulated depreciation are removed from the respective accounts and the gains or losses realized on the disposition are reflected in operations. The Company uses the straight-line method in computing depreciation for financial reporting purposes.

Major Customers

The Company sold oil and natural gas production representing more than 10% of its oil and natural gas revenues as follows:

	Twelve Months Ended December 31, 2008	
	2008	2007
Interconn Resources, Inc. (1)	62%	39%
Lion Oil Trading & Transportation, Inc. (1)	24%	18%
Plains Marketing, LP (1)	-%	11%
Orchard Petroleum, Inc. (2)	14%	32%

(1) The Company does not have a formal purchase agreement with this customer, but sells production on a month-to-month basis at spot prices adjusted for field differentials.

(2) Orchard Petroleum, Inc. is the operator of the Company's wells in California and sells production on the Company's behalf to Kern Oil & Refining, Co. and Aera Energy, LLC.

Accounting estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods reported. Actual results could differ from these estimates.

Significant estimates include volumes of oil and natural gas reserves used in calculating depletion of proved oil and natural gas properties, future net revenues and abandonment obligations, impairment of proved and unproved properties, future income taxes and related assets and liabilities, the fair value of various common stock, warrants and option transactions, and contingencies. Oil and natural gas reserve estimates, which are the basis for unit-of-production depletion and the calculation of impairment, have numerous inherent uncertainties. The accuracy of any reserve estimate is a function of the quality of available data, the engineering and geological interpretation and judgment. Results of drilling, testing and production subsequent to the date of the estimate may justify revision of such estimate. Accordingly, reserve estimates are often different from the quantities of oil and natural gas that are ultimately recovered. In addition, reserve estimates are vulnerable to changes in wellhead prices of crude oil and natural gas. Such prices have been volatile in the past and can be expected to be volatile in the future.

These significant estimates are based on current assumptions that may be materially effected by changes to future economic conditions such as the market prices received for sales of volumes of oil and natural gas, interest rates, the fair value of the Company’s common stock and corresponding volatility, and the Company’s ability to generate future taxable income. Future changes to these assumptions may affect these significant estimates materially in the near term.

Beneficial conversion features

From time to time, the Company may issue convertible notes that have detached warrants and may contain an imbedded beneficial conversion feature. A beneficial conversion feature exists on the date a convertible note is issued when the fair value of the underlying common stock to which the note is convertible into is in excess of the remaining unallocated proceeds of the note after first considering the allocation of a portion of the note proceeds to the fair value of the warrants, if related warrants have been granted. In accordance with EITF 00-27 “Application of Issue No. 98-5 to Certain Convertible Instruments,” the intrinsic value of the beneficial conversion feature is recorded as a debt discount with a corresponding amount to additional paid in capital. The debt discount is amortized to interest expense over the life of the note using the interest method. During the year ended December 31, 2008, beneficial conversion features related to convertible notes payable totaling $261,730 were recorded, all of which was attributable to related parties.
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Oil and natural gas properties

The Company accounts for its oil and natural gas properties using the successful efforts method of accounting. Under this method, all costs associated with property acquisitions, successful exploratory wells, all development wells, including dry hole development wells, and asset retirement obligation assets are capitalized. Additionally, interest is capitalized while wells are being drilled and the underlying property is in development. Costs of exploratory wells are capitalized pending determination of whether each well has resulted in the discovery of proved reserves. Oil and natural gas mineral leasehold costs are capitalized as incurred. Items charged to expense generally include geological and geophysical costs, costs of unsuccessful exploratory wells, and oil and natural gas production costs. Capitalized costs of proved properties including associated salvage are depleted on a well-by-well or field-by-field (common reservoir) basis using the units-of-production method based upon proved producing oil and natural gas reserves. The depletion rate is the current period production as a percentage of the total proved producing reserves. The depletion rate is applied to the net book value of property costs to calculate the depletion expense. Proved reserves materially impact depletion expense. If the proved reserves decline, then the depletion rate (the rate at which we record depletion expense) increases, reducing net income. Dispositions of oil and natural gas properties are accounted for as adjustments to capitalized costs with gain or loss recognized upon sale. A gain (loss) is recognized to the extent the sales price exceeds or is less than original cost or the carrying value, net of impairment. Oil and natural gas properties are also subject to impairment at the end of each reporting period. Unproved property costs are excluded from depletable costs until the related properties are developed. See impairment discussed in "Long-lived assets and intangible assets" below.

We depreciate other property and equipment using the straight-line method based on estimated useful lives ranging from five to 10 years.

Long-lived assets and intangible assets

The Company accounts for intangible assets in accordance with the provisions of SFAS No. 142, "Accounting for Goodwill and Other Intangible Assets." Intangible assets that have defined lives are subject to amortization over the useful life of the assets. Intangible assets held having no contractual factors or other factors limiting the useful life of the asset are not subject to amortization but are reviewed at least annually for impairment or when indicators suggest that impairment may be needed. Intangible assets are subject to impairment review at least annually or when there is an indication that an asset has been impaired. As of December 31, 2008, the Company determined that due to the worsened financial markets and oil and gas industry, full impairment of its patented lateral drilling technology was necessary. While there are prospects for possible capital funding (either debt or equity), much is left to the market and outside instability. As such, at this time, management cannot anticipate with a comfortable degree of certainty if the appropriate amount of funding will be achieved and any funding will be diverted fully to its E&P activities. This will further postpone the Company's ability to dedicate financial as well as human resources to its technology division in the short term future. As such, the Company has eliminated the division entirely. The Company had performed an impairment analysis of its patented lateral drilling technology in the third quarter ending September 30, 2008, and determined $2,041,894 impairment was required. The Company's basis for such an impairment stemmed from the then recent and unprecedented financial environment affecting the world and the Company and the ever increasing restrictions on credit, equity and funding opportunities in general (see Note 6).

The net capitalized costs of proved oil and natural gas properties are limited to an "impairment test" based on the estimated future reserves, discounted at 10% per annum, from proved oil and natural gas reserves based on current economic and operating conditions. If net capitalized costs exceed this limit, the excess is charged to operations through depreciation, depletion and amortization.

For unproved property costs, management reviews these investments for impairment on a property-by-property basis at each reporting period or if a triggering event should occur that may suggest that an impairment may be required.

Accordingly, the Company recorded $7,195,367 as impairment of proved oil and natural gas properties and related equipment on the South Belridge Field during the three months ended March 31, 2007, which is reflected within discontinued operations for the twelve months ended December 31, 2007. The Company recorded $5,291,298 for December 31, 2008 in determining that the Belton Field, Marion Field and Days Creek Field required an impairment charge of $1,114,737, $4,000,051,$87,642 and impairment of $88,868 for rig equipment respectively

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable in accordance with SFAS No. 144, "Accounting for the Impairment and Disposal of Long-Lived Assets". If the carrying amount of the asset, including any intangible assets associated with that asset, exceeds its estimated future undiscounted net cash flows, the Company will recognize an impairment loss equal to the difference between its carrying amount and its estimated fair value. The fair value used to calculate the impairment for a producing oil and natural gas field that produces from a common reservoir is first determined by comparing the undiscounted future net cash flows associated with total proved properties to the carrying value of the underlying evaluated property. If the cost of the underlying evaluated property is in excess of the undiscounted future net cash flows, the future net cash flows are discounted at 10%, which the Company believes approximates fair value, to determine the amount of impairment.

Asset retirement obligation

SFAS No. 143, " Accounting for Asset Retirement Obligations," requires that the fair value of the liability for asset retirement costs be recognized in an entity's balance sheet, as both a liability and an increase in the carrying values of such assets, in the periods in which such liabilities can be reasonably estimated. The present value of the estimated future asset retirement obligation ("ARO"), as of the date of acquisition or the date at which a successful well is drilled, is capitalized as part of the costs of proved oil and natural gas properties and recorded as a liability. The asset retirement costs are depleted over the production life of the oil and natural gas property on a unit-of-production basis.

The ARO is recorded at fair value and accretion expense is recognized as the discounted liability is accreted to its expected settlement value. The fair value of the ARO liability is measured by using expected future cash outflows discounted at the Company’s credit adjusted risk free interest rate.

Amounts incurred to settle plugging and abandonment obligations that are either less than or greater than amounts accrued are recorded as a gain or loss in current operations. Revisions to previous estimates, such as the estimated cost to plug a well or the estimated future economic life of a well, may require adjustments to the ARO and are capitalized as part of the costs of proved oil and natural gas property.

The following table is a reconciliation of the ARO liability for continuing operations for the twelve months ended December 31 2008 and 2007:

	Twelve Months Ended December, 2008	2007
Asset retirement obligation at beginning of period	$ 1,506,305	$ 1,159,808
Liabilities incurred	1,529	30,939
Revisions to previous estimates	594,209	(28,362)
Dispositions	(390,412)	(94,246)
Accretion expense	129,010	81,127
Asset retirement obligation at end of period	$ 1,840,641	$ 1,149,266

Income taxes

The Company accounts for income taxes in accordance with the provisions of SFAS No. 109, “Accounting for Income Taxes.” Deferred income taxes reflect the impact of temporary differences between the amount of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws and regulations. Deferred tax assets include tax loss and credit carryforwards and are reduced by a valuation allowance if, based on available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

On January 1, 2007, the Company adopted FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109”. FIN 48 prescribes a measurement process for recording in the financial statements uncertain tax positions taken or expected to be taken in a tax return. Additionally, FIN 48 provides guidance regarding uncertain tax positions relating to derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company will classify any interest and penalties associated with income taxes as interest expense. At December 31, 2008, the Company had no material uncertain tax positions and the tax years 2004 through 2007 remained open to review by federal and various state tax jurisdictions.

Stock based compensation

Beginning January 1, 2006, the Company adopted SFAS No. 123(R), “Accounting for Stock Based Compensation,” to account for its Incentive Compensation Plan (the “2005 Incentive Plan”). SFAS No. 123(R) requires all share-based payments to employees (which includes non-employee Board of Directors), including employee stock options, warrants and restricted stock, be measured at the fair value of the award and expensed over the requisite service period (generally the vesting period). The fair value of common stock options or warrants granted to employees is estimated at the date of grant using the Black-Scholes option pricing model by using the historical volatility of comparable public companies. The calculation also takes into account the common stock fair market value at the grant date, the exercise price, the expected life of the common stock option or warrant, the dividend yield and the risk-free interest rate.

Under the 2005 Incentive Plan, the Company from time to time may issue stock options, warrants and restricted stock to acquire goods or services from third parties. Restricted stock, options or warrants issued to other than employees or directors are recorded on the basis of their fair value, which is measured as of the date required by EITF Issue 96-18, “Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services.” In accordance with EITF 96-18, the options or warrants are valued using the Black-Scholes option pricing model on the basis of the market price of the underlying equity instrument on the "valuation date," which for options and warrants related to contracts that have substantial disincentives to non-performance, is the date of the contract, and for all other contracts is the vesting date. Expense related to the options and warrants is recognized on a straight-line basis over the shorter of the period over which services are to be received or the vesting period.

Earnings per share

Basic earnings per share is computed using the weighted average number of common shares outstanding. Diluted earnings per share reflects the potential dilutive effects of common stock equivalents such as options, warrants and convertible securities. Due to the Company incurring a net loss from continuing operations during the twelve months ended December 31, 2008 and 2007, basic and diluted loss per share are the same as all potentially dilutive common stock equivalents are anti-dilutive. Under SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity," entities that have issued mandatorily redeemable shares of common stock or entered into forward contracts that require physical settlement by repurchase of a fixed number of the issuer's equity shares of common stock in exchange for cash shall exclude the common shares that are to be redeemed or repurchased in calculating basic and diluted earnings per share. For the twelve months ended December 31, 2008, the Company excluded 230,833 weighted average common shares equivalent outstanding for shares issued with put options that were recorded as a derivative liability within accrued liabilities, from its earnings per common share calculation.

Recently adopted accounting pronouncements

During September 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 48, " Accounting for Uncertainty in Income Taxes-an Interpretation of FASB Statement No. 109 ," ("FIN 48") which provides guidance for the recognition and measurement of a tax position taken or expected to be taken in a tax return. Under FIN 48, the Company is required to determine whether it is more likely than not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. If the tax position meets the "more likely than not" recognition threshold, it is then measured and recorded at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. The adoption of FIN 48 did not have a material effect on the Company's consolidated financial position or results of operations.

Recent unadopted accounting pronouncements

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements ". This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This statement applies under other accounting pronouncements that require or permit fair value measurements, where fair value has been determined to be the relevant measurement attribute. This statement is effective for financial statements of fiscal years beginning after November 15, 2007. The Company does not expect a material impact from SFAS No. 157 on its consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, " The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115 ." The new standard permits an entity to make an irrevocable election to measure most financial assets and financial liabilities at fair value. The fair value option may be elected on an instrument-by-instrument basis, with a few exceptions, as long as it is applied to the instrument in its entirety. Changes in fair value would be recorded in income. SFAS No. 159 establishes presentation and disclosure requirements intended to help financial statement users understand the effect of the entity's election on earnings. SFAS No. 159 is effective as of the beginning of the first fiscal year beginning after November 15, 2007. The Company does not expect a material impact from SFAS No. 159 on its consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), " Business Combinations ". SFAS No. 141(R) establishes principles and requirements to recognize the assets acquired and liabilities assumed in an acquisition transaction and determines what information to disclose to investors regarding the business combination. SFAS No. 141(R) is effective for business combinations for which the acquisition date is on or after the beginning of the first annual period beginning after December 15, 2008.

In December 2007, the FASB issued SFAS No. 160, " Non-controlling Interests in Consolidated Financial Statement—amendments of ARB No. 51." SFAS No. 160 states that accounting and reporting for minority interests will be recharacterized as non-controlling interests and classified as a component of equity. The statement also establishes reporting requirements that provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the non-controlling owners. SFAS No. 160 applies to all entities that prepare consolidated financial statements, except not-for-profit organizations, but will affect only those entities that have an outstanding non-controlling interest in one or more subsidiaries or that deconsolidate a subsidiary. This statement is effective as of the beginning of an entity's first fiscal year beginning after December 15, 2008. The Company currently has no subsidiary subject to this standard and does not expect a material impact from SFAS No. 160 on its consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, " Disclosures about Derivative Instruments and Hedging Activities ". SFAS No. 161 is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. The provisions of SFAS No. 161 are effective for the fiscal years and interim periods beginning after November 15, 2008. The Company is currently evaluating the impact of adopting SFAS No. 161 on its consolidated financial statement disclosures.

In May, 2008, the FASB issued FASB Staff Position APB 14-1, " Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement) ". APB 14-1 requires the issuer to separately account for the liability and equity components of convertible debt instruments in a manner that reflects the issuer's nonconvertible debt borrowing rate. The guidance will result in companies recognizing higher interest expense in the statement of operations due to amortization of the discount that results from separating the liability and equity components. APB 14-1 will be effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The Company is currently evaluating the impact of adopting APB 14-1 on it consolidated financial statements.

Note 3 – Debt

Notes payable consists of the following at December 31, 2008 and December 31, 2007:

	December 31, 2008	December 31, 2007
Notes payable	$ 800,000	$ 400,000
Notes payable, related party	-	3,597,001
Convertible notes payable	-	1,750,000
Convertible notes payable, related party	850,000	3,270,000
	1,650,000	9,017,001
Less unamortized debt discount	(157,132)	(455,976)
	1,492,868	8,561,025
Less current maturities:		
Notes payable, net of discount	(689,518)	(400,000)
Notes payable, related party, net of discount	(803,350)	(5,161,025)
Notes payable, net of current maturities and discount	$ -	$ 3,000,000

Notes payable

The Company had a note payable with an individual investor aggregating $400,000 at December 31, 2008. This notes payable matured on December 31, 2007, bearing interest at a fixed rate of 18%. Interest will accrue from the note issue date and is due and payable either at maturity or quarterly or semi-annually until maturity. The Company is in default on this note payable at December 31, 2008, and is in the process of renegotiating its terms. This note payable in default is accruing interest at an additional 10% (28% total) and additional late fees may apply. This note payable is unsecured.

The Company had a note payable with an individual investor aggregating $700,000 at December 31, 2008. This notes payable matured on March 30, 2008, bearing interest at fixed rate of 12%. Simple interest will accrue from the note issue date and is due and payable either at maturity or quarterly or semi-annually until maturity. The Company is in default on this note payable at December 31, 2008, and is in the process of renegotiating its terms. This note payable in default is accruing interest at 18%. This note payable is unsecured.

During 2008, the Company borrowed an additional $100,000 from an individual. This note is a demand note payable at any time.

During 2008, the Company borrowed an additional $400,000 from four individuals at an interest rate of 15% with a one year maturity on each.

The Company held notes payable with various individual investors aggregating $400,000 at December 31, 2007. These notes payable with individuals mature from May 1, 2007 to September 30, 2007, bearing interest at fixed rates of 9%. Interest will accrue from the note issue date and is due and payable either at maturity or quarterly or semi-annually until maturity. The Company is in default on notes payable of $400,000 at December 31, 2007 and is in the process of renegotiating its terms. These notes payable in default are accruing interest at a higher rate and additional late fees may apply. These notes payable are unsecured.

Effective September 12, 2006, the Company and a related party entered into a formal purchase and sale agreement to purchase their right, title and interest in the LHD Technology for a total purchase price of $4,750,000, comprised of $4,000,000 of cash and 1,000,000 shares of the Company's common stock valued at $750,000 (see Note 4). During 2006, as part of the payment consideration, the Company issued two notes payable to the seller totaling $1,650,000 and $2,000,000, respectively. These notes payable matured on June 1, 2007 and December 31, 2007, respectively, and interest accrued at a fixed interest rate of 8% starting from January 1, 2007 and January 1, 2008, respectively, until the amounts are paid. The Company had a total of $3,578,000 outstanding at December 31, 2007. Subsequent to December 31, 2007, the lender converted the entire $3,578,000 of the outstanding notes payable into shares of the Company's common stock at $0.75 per share. During 2007, the Company borrowed $262,333 from officers of the Company. These notes matured on December 31, 2007 and did not bear interest. As of December 31, 2007, $240,666 was repaid and $2,666 was offset against a receivable, leaving a remaining $19,001 outstanding. These notes were in default at December 31, 2007, but have been repaid or renegotiated in the first quarter of 2008.

Convertible notes payable

Maxim TEP, PLC, South Belridge and Orchard Petroleum
During April 2008, the Company sold its South Belridge Field in a three party transaction that involved Mercuria Partners, a majority shareholder in Orchard Petroleum, and Maxim TEP, PLC as an all inclusive deal to eliminate all debt, joint interest rights and obligations amongst all three parties, for a cash consideration of $35,781,654 and the issuance of 21,700,000 shares of common stock of the Company issued to Maxim TEP, PLC. With this cash and stock consideration, the Company retired $37,408,772 in current notes payable and approximately $6,068,427 in interest payable. South Belridge Field had a carrying cost of $4,366,422 at the date of closing. At the closing of this transaction, the Company had no further interest, rights or obligations in the South Belridge Field and satisfied in full all debt, interests and other obligations owed to Maxim TEP, PLC and its parent, the Greater European Fund, as well as any interest, rights or obligations under the Joint Venture agreement with Orchard Petroleum. The financial results of the Company's South Belridge operations are reported as discontinued operations for all periods presented.

Days Creek Field

During November 2006, the Company entered into three convertible notes payable totaling $2,000,000 each ($6,000,000 in total) bearing interest at a rate of 10%, which matured on October 31, 2007, secured by the leases in the Days Creek Field. These notes payable were originally convertible into shares of the Company's common stock at an exchange rate of $1.50 per share, or into approximately 4,000,000 shares of common stock. These notes are collateralized by the Company's oil and natural gas properties in Days Creek. During 2007, the maturity dates on these notes were extended to mature on February 1, 2008, whereby the Company agreed to pay an additional $300,000 to the note holders as a fee for the extension. In February 2008, these notes were extended again to mature on April 30, 2008, for an additional extension fee of $300,000 and the exchange rate of $1.50 per share was amended to $0.75 per share, resulting in the $6,000,000 in convertible notes being convertible into 8,000,000 shares of common stock. In May of 2008, the Company exchanged a 75% working interest in its Days Creek Field in consideration for the $6,000,000 convertible note that it owed to the three note holders effective May 1, 2008, keeping a net 10% working interest in the field. The financial results of the Company's Days Creek Field are reported as discontinued operations for all periods presented.

During the twelve months ended December 31, 2008, related party note holders converted notes payable of $420,000 and $8,841 of accrued interest into 571,788 shares of the Company's common stock at a conversion rate of $0.75 share.

During the twelve months ended December 31, 2008, a related party holding a note payable totaling $1,200,000 with a 20% imputed interest rate, maturing in one year from the note date, converted the note payable into common stock of the Company at a conversion rate of $0.75 per dollar of principal. The entire outstanding balance of $1,200,000 was converted into 1,600,000 shares of the Company's common stock.

During the twelve months ended December 31, 2008, the Company borrowed an additional $400,000 from management and directors. The borrowing was subsequently converted into common stock at a price of $0.75 per share, or 533,333 shares. Additionally, $5,048,000 of convertible notes also converted, plus accrued interest of $51,841 at a price of $0.75 per share for a total of 6,799,788 shares.

During the twelve months ended December 31, 2008, the Company sold 2% of ORRIs in the Days Creek Field and 7% of ORRIs in its Marion Field to investors generating total proceeds of $675,000. These ORRIs were subsequently converted into stock at $0.75 per share or 900,000 shares.

During the twelve months ended December 31, 2008, the Company converted $3,000,000 of corporate notes to 5,454,545 shares of Series A Preferred Stock which were originally associated with the purchase in October 2007 of various working interests in certain wells located in the South Belridge Field from several individuals, totaling $3,000,000.

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Production Payment with BlueRock Energy Capital, LTD

Effective May 1, 2008, the Company finalized its negotiations with BlueRock Energy Capital, LTD ("BlueRock") to restructure its monthly production payment facility on its Marion Field. The new agreement calls for a reduction of the interest rate from its current 18% to 8% and to give back to the Company up to $25,000 of its production payment per month so that the field would be cash flow positive. The Company's obligations under these new terms would be to seek refinancing of the production payment payable or the outright purchase of the production payable by no later than the anniversary of the execution of the new agreement. Should the Company not meet this obligation, BlueRock has the option of taking back the field in full payment of the production payment payable or reverting back to the previous terms under the existing agreement. For the years ended December 31, 2008 and 2007, the Company determined 56% of this production payment facility was due within the next twelve months and hence classified as current portion of long term debt. This agreement has since been extended for 6 months until October 30, 2009.

Interest expense, net

Interest expense consists of the following for the twelve months ended December 31:

	Twelve Months Ended December 31,			
	2008		2007	
Interest expense related to debt	$	1,635,964	$	2,586,350
Amortization of deferred financing costs		324,735		1,312,605
Amortization of debt discount		261,730		85,163
Interest expense related to stock put options		-		333,333
Capitalized interest		-		(42,125)
Interest income		-		(20,877)
	$	2,222,429	$	4,254,448

Note 4 – Discontinued Operations

During the second quarter of 2008, the Company sold its interest in the South Belridge field and the debt associated with it was extinguished (see Note 3). Accordingly, the consolidated financial statement amounts for the three and twelve months ended December 31, 2008 and 2007 have been adjusted to give effect to the disposition as a discontinued operation. The operating results of the South Belridge field included within discontinued operations are presented as follows:

	Twelve Months Ended December 31,			
	2008		2007	
Operating revenues	$	751,059	$	1,683,865
Operating costs and expenses		446,891		1,593,273
Other expenses, net		2,337,811		13,183,091
Loss from discontinued operations, net of taxes		(2,033,643)		(13,092,498)
Gain on disposal of discontinued operations, net of taxes		22,856,784		-
Net income (loss)	$	20,823,141	$	(13,092,498)
Basic and diluted income per share from discontinued operations	$	(0.02)	$	(0.16)
Basic and diluted income per share from gain on disposal of discontinued operations		0.20		-

Total	$	0.18	$	(0.16)
Weighted average number of common shares outstanding				
Basic		115,024,598		80,023,513
Diluted		115,024,598		80,023,513

Note 5 – Stockholders' Equity

Preferred stock

On June 30, 2008, the Board of Directors resolved to cancel the Company's previous class of preferred stock and issue up to 50,000,000 shares of a new class of preferred stock, of which 10,000,000 has been designated as a Series A Preferred Stock, $.00001 par value per share. This series has liquidation preference above common stock. The holders of Series A Preferred Stock shall be entitled to receive dividends if and when declared by the Board of Directors. Each share of Series A Preferred Stock shall have voting rights identical to a share of Common Stock (i.e. one vote per share) and shall be permitted to vote on all matters on which holders of Common Stock are entitled to vote. So long as any shares of Series A Preferred Stock remain outstanding, the Corporation shall not without first obtaining the approval of the holders of seventy-five percent (75%) of the then-outstanding shares of Series A Preferred Stock: (i) alter or change the rights, preferences or privileges of the shares of Series A Preferred Stock so as to adversely affect such shares; (ii) increase or decrease the total number of authorized shares of Series A Preferred Stock; (iii) issue any Senior Securities; or (iv) take any action that alters or amends this Series.

As referred to in Note 3, during the second quarter of 2008, the Company issued 5,454,545 shares of Series A Preferred Stock in exchange for $3,000,000 of corporate notes payable. At December 31, 2008, there were 5,454,545 shares of Series A Preferred Stock issued and outstanding.

Common stock

During 2008, the Company issued to a third party 21,722,223 shares of common stock with a fair value of $0.75 per share or $16,291,668 as a debt conversion resulting in a loss on disposal of debt of $37,408,772 for the year ended December 31, 2008.

During 2008 and 2007, total proceeds of $1,655,599 and $3,141,349 were generated through private offerings of common stock from the issuance of 2,220,798 and 4,188,465 shares at $0.75 per share. Of the total number of common shares sold during the year ended December 31, 2007 100,000 shares were sold to related parties generating proceeds of $75,000. Of the total number of common shares sold in 2007, 266,666 shares included embedded put options at $2.00 per share, which originally expired on December 15, 2007, but were extended to August 31, 2008. These shares with embedded put options were recorded at their par value and the excess obligation over the par value was recorded as a liability, which is recorded within accrued liabilities.

During 2008 and 2007, the Company issued 5,035,000 and 3,550,753 shares of common stock with a fair value of $3,776,250 and $2,663,065, respectively, at $0.75 to third parties for services. In 2007, all shares issued were to employees for compensation or salary conversion.

During 2008, the Company issued 5,177,544 shares of common stock with a fair value of $0.75 per share or, $3,883,158, to employees of the Company for services.

During 2008 , related party note holders comprising $5,399,841 of principal and accrued interest and other liabilities elected to convert into 7,199,788 shares of the Company's common stock, at an exchange rate of one share for each $0.75 of principal. On August 31, 2008, the put option feature on the remaining 216,666 shares of common stock with embedded put options at $2.00 per share expired and as a result the related liabilities of $433,300 were reclassed to permanent equity.

During 2008, the Company issued 900,000 shares of common stock in connection with the sale of net revenue interests.

During 2007, note holders comprising $259,038 of principal and accrued interest elected to convert into 345,384 shares of the Company's common stock at an exchange rate of one share for each $0.75 of principal.

During 2007, the Company issued 373,333 shares of common stock at a fair value of $0.75 per share, in conjunction with the purchase of certain ownership interests in four well bores in its South Belridge Field.

Warrants

During 2008 and 2007, the Company granted 1,207,543 and 4,356,887, warrants respectively to purchase the Company's common stock with an exercise price of $0.75 per share in connection with the sale of the Company's common stock. These warrants expire in three and five years from the date of grant. The estimated fair value of the warrants was determined using the Black-Scholes option pricing model and totaled $365,018. Of these warrants issued in 2007, 2,018,750 were granted to related parties. The estimated fair value of the warrants was determined using the Black-Scholes option pricing model and totaled $1,308,559 and was recorded as common stock offering costs included in additional paid-in capital during 2007.

During 2007, the Company entered into various note payable agreements with related and unrelated third party investors to fund its operations (see Note 5 under the caption "Detachable common stock warrants"). At December 31, 2007, certain note payable agreements provided for warrants to purchase a total of 470,000 of the Company's common stock, respectively, at an exercise price of $0.75 per share of which 470,000 shares were granted to related parties. These warrants expire three or five years from the date of grant. The fair value of these warrants was determined using the Black-Scholes option pricing model and was recorded as a debt discount totaling $91,264 during the year ended December 31, 2007. The debt discount is being amortized to interest expense over the life of the notes using the effective interest method.

During 2007, warrants to purchase 1,411,331 shares of the Company's common stock with an exercise price of $0.75 per share were granted to certain note holders for extending the terms of their notes payable. These warrants expire five years from the date of grant. Of these warrants issued, 933,332 were issued to related parties. The estimated fair value of these warrants was determined using the Black-Scholes option pricing model and totaled $404,731.

In contemplation of divesting the South Belridge Field, effective October 1, 2007, the Company repurchased various working interests in four well bores in its South Belridge Field that it had sold to four individuals in 2005. The purchase price consideration included the granting of 1,000,000 warrants with an exercise price of $0.75 per share. Of the total warrants issued, 562,500 warrants were issued to related parties. The estimated fair value of these warrants was determined using the Black-Scholes option pricing model and totaled $215,627.

Also, in contemplation of divesting the South Belridge Field, effective October 1, 2007, the Company reacquired certain Revenue Sharing Agreements comprising 4.36% in the aggregate on a certain seven wells located in the South Belridge Field by granting 1,016,672 warrants with an exercise price of $0.75 per share. The estimated fair value of these warrants was determined using the Black-Scholes option pricing model and totaled $219,221 and was recorded in oil and natural gas properties.

During 2007, the Company sold a 5% net revenue interest in the oil and natural gas properties in the Days Creek Field for $500,000. The ORRI sales agreements also provided for warrants to purchase a total of 150,000 shares of the Company's common stock with an exercise price of $0.75 per share expiring three years from the date of the agreements. Of these warrants issued, 30,000 were issued to related parties. The estimated fair value of these warrants was determined using the Black-Scholes option pricing model and totaled $33,150 and was recorded as additional paid-in capital.

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The following is a summary of the warrant activity for the years ended December 31:

	2008			2007		
	Number of Shares		Weighted Average Exercise Price	Number of Shares		Weighted Average Exercise Price
Outstanding, beginning of year	14,089,946	$	0.75	5,597,494	$	0.75
Granted	1,207,543		0.75	8,492,452		0.75
Exercised	–			–		0.75
Expired or cancelled	–			—		0.75
Outstanding, end of year	15,297,489	$	0.75	14,089,946	$	0.75
Exercisable, end of year	15,297,489	$	0.75	14,089,946	$	0.75

The fair value of common stock warrants granted is estimated at the date of grant using the Black-Scholes option pricing model by using the historical volatility of comparable public companies. The calculation also takes into account the common stock fair market value at the grant date, the exercise price, the expected life of the common stock warrant, the dividend yield and the risk-free interest rate. Following are the assumptions used during the years ending December 31:

	Twelve Months Ended December 31,	
	2008	2007
Risk free rate	1.79%-2.32%	4.23%-4.92%
Expected life	5-10 years	5-10 years
Volatility	67%	38%
Dividend yield	0%	0%

Stock options

During 2008 and 2007, the Company granted options to purchase 3,674,156 and 1,200,000 shares, respectively, of the Company's common stock at an exercise price of $0.75 per share to employees and to non-employee Directors for services provided. These options expire between five and ten years from the date of grant. All options granted to employees in 2008 and 2007 vested immediately upon grant. The estimated fair value of these stock options was determined on the grant date using the Black-Scholes option pricing model and the Company recorded $1,379,696 and $471,900, respectively as general and administrative expense to account for vested options.

In addition, during 2007, the Company granted options to purchase 650,000 shares, of the Company's common stock at an exercise price of $0.75 per share to employees for services provided. These options expire five or seven years from the date of grant. Of these options granted, 400,000 were 100% vested on the date of grant during 2007, and 250,000 granted in 2007 vest within 90 days from the grant date. The estimated fair value of these stock options was determined on the grant date using the Black-Scholes option pricing model to be $192,240, of which $192,240 was amortized to general and administrative expense during 2007.

The following is a summary of the stock option activity for the years ended December 31:

	2008		2007	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Non-vested beginning of year	14,089,946	$ 0.75	5,597,494	$ 0.75
Granted	3,674,156	0.75	1,850,000	0.75
Vested	(3,674,156)	–	(2,375,000)	0.75
Non vested, end of year	-	$ 0.75	–	$ 0.75

The fair value of common stock options granted is estimated at the date of grant using the Black-Scholes option pricing model by using the historical volatility of a comparable public company. The calculation also takes into account the common stock fair market value at the grant date, the exercise price, the expected life of the common stock option, the dividend yield and the risk-free interest rate. In addition, the Company estimates a forfeiture rate at the inception of the option grant based on historical data and adjusts this prospectively as new information regarding forfeitures becomes available. Following are the average assumptions used during the years ended December 31, 2008 and 2007:

	Twelve Months Ended December 31, 2008	2007
Risk free rate	2.46%-3.41%	4.23%-4.92%
Expected life	5-10 years	5-10 years
Volatility	45%	38%
Dividend yield	0%	0%

Note 6 – Asset Sale

In July 2008, the Company sold three non strategic wellbores from its Delhi Field to Denbury Offshore for $1,025,000. These well bores, wells 182-1, 182-2 and 196-2 went into the Holt Bryant shale which the Company has no strategic interest in as its primary play is the Mengel Sand. The Company recorded a $594,337 gain on the sales of these assets.

On December 1, 2008, the Company sold its 24% working interest in the Stephens Field located in Columbia County Arkansas and 75% working interest in the Jones Well located in Lafayette County Arkansas to its working partners for $346,251.

In the fourth quarter of 2008, the Company sold 50% Working Interest in three wellbores in the Belton Field and recorded a gain on asset of $8,541.

On May 1, 2007, the Company sold all of its interest in the Holt Bryant Sand formation of the Delhi property for $2,500,000, of which $250,000 was held in escrow for an environmental assessment. Because the sale occurred shortly after and was contemplated in the original acquisition, SFAS 141 requires the proceeds received be recorded as an adjustment to the cost of the property and no gain or loss was recorded.

Note 7 – Intangible Assets

As of December 31, 2008, the Company determined that due to the worsened financial markets and oil and gas industry, full impairment of its patented lateral drilling technology was necessary. While there are prospects for possible capital funding (either debt or equity), much is left to the market and outside instability. As such, at this time, management cannot anticipate with a comfortable degree of certainty if the appropriate amount of funding will be achieved and any funding will be diverted fully to its E&P activities. This will further postpone the Company's ability to dedicate financial as well as human resources to its technology division in the short term future. As such, the Company has eliminated the division entirely. The Company had performed an impairment analysis of its patented lateral drilling technology in the third quarter ending September 30, 2008, and determined $2,041,894 impairment was required. The Company's basis for such an impairment stemmed from the then recent and unprecedented financial environment affecting the world and the Company and the ever increasing restrictions on credit, equity and funding opportunities in general.

Note 8 – Federal Income Tax

No provision for federal income taxes has been recognized for the twelve months ended December 31, 2008 and 2007 as the Company has a net operating loss carry forward for income tax purposes available in each period. Additionally, it is uncertain if the Company will have taxable income in the future so a valuation allowance has been established for the full value of net tax assets. The primary deferred tax assets include a net operating loss carryforward and stock based compensation. The primary deferred tax liability is the basis difference in oil and gas property and property and equipment.

At December 31, 2008, the Company has net operating loss carryforwards of approximately $71 million for federal income tax purposes. These net operating loss carryforwards may be carried forward in varying amounts until 2024 and may be limited in their use due to significant changes in the Company's ownership.

A reconciliation of the income tax provision computed at statutory tax rates to the income tax provision for the twelve months ended December 31 is as follows:

	Twelve Months Ended December 31,	
	2008	2007
Federal income tax expense (benefit) at statutory rate	34%	-34%
Change in valuation allowance	-34%	34%
Total income tax provision	0%	0%

Note 9 – Commitments and Contingencies

Litigation

The Company is subject to litigation and claims that have arisen in the ordinary course of business, the majority of which have resulted from its thorough restructuring efforts. Many of these claims have been resolved. Management believes individually such litigation and claims will not have a material adverse impact on our financial position or our results of operations but these matters are subject to inherent uncertainties and management's view may change in the future. If an unfavorable final outcome were to occur, there exists the possibility of a material impact on our financial position and the results of operations for the period in which the effect becomes reasonably estimable.

The following describes legal action being pursued against the Company outside the ordinary course of business.

- In the suit, Raymond Thomas, et al. vs. Ashley Investment Company, et al., in the 5th Judicial District Court for Richmond Parish, Louisiana, numerous present and former owners of property are seeking damages in an unspecified amount for alleged soil, groundwater and other contamination, allegedly resulting from oil and gas operations of multiple companies in the Delhi Field in Richmond Parish, Louisiana over a time period exceeding fifty years. Originally consisting of 14,000 acres upon discovery of the field in 1952, the Company acquired an interest in leases covering 1,400 acres in 2006. Although the suit was filed in 2005, and was pending when the Company acquired its interest in 2006, as part of the acquisition terms, the Company agreed to indemnify predecessors in title, including its grantor, against ultimate damages related to the prior operations, with the exception of Sun Oil which is now Anadarko. As part of the Company's purchase terms, a Site Specific Trust Account was established with the State of Louisiana Department of Natural Resources intended to provide funds for remediation of the lands involved in its acquired interest. Principal defendants in the suit, in addition to the Company, include the Company's indemnities including McGowan Working Partners, MWP North La, LLC., Murphy Exploration & Production Company, Ashley Investment Company, Eland Energy, Inc. and Delhi Package I, Ltd. The Company believes that it has meritorious defenses with regard to the plaintiffs' claims and, thus, with regard to the extent of its monetary exposure under its indemnity obligation. The Company has and continues to defend the suit vigorously. Conquest has paid over $500,000 to pay legal fees and remediation costs. The central issue is contamination of the groundwater at the Delhi Field. Plaintiffs are landowners that claim the groundwater is polluted and needs to be extracted from the ground through a pumping process and disposed of remotely. Plaintiff has made a settlement offers to the company of $6 million, which was rejected. The plaintiffs made a second settlement offer of $3 million. The company counter offered to pay for the remediation but no cash in addition to the remediation costs under 29-B standards. No settlement has been reached. A trial date has been set for July 1, 2009. The company, with the legal fees and remediation already done and in process, believes its future exposure will be only legal bills and minor remediation. The company granted McGowan Working Partners a first mortgage position on the field as they have been representing the company in the litigation and overseeing the remediation and they are a party the company agreed to indemnify when it purchased the field from them. The company believes its total exposure is based upon the information currently available is $750,000 which is current year accrual.

- In the Suit with Vanguard Energy Services for $340,000 for use of their drilling rigs in the 2006 and 2007. This $340,000 is an Accounts Payable and the Company is in the process of negotiating in conjunction with a suit filed against a sister company, Recompletion Financial Corporation.
- Recompletion Financial Corporation – This is a sister company of Vanguard with the same legal representation. Recompletion was hired as a marketing and financial company to raise funds and the company paid over a million dollars in 2005 with no work done. In addition, there is a breach of contract as they used and employed our proprietary technology barring them from certain geographical locations including China. They have been sued for breach of contract and misappropriating the company's property for $2,000,000.
- In the suit LFU Fort Pierce, Inc d/b/a Labor Finders, our subsidiary Tiger Bend Drilling was sued for $284,988. This has been expensed in 2007 and is reflected in our accounts payables in 2008 and 2007.
- In the suit with Anthony Austin, Mr. Austin was let go in January 2008 after working 3 months and has filed a claim for $1,000,000. Mr. Austin's attorney has since withdrawn from the case and on April 14, 2009 the court granted a motion for directed verdict in Maxim's favor.
- In the suit with Don Shein, Mr. Shein is claiming back salary, severance expenses and commissions that do not coincide with our accounting and his employment contract. He also lent the company $100,000. We have come to an agreement whereby Mr. Shein will extend his $100,000 loan and the company will facilitate the issuance of 375,000 shares of the company's common stock by a third part shareholder. The company has accrued a liability and corresponding expense for $281,250 in addition to his $100,000 note.
- The former CEO, Marvin Watson is claiming expenses, past salary and severance in regards to his employment. The company sees no merit in his claim and will defend itself vigorously.
- The law firm Maloney Martin & Mitchell is seeking payment for services rendered with regards to the GEF/ South Belridge settlement. At this point the amount and probability of payment is not determinable.

Contingencies

During September 2007, the Company executed an agreement with a consulting services firm to provide investor relations services for a period of up to 24 months upon the Company going public on a publicly traded exchange. As consideration for their services, 4,599,692 shares of common stock are to be issued contingent on the Company becoming traded on a public listed exchange. The company has since been approved to trade on the Over The Counter Bulletin Board in February of 2009 but has not begun actual trading of the shares.

Note 10 – Reporting by Business Segments

The Company has three operating segments: oil and natural gas exploration and production, drilling services and lateral drilling services. These segments are managed separately because of their distinctly different products, operating environments and capital expenditure requirements. The oil and natural gas production unit explores for, develops, produces and markets crude oil and natural gas, with all areas of operation in the United States. The drilling services unit provides drilling services for the Company's subsidiaries and their working interest partners and to third parties. The lateral drilling services unit provides lateral drilling services for third parties, sub-licenses the Company's LHD Technology, and sells related LHD Technology equipment. Segment performance is evaluated based on operating income (loss), which represents results of operations before considering general corporate expenses, interest and debt expenses, other income (expense) and income taxes. The drilling company sold its drilling rigs and now only leases a rig and sub-contracts a crew for short periods of time when drilling wells for its own account and will no longer provide any drilling services to third parties. As of 2009, the drilling services and lateral drilling services will not be reported as separate business segments.

	December	
	2008	2007
Total assets:		
Oil and natural gas exploration and production	$ 2,834,327	$ 9,230,185
Drilling services	0	0
Lateral drilling services	4,876,972	4,876,972
Other	2,107,892	7,591,705
Total	$ 9,819,191	$ 21,698,862
	Twelve Months Ended	
	2008	2007
Revenues:		
Oil and natural gas revenues	$ 1,822,893	$ 1,852,365
Drilling services revenue	-	329,018
License fees, royalties and related services	163,458	257,500
Total	$ 1,986,351	$ 2,438,883
Operating income (loss):		
Oil and natural gas exploration and production	(2,473,032)	(3,073,932)
Drilling services	(5,865)	(736,984)
Lateral drilling services	(29,015)	(397,235)
Total	(2,507,912)	(4,208,150)
Corporate expenses (1)	(11,315,162)	(8,444,383)
Interest expense, net	(2,222,429)	(4,254,448)
Other miscellaneous income (expense), net	(10,807,142)	13,938
Net loss	$ (26,852,645)	$ (16,893,043)
Depletion, depreciation and amortization:		
Oil and natural gas exploration and production	$ 1,932,829	$ 877,954
Drilling services	-	5,465
Lateral drilling services	60,271	634,735
Other	-	37,785
Total	$ 1,993,100	$ 1,555,939
Capital expenditures		
Oil and natural gas exploration and production	$ (1,251)	$ 5,400,089
Drilling services	-	-
Lateral drilling services	-	-
Other	1,251	17,578
Total	$ -	$ 5,417,667

(1) Includes non-cash charges for the fair value of stock options granted to employee and non-employee directors for services of $1,256,633

Note 11 – Supplementary Financial Information on Oil and Natural Gas Exploration, Development and Production Activities (Unaudited)

The following disclosures provide unaudited information required by SFAS No. 69, "Disclosures About Oil and Gas Producing Activities."

Results of operations from oil and natural gas producing activities

The Company's oil and natural gas properties are located within the United States. The Company currently has no operations in foreign jurisdictions. Results of operations from oil and natural gas producing activities are summarized below for the years ended December 31:

	2008	2007
Revenues	1,986,351	2,438,883
Production (lifting) costs:		
Production and lease operating expenses	1,295,692	1,664,279
Revenue sharing royalties	145,583	144,157
Exploration costs		458,650
Impairment of oil and natural gas properties	5,291,298	7,445,367
Accretion of asset retirement obligation	129,010	81,127
Depreciation, depletion and amortization	1,993,100	1,555,939
Total costs	8,854,683	13,788,402
Pretax income (loss) from producing activities	(6,868,332)	(8,910,636)
Income tax expense	–	–
Results of oil and natural gas producing activities (excluding overhead and interest costs)	(6,868,332)	(8,910,636)

Costs incurred

Costs incurred in oil and natural gas property acquisition, exploration and development activities are summarized below for the years ended December 31:

	2008	2007
Property acquisition costs:		
Unproved		778,312
Proved	559,024	4,726,215
Exploration costs	226,138	3,227,137
Development costs	30,258	3,704,171
Asset retirement obligations	129,010	81,127
Total costs incurred	944,430	12,516,962

Oil and natural gas reserves

Proved reserves are estimated quantities of oil and natural gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Proved developed reserves are proved reserves that can reasonably be expected to be recovered through existing wells with existing equipment and operating methods.

Proved oil and natural gas reserve quantities at December 31, 2008 and 2007, and the related discounted future net cash flows are based on estimates prepared by independent petroleum engineers. The reserves as of December 31, 2008 were derived from reserve estimates prepared by the independent reserve engineers; Mark Newendorp for the

Delhi Field and the Marion Field. The reserves as of December 31, 2007 were derived from reserve estimates prepared by the independent reserve engineers; Aluko & Associates, Inc. for the Delhi Field and the South Belridge Field, Haas Petroleum Engineering Services, Inc. for the Stephens Field, Netherland, Sewell & Associates, Inc. for the Marion Field, and Lee Keeling and Associates, Inc. for the Days Creek Field. Such estimates have been prepared in accordance with guidelines established by the Securities and Exchange Commission.

The Company's net ownership interests in estimated quantities of proved oil and natural gas reserves and changes in net proved reserves are summarized below as of December 31:

Note 11 – Supplementary Financial Information on Oil and Natural Gas Exploration, Development and Production Activities (Unaudited) (Continued)

	Barrels of Oil and Condensate 2008	2007
Oil		
Proved developed and undeveloped reserves:		
Beginning of year	2,609,815	2,464,821
Purchase of oil and natural gas property in place	-	6,048
Discoveries and extensions	-	587,337
Revisions	(1,323,492)	(20,343)
Sale of oil and natural gas properties in place	-	(389,687)
Production	11,277	(23,880)
End of year	1,297,600	2,609,815
Proved developed reserves at beginning of year	146,596	146,196
Proved developed reserves at end of year	1,297,600	146,596

Revisions in 2008 consist of a reduction of 708,464 barrels of oil in the total estimated reserves in the Delhi field, a reduction of 544,736 in the exchange of the Company's working interest in the Days Creek Field in lieu of debt owed and a reduction of 60,576 in the sale of the Company's working interest in the Stephens Field. The revision also includes and additional 8,032,101 MMCF of natural gas largely due to additional proved undeveloped reserves on the Marion field as determined by the third party engineer. Production came from all fields in 2008.

Standardized measure

The standardized measure of discounted future net cash flows relating to the Company's ownership interests in proved oil and natural gas reserves for the years ended December 31 are shown below:

	Cubic Feet of Natural Gas 2008	2007
Gas		
Proved developed and undeveloped reserves:		
Beginning of year	1,987,875	4,300,316
Pruchase of oil and natural gas property in place	-	58,180
Discoveries and extensions	-	-
Revisions	3,094,136	(2,516,359)
Sale of oil and natural gas properties in place	-	-
Production	257,989	145,738
End of year	5,340,000	1,987,875
Proved developed reserves at beginning of year	1,987,875	1,987,875
Proved developed reserves at end of year	5,340,000	1,987,875

	2008	2007
Future cash inflows	56,975,022	256,364,851
Future oil and natural gas operation expenses	(16,552,930)	(57,090,933)
Future development costs	(895,990)	(7,547,995)
Future income tax expenses	-	-

Future net cash flows	39,526,102	191,725,922
10% annual discount for estimating timing of cash flow	(16,047,672)	(86,861,662)
Standardized measure of discounted future net cash flow	23,478,430	104,864,261

Even though total proved reserves increase from 2007 to 2008, the PV10 value was reduced significantly mainly as a result of two things 1) no PUDS (proved developed not producing reserves) were included and 2) a sharp drop in prices of oil. Future cash flows are computed by applying year-end prices of oil and natural gas to year-end quantities of proved oil and natural gas reserves. Average prices used in computing year-end 2008 and 2007 future cash flows were $42.68 and $92.79 for oil, respectively, and $6.71and $6.46 for natural gas, respectively. Future operating expenses and development costs are computed primarily by the Company's petroleum engineers by estimating the expenditures to be incurred in developing and producing the Company's proved oil and natural gas reserves at the end of the year, based on year-end costs and assuming continuation of existing economic conditions.

Future income taxes are based on year-end statutory rates, adjusted for tax basis of oil and natural gas properties and availability of applicable tax assets, such as net operating losses. A discount factor of 10% was used to reflect the timing of future net cash flows.

The standardized measure of discounted future net cash flows is not intended to represent the replacement cost or fair market value of the Company's oil and natural gas properties. An estimate of fair value may also take into account, among other things, the recovery of reserves not presently classified as proved, anticipated future changes in prices and costs, and may require a discount factor more representative of the time value of money and the risks inherent in reserve estimates.

Changes in standardized measure

Included within standardized measure are reserves purchased in place. The purchase of reserves in place includes undeveloped reserves which were acquired at minimal value that have been estimated by independent reserve engineers to be recoverable through existing wells utilizing equipment and operating methods available to the Company and that are expected to be developed in the near term based on an approved plan of development contingent on available capital.

Changes in standardized measure (continued)

Changes in the standardized measure of future net cash flows relating to proved oil and natural gas reserves for the years ended December 31 is summarized below:

	2008	2007
Changes due to current-year operations:		
Sale of oil and natural gas, net of oil and natural gas operating expenses	(199,729)	(378,001)
Extensions and discoveries	-	28,994,114
Development costs incurred	-	3,704,171
Purchase of oil and gas properties	-	829,006
Changes due to revisions in standardized variables:	-	-
Prices and operating expenses	(3,695,044)	34,207,795
Income taxes	-	0
Estimated future development costs	(13,345,990)	(5,967,100)
Revision of quantities	(68,580,699)	(11,025,755)
Sales of reserves in place	-	(5,549,976)
Accretion of discount	10,553,014	6,116,675
Production rates, timing and other	(6,117,382)	(7,233,419)
Net of change	(81,385,830)	43,697,510
Beginning of year	104,864,261	61,166,751

End of year	23,478,431	104,864,261

Note 12 – Subsequent Events

In January of 2009, the CEO loaned the company $25,000 with an 8% interest rate which is payable upon demand.

In January of 2009, 5 employees were granted a sum total of 150,000 shares of common stock options to purchase the Company's common stock at an exercise price of $0.75 per share.

In January of 2009, a consultant was granted 150,000 shares of common stock 100,000 stock options to purchase the Company's common stock at an exercise price of $0.75 per share.

In February of 2009, the CEO was granted 2,000,000 shares of common stock and gave back 2,000,000 previously issued stock options to purchase the Company's common stock at an exercise price of $0.75 per share.

The Company extended its amended agreement with BlueRock Energy Capital Ltd. by an additional 6 months.

The Company entered into a two year lease with a $2,837 monthly payment.
The Company has recorded expenses attributed to settlement with a former employee of and accrual for future losses of $607,932, $548,264 settlement with a former director and warrants issued for debt extensions and a loss on conversion of debt of $543,722. This was offset by $602,879 from the gain on the sale of wellbores in the Delhi and Belton Field.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

Dismissal of Certifying Accountant

As of November 19, 2008, the Registrant dismissed Pannell Kerr Forster of Texas, P.C. ("PKF") as its independent registered public accounting firm as approved by the Audit Committee of the Board of Directors.

PKF had been our principal independent accountants and had reported on the financial statements for the fiscal years ended December 31, 2007 and 2006 and the interim periods through September 30, 2008. The audit report of PKF on the consolidated financial statements of Conquest Petroleum Incorporated as of and for the fiscal years ended December 31, 2007 and 2006 did not contain an adverse opinion or a disclaimer of opinion, and was not qualified or modified as to audit scope or accounting principles.

In connection with the audits of the Company's consolidated financial statements for the fiscal years ended December 31, 2007 and 2006 and through the date of this dismissal, there were: (1) no disagreements between Conquest and PKF on any matters of accounting principles or practices, financial statement disclosure, or auditing scope or procedures, which disagreements, if not resolved to the satisfaction of PKF, would have caused PKF to make reference to the subject matter of the disagreement in their report on Conquest's consolidated financial statements for such year, and (2) no reportable events within the meaning set forth in Item 304 of Regulation S-K.

Retention of New Certifying Accountant

As of December 3, 2008, the Company entered into a formal engagement agreement with M&K CPAS, PLLC of Houston, Texas ("M&K") to assume the role of its new principal independent accountants. The decision to engage M&K was approved by the Audit Committee of the Board of Directors on December 2, 2008.

During the periods ended December 31, 2006 through 2007 and the subsequent interim period ended September 30, 2008, and through the date of the firm's engagement the Registrant did not consult with M&K with regard to:

(1) The application of accounting principles to a specified transaction, either completed or proposed; or the type of audit opinion that might be rendered on Registrant's financial statements; or
(2) Any matter that was the subject of a disagreement or a reportable event (as described in Item 304(a) (1) (iv) of Regulation S-B.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures, as defined in Rule 13a-1 5(e) promulgated under the Securities Exchange Act of 1934 (the "Exchange Act"), that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2008. Based on the evaluation of these disclosure controls and procedures, and in light of the material weaknesses found in our internal controls over financial reporting, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining effective internal control over financial reporting. Under the supervision of our Chief Executive Officer and Chief Financial Officer, the Company conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2008 using the criteria established in Internal Control—Inte grated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

During our review of controls for the audited period ended December 31, 2008, and in the process of preparing our Annual Report, our management discovered that there are material weaknesses in our internal controls over financial reporting. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. The material weaknesses identified during the preparation of the Annual Report were (i) insufficient evidence of a robust corporate governance function; (ii) lack of sufficient resources with SEC, generally accepted accounting principles (GAAP); (iii) inadequate security over information technology and (iv) lack of evidence to document compliance with the operation of internal accounting controls in accordance with our policies and procedures. These control deficiencies could result in a material misstatement of significant accounts or disclosures that would result in a material misstatement to our interim or annual financial statements that would not be prevented or detected. Accordingly, management has determined that these control deficiencies constitute material weaknesses.

Management’s Report on Internal Control over Financial Reporting.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act, as amended. Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2008. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) in Internal Control-Integrated Framework. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. We have identified the following material weaknesses:

1. As of December 31, 2008, we did not maintain effective controls over the control environment. Specifically we have not developed and effectively communicated to our employees its accounting policies and procedures. This has resulted in inconsistent practices. Further, the Board of Directors does not currently have any independent members and no director qualifies as an audit committee financial expert as defined in Item 407(d)(5)(ii) of Regulation S-B. Since these entity level programs have a pervasive effect across the organization, management has determined that these circumstances constitute a material weakness.

2. As of December 31, 2008, we did not maintain effective controls over financial statement disclosure. Specifically, controls were not designed and in place to ensure that all disclosures required were originally addressed in our financial statements. Accordingly, management has determined that this control deficiency constitutes a material weakness.

3. This lack of internal controls over financial reporting resulted in numerous adjusting journal entries proposed by our independent auditor during their audit of the year ended December 31, 2008.

Because of these material weaknesses, management has concluded that the Company did not maintain effective internal control over financial reporting as of December 31, 2008, based on the criteria established in "Internal Control-Integrated Framework" issued by the COSO.

Changes in Internal Control Over Financial Reporting

There were no changes in internal controls over financial reporting that occurred during the year ended December 31, 2008, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management is currently evaluating remediation plans for the above control deficiencies. In our evaluation, Management analyzed the costs and benefits of several different options to improve our internal controls over financial reporting. The following options for improving the controls were analyzed as the proposed remediation plan (i) hiring a qualified CFO with both GAAP and SEC reporting experience, (ii) forming an internal audit department, (iii) subscribing to GAAP and SEC reporting databases, (iv) additional staffing to provide segregation of duties and a review infrastructure for financial reporting, and (v) developing an information technology department to provide security over our information and to help facilitate electronic filing. In the evaluation, Management estimated implementation of the proposed remediation plan within 1 to 2 years. It was concluded from our evaluation that the costs to implement the plan were greater than the benefits to be received, and Management therefore passed on implementation until operations of the Company have improved. Due to the current operating condition of the company, and the current and future outlook of the economic climate, we do not foresee the ability to adequately implement the remediation plan within the foreseeable future.

In light of the existence of these control deficiencies, the Company concluded that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis by the company's internal controls.

As a result, management has concluded that the Company did not maintain effective internal control over financial reporting as of December 31, 2008 based on criteria established in Internal Control—Integrated Framework issued by COSO.

M&K CPAS, PLLC, an independent registered public accounting firm, was not required to and has not issued an attestation report concerning the effectiveness of our internal control over financial reporting as of December 31, 2008 pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

ITEM 9B. OTHER INFORMATION

None

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS

The following is a list of the directors and executive officers of the Company on December 31, 2008.

Name	Age	Position	Year First Elected or Appointed
Robert D. Johnson	62	Chairman of the Board, President and CEO	Became President May 1, 200 and Chairman and CEO on July 28, 2008
Robert C. Johnson	64	Director	Became Director November 1, 2008
Harvey Pensack	85	Director	Became Director June 12, 2004
Arturo Henriquez	38	CFO	Became CFO August 1, 2008

Business Experience and Background of Directors and Executive Officers

Robert D. Johnson
Mr. Johnson joined the Company on May 1, 2008 and is a member of the Executive Committee of the Board of Directors. He has over 40 years of experience in the oil and gas sector. Mr. Johnson graduated with a BS in Petroleum Engineering from Louisiana State University in 1969, and upon graduation, he joined Amoco Production Company. In 1970, he entered the United States Army and served for nearly two years. He rejoined Amoco in 1971 and rose rapidly through the ranks. His final position was Regional Engineering Manager, managing over 250 engineers. He left Amoco in 1980 and joined Superior Oil Company as Division Drilling Engineering Manager for the western half of the United States. In 1981, he left Superior and formed Conquest Petroleum Incorporated as the Founder and Chief Executive Officer. Conquest secured funding to acquire 68,000 acres of leases in the state waters of Texas, promoted the acreage on 27 prospects to outside third parties, and had five discoveries. Later, Mr. Johnson divested the assets and dissolved the company in 1985 due to insufficient commodity prices. He formed Bannon Energy Incorporated in 1986 with an initial capitalization of $1,000. During the next ten years, Bannon acquired 12 sets of producing properties and drilled over 284 development wells. Mr. Johnson sold the assets of Bannon in 1996 for $38 million and other considerations. Mr. Johnson dissolved Bannon in February of 2001. From February of 2001 until May of 2008, when he joined Maxim, Mr. Johnson was officially in full retirement.

Arturo F. Henriquez
Prior to joining Maxim, Mr. Henriquez was the CEO of Mexico for Helm Bank of Florida. In 2002, Mr. Henriquez assumed the title of Managing Director of Investment Banking Division of KPMG Financial Advisory Services in Mexico City where he was in charge of the M&A, Financing and Financial Advisory Department for Mexico. In 1999, Mr. Henriquez was the co-founder and CFO of Netenvios.com, Inc., the first Latin American logistics aggregator with physical operations in Argentina, Mexico, Brazil, Chile, Colombia and the United States (Miami). Mr. Henriquez was responsible for negotiating, structuring, and successfully raising millions of dollars in venture capital from Citibank (CVC), Merrill Lynch, and Explorador Fund. Previous to this he worked in the equity divisions of Goldman Sachs and Lehman Brothers. In 1995, Mr. Henriquez started with Bank of America as a Vice President. He devised, marketed, and structured lease and asset-based financings in dual currencies to the top 50 corporate and governmental firms in Mexico, such as Pemex, Cemex, Telmex Grupo Alfa, Ahmsa, Kimberly Clark, and Volvo Mexico. Mr. Henriquez earned an MBA degree from the Kellogg Graduate School of Management at Northwestern and two Masters Degrees from Boston University in International Relations and Communications.

Harvey M. Pensack
After graduating Cum Laude from Clarkson University in 1944 with a BS in Mechanical Engineering, Mr. Pensack served in the military, finishing as a First Lieutenant in 1946. He spent seven years in the insurance industry, earning promotions and supervisory positions. However, he saw the potential in the young computer industry. In 1953, using his engineering training and entrepreneurial spirit, he founded Mitronics Inc., an innovative firm and manufacturer of

hermetic ceramic to metal seals for the then-fledgling semiconductor industry. Mr. Pensack served as Chairman and CEO of Mitronics, which prospered. In 1970, Mitronics was merged into a public corporation to become Varadyne, Inc. Throughout the 1970s, 1980s, and 1990s, Mr. Pensack had an active career as a financial consultant specializing in insurance, business succession planning, and estate management. Throughout his career, Mr. Pensack has been a private investor who specializes in researching and analyzing potential investment choices with a focus on management personnel and growth opportunities.

Robert C. Johnson

Mr. Johnson graduated with a Professional Degree in Petroleum Engineering from the Colorado School of Mines in 1966. He joined Amoco Production Company after graduation and advanced through numerous engineering and management positions during his 19 plus year tenure. His final position was as Regional Production Manager in Houston, where he was responsible for the production operations in eight states and the management of 2,800 professionals. He left Amoco in 1985 and joined Held By Production, Inc (HBP), where as President and COO, he was responsible for managing the oil and gas assets of a private individual with holdings in Texas, Louisiana, Kansas, and Utah. He formed a $25 million development drilling program while at HBP and served as the managing general partner. In 1989, Mr. Johnson purchased an old-line manufacturing company in Denver, Colorado (Cyclo Manufacturing Company) and merged a large portion of it into a publicly traded company in 2001. Mr. Johnson started a mattress manufacturing company in 1999, serving as Chairman and CEO, and sold his controlling interest in 2003. Mr. Johnson is currently retired from active company management but continues to stay involved in the oil and gas industry as well as his other personal investments.

Involvement in Certain Legal Proceedings

The foregoing directors or executive officers have not been involved during the last five years in any of the following events:

- Bankruptcy petitions filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;

- Conviction in a criminal proceeding or being subject to a pending criminal proceeding (excluding traffic violations and other minor offenses);

- Being subject to any order, judgment or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, permanently or temporarily enjoining, barring or suspending or otherwise limiting his involvement in any type of business, securities or banking activities; or

- Being found by a court of competition jurisdiction (in a civil action), the Securities and Exchange Commission or the Commodities Futures Trading Commission to have violated a federal or state securities or commodities law, and the judgment has not been reversed, suspended or vacated.

Board Composition and Committees

Our business and affairs are organized under the direction of our board of directors, which currently consists of three members. The primary responsibilities of our board of directors are to provide oversight, strategic guidance, counseling and direction to our management. Our board of directors meets on a regular basis and additionally as required. Written board materials are distributed in advance as a general rule, and our board of directors schedules meetings with and presentations from members of our senior management on a regular basis and as required.

Our board of directors has established an audit committee, a compensation committee and a nominating/corporate governance committee. Our board of directors and its committees set schedules to meet throughout the year and also can hold special meetings and act by written consent under certain circumstances. Our board of directors has delegated various responsibilities and authority to its committees as generally described below. The committees will regularly report on their activities and actions to the full board of directors.

Audit Committee

The current members of our audit committee are Mr. Robert C. Johnson and Mr. Harvey Pensack. Mr. Robert C. Johnson is the chairman of the audit committee.

The audit committee of our board of directors oversees our accounting practices, system of internal controls, audit processes and financial reporting processes. Among other things, our audit committee is responsible for reviewing our disclosure controls and processes and the adequacy and effectiveness of our internal controls. It also discusses the scope and results of the audit with our independent auditors, reviews with our management and our independent auditors our interim and year-end operating results and, as appropriate, initiates inquiries into aspects of our financial affairs. Our audit committee has oversight for our code of business conduct and is responsible for establishing procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters, or matters related to our code of business conduct, and for the confidential, anonymous submission by our employees of concerns regarding such matters. In addition, our audit committee has sole and direct responsibility for the appointment, retention, compensation and oversight of the work of our independent auditors, including approving services and fee arrangements. Our audit committee also is responsible for reviewing and approving all related party transactions in accordance with our policies and procedures with respect to related person transactions.

Compensation Committee

The current members of our compensation committee are Mr. Steve Warner and Mr. Harvey Pensack. Mr. Pensack is the chairman the compensation committee.

The purpose of our compensation committee is to have primary responsibility for discharging the responsibilities of our board of directors relating to executive compensation policies and programs. Among other things, specific responsibilities of our compensation committee include evaluating the performance of our chief executive officer and determining our chief executive officer's compensation. In consultation with our chief executive officer, it will also determine the compensation of our other executive officers. In addition, our compensation committee will administer our equity compensation plans and has the authority to grant equity awards and approve modifications of such awards under our equity compensation plans, subject to the terms and conditions of the equity award policy adopted by our board of directors. Our compensation committee also reviews and approves various other compensation policies and matters.

Nominating/Corporate Governance Committee

The current members of our nominating/corporate governance committee are Mr. Robert D. Johnson and Mr. Steve Warner. Mr. Robert D. Johnson is the chairman of the nominating/corporate governance committee.

The nominating/corporate governance committee of our board of directors oversees the nomination of directors, including, among other things, identifying, evaluating and making recommendations of nominees to our board of directors and evaluates the performance of our board of directors and individual directors. Our nominating/corporate governance committee is also responsible for reviewing developments in corporate governance practices, evaluating the adequacy of our corporate governance practices and making recommendations to our board of directors concerning corporate governance matters.

Limitation of Liability and Indemnification

We intend to enter into indemnification agreements with each of our directors and executive officers and certain other key employees. The form of agreement provides that we will indemnify each of our directors, executive officers and such other key employees against any and all expenses incurred by that director, executive officer or key employee because of his or her status as one of our directors, executive officers or key employees, to the fullest extent permitted by Texas law, our articles of incorporation and our bylaws (except in a proceeding initiated by such person without board approval). In addition, the form agreement provides that, to the fullest extent permitted by Texas law, we will advance all expenses incurred by our directors, executive officers and such key employees in connection with a legal proceeding.

Our articles of incorporation and bylaws contain provisions relating to the limitation of liability and indemnification of directors and officers. The articles of incorporation provide that our directors will not be personally liable to us or our stockholders for monetary damages for any breach of fiduciary duty as a director.

Our bylaws provide that we will indemnify our directors and officers to the fullest extent permitted by Texas law, as it now exists or may in the future be amended, against all expenses and liabilities reasonably incurred in connection with their service for or on our behalf. Our bylaws provide that we shall advance the expenses incurred by a director or officer in advance of the final disposition of an action or proceeding. Our bylaws also authorize us to indemnify any of our employees or agents and permit us to secure insurance on behalf of any officer, director, employee or agent for any liability arising out of their action in that capacity, whether or not Texas law would otherwise permit indemnification.

Shareholder Communications

Any shareholder of the Company wishing to communicate to the Board of Directors may do so by sending written communication to the board of directors to the attention of Mr. Robert D. Johnson, Chief Executive Officer, at the principal executive offices of the Company. The Board of Directors will consider any such written communication at its next regularly scheduled meeting.

Compliance with Section 16(a) of the Exchange Act:

Under the securities laws of the United States, the Company's directors, its executive officers and any persons holding more than 10% of the Company's common stock are required to report their ownership of the Company's common stock and any changes in that ownership to the Securities and Exchange Commission. Specific due dates for these reports have been established by rules adopted by the SEC and the Company is required to report in this Annual Statement any failure to file by those deadlines.

Based solely upon public reports of ownership filed by such persons and the written representations received by the Company from those persons, all of our officers, directors and 10% owners have satisfied these requirements during its most recent fiscal year.

Code of Ethics

We have not adopted a code of ethics to apply to our principal executive officer, principal financial officer, principal accounting officer and controller, or persons performing similar functions. We expect to prepare a Code of Ethics in the near future.

ITEM 11.EXECUTIVE COMPENSATION

The following table sets forth the total compensation awarded to, earned by, or paid to our “principal executive officer,” and our other named executive officers for all services rendered in all capacities to us in 2008 and 2007 and 2006.

Name and Principal Position	Year	Contract Salary -3	Contract Bonus	Stock Awards -4	Warrant and Option Awards -5	All Other Compensation -6	Total
W. Marvin Watson	2006	$240,000	$–	$813,500	$70,800	$ 11,679	$1,135,979
Chairman/President							
Director of Development & Corporate Structure	2007	$385,000	$–	$–	$44,469	$ 11,980	$441,449
(7)(8)	2008	$385,000	$–	$2,475,000	$61,242	$ 5,838	$2,927,080
Robert D. Johnson							
Chief Executive Officer (1)(9)	2008	$300,000	$–	$861,234	$942,641	$ –	$2,103,875
Robert Sepos	2006	$300,000	$200,000	$–	$–	$ 14,921	$514,921
VP/Chief Operating Officer	2007	$300,000	$–	$–	$–	$ 19,677	$319,677
(10)(11)(12)	2008	$300,000	$–	$–	$–	$	$300,000
Dominick F. Maggio	2006	$300,000	$200,000	$–	$–	$ 17,176	$517,176
VP/Chief Information Officer	2007	$300,000	$–	$–	$–	$ 23,584	$323,584
(10)(11)(12)	2008	$300,000	$–	$–	$–	$ –	$300,000
Arturo Henriquez							
Chief Financial Officer (2)	2008	$300,000	$–	$–	$–	$ –	$300,000

-1Robert D. Johnson has deferred all compensation to assist the Company with cash flows as of May 1, 2008.

-2Arturo Henriquez has deferred all compensation to assist the Company with cash flows as of August 1, 2008.

-3Bonuses were components of Employee Agreements, the majority of which payments were deferred by all the Executives to assist the Company with cash flow requirements.

-4Amounts represent the dollars recognized for financial statement reporting purposes with respect to the fiscal yearin accordance with SFAS No. 123(R). See Note 2 of the notes to consolidated financial statementsincluded elsewhere in this Registratio

-5Amounts represent the dollars recognized for financial statement reporting purposes with respect to the fiscal yearin accordance with SFAS No. 123(R) excluding forfeiture estimates. See Note 2 of the notes to consolidated financial statementsinclude

-6This column represents Company payments towards life insurance for executive officers and auto allowances capped at $1,000 monthly.

-7W. Marvin Watson was the Director of Development & Corporate Structure from June 1, 2005 until he assumed the role of Chief Executive Officer effective October 3, 2007.

-8W. Marvin Watson resigned as Chief Executive Officer effective July 28, 2008.

-9

Robert D. Johnson was Chief Operating Officer and President from May 1, 2008 and assumed role as Chief Executive Officer effective July 28, 2008.

-10 Robert Sepos served as the Company's Chief Financial Officer until October 29, 2007 when he assumed the role of Chief Operating Officer.

-11 Officers Maggio and Sepos deferred 2/3 of their salary from November 2006 to December 2007 to assist the Company with cash flows.

-12 As a part of the Company's 2008 restructuring Messrs. Maggio and Sepos were terminated

On October 3, 2007, the Company entered into an addendum to Mr. Watson’s employment agreement, elevating his position to Chief Executive Officer from Director of development and corporate structure. The agreement increased the initial term of employment by two years to October 2, 2011, continued automobile reimbursement and raised Mr. Watson’s base salary to $385,000. The base salary would increase to $435,000 after the first anniversary of the effective date of October 3, 2007 and to $485,000 after the second anniversary of the effective date. Mr. Watson was granted 3,300,000 shares of the Company’s common stock in 2008. Mr. Watson will be entitled to receive bonuses based on annual performance of the Company and at the discretion of the Board. On July 28, 2008, Mr. Watson was removed as Chairman and Chief Executive officer at an extraordinary meeting of the Shareholders. Mr. Watson had tendered his resignation the day before.

On May 1, 2008, the Company entered into an employment agreement with Robert D. Johnson to become President and Chief Financial Officer. On August 3, 2008, Mr. Johnson became the Chairman of the Board, President and Chief Executive Officer. Also on August 3, 2008, Mr. Arturo Henriquez entered into an employment agreement to become Chief Financial Officer.

Messrs. Maggio and Sepos were terminated as part of a reorganization and restructuring of the Company. The Company has reached a settlement agreement with both Messrs Maggio and Sepos whereas Mr. Maggio signed a note to pay back the Company $300,000 with an 8% interest rate collateralized by stock in the Company and Mr. Sepos signed a note to pay back the Company $6,000 with an 8% interest rate collateralized by his stock in the Company. On December 2, 2008, the company received stock from Mr. Sepos in full payment of the principal and interest outstanding for both aforementioned notes.

Outstanding Equity Awards at Fiscal Year End

The following table sets forth information regarding each unexercised option held by each of our fiscal year 2007 named executive officers as of December 31, 2008.

Name	No. of Securities Underlying Unexercised Options Exercisable(1)	No. of Securities Underlying Unexercised Options Unexercisable	Option Exercise Price	Option Expiration Date
Robert D. Johnson	2,574,156	–	$ 0.75	05/01/2018

(1) These options were fully vested on the date of grant.

Director Compensation

The following table sets forth the total compensation awarded to, earned by, or paid to each person who served as a director during fiscal year 2008, other than a director who also served as a named executive officer. Our directors who are not executive officers did not receive any cash compensation during 2008 for serving on our board of directors. We have a policy of reimbursing our directors for their reasonable out-of-pocket expenses incurred in attending Board and committee meetings. Pursuant to the terms of our 2005 Incentive Compensation Plan, each director upon appointment or election to the board is entitled to receive an option to acquire 150,000 shares of Common Stock on the date elected with an exercise price of $0.75 per share. In addition, for as long as the 2005 Incentive Compensation Plan remains in effect and shares of Common Stock remain available for issuance there under, each director serving on the Board shall automatically be granted an option to acquire 150,000 shares of Common Stock, with an exercise price of $0.75 per share, each year. This plan was subsequently changed to 50,000 warrants cumulative per year on November 19, 2008.

Name	Stock Option Awards(1)	Stock Warrant Awards	Total	
Carl Landers	$ 61,242	$ -	$61,242	
Harvey Pensack	$ 61,242	$ 16,407	$77,649	(2)(3)(4)
John P. Ritota	$ 61,242	$ -	$61,242	
Robert C. Johnson	$ -	$ 94,818	$94,818	(5)(6)
John J. Dorgan	$ 61,242	$ 5,259	$66,501	
Glenn Biggs	$ 61,242	$ 5,259	$66,501	(8)
Steve Warner	$ -	$ -	$-	
Marvin Watson	$ 61,242	$	$61,242	
Robert D. Johnson	$ 942,641	$	$942,641	

1) Amounts represent the dollar amount recognized for financial statement reporting purposes with respect to the fiscal year in accordance with SFAS No. 123(R) excluding forfeiture estimates. See Note 2 of the notes to consolidated financial statements included else where in this Annual Report for a discussion of our assumptions in determining the SFAS No.123(R) fair values of our option awards.
2) Mr. Pensack received 25,000 warrants with an exercise price of $0.75 per share for a note payable.

3) Mr. Pensack received 15,000 warrants with an exercise price of $0.75 per share for the extension of a note payable
4) Mr. Pensack received 28,125 warrants with an exercise price of $0.75 per share with a stock purchase.
5) Mr.Robert C. Johnson received 100,000 warrants with an exercise price of $0.75 per share for fund raising services.
6) Mr. Robert C.Johnson received 100,000 warrants with an exercise price of $0.75 per share for a note payable.
7) Mr. Jack Dorgan received 25,000 warrants with an exercise price of $0.75 per share for a note payable.
8) Mr. Glenn Biggs received 25,000 warrants with an exercise price of $0.75 per share for a note payable.

Equity Benefit Plans

2005 Incentive Compensation Plan

The Company adopted the 2005 Incentive Compensation Plan on May 13, 2005.

Share Reserve . We reserved 5,000,000 shares of our common stock for issuance under the 2005 Incentive Compensation Plan on May 13, 2005. On March 21, 2007, the Board of Directors amended the Plan to increase the number of shares reserved for issuance thereunder to 15,000,000 shares. On December 5, 2007, the Board of Directors amended the Plan to increase the number of shares reserved for issuance there under to 30,000,000 shares. In general, to the extent that awards under the 2005 Incentive Compensation Plan are forfeited or lapse without the issuance of shares, those shares will again become available for awards. All share numbers described in this summary of the 2005 Incentive Compensation Plan (including exercise prices for options) are automatically adjusted in the event of a stock split, a stock dividend, or a reverse stock split.

Administration . The board of directors administers the 2005 Incentive Compensation Plan. The board of directors may delegate its authority to administer the 2005 Incentive Compensation Plan to a committee of the Board. The administrator of the 2005 Incentive Compensation Plan has the complete discretion to make all decisions relating to the plan and outstanding awards.

Eligibility. Employees, members of our board of directors and consultants are eligible to participate in our 2005 Incentive Compensation Plan.

Types of Award . Our 2005 Incentive Compensation Plan provides for the following types of awards:

- incentive and non-qualified stock options to purchase shares of our common stock; and
- restricted shares of our common stock.

Options. The exercise price for options granted under the 2005 Incentive Compensation Plan may not be less than 100% of the fair market value of our common stock on the option grant date. Optionee may pay the exercise price by using:

- cash;
- shares of our common stock that the Optionee already owns;
- an immediate sale of the option shares through a broker approved by us; or
- any other form of payment as the compensation committee determines.

Restricted Shares. In general, these awards will be subject to vesting. Vesting may be based on length of service, the attainment of performance-based milestones, or a combination of both, as determined by the plan administrator.

Amendments or Termination. Our board of directors may amend or terminate the 2005 Incentive Compensation Plan at any time. If our board of directors amends the plan, it does not need to ask for stockholder approval of the amendment unless required by applicable law.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Beneficial ownership is determined in accordance with the rules of the SEC, and generally includes voting power and/or investment power with respect to the securities held. Shares of common stock subject to options currently exercisable or exercisable within 60 days of December 31, 2008 are deemed outstanding and beneficially owned by the person holding such options for purposes of computing the number of shares and percentage beneficially owned by such person, but are not deemed outstanding for purposes of computing the percentage beneficially owned by any other person. Except as indicated in the footnotes to these tables, and subject to applicable community property laws, the persons or entities named have sole voting and investment power with respect to all shares of our common stock shown as beneficially owned by them.

The following table sets forth certain information known to us as of December 31, 2008 with respect to each beneficial owner of more than five percent of the Company's common stock. The percentage ownership is based on 127,859,869 shares of common stock outstanding as of December 31, 2008.

Five Percent or More

Name and Position	Business Address	Total	Percent of Class
Maxim TEP, Limited	1 London Wall	21,700,000	16.97%
	London, EC 2Y 5AB		
Harvey Pensack	7309 Barclay Court	12,845,546	9.79%
Director	University Park, FL 34201 Individually Owned		
	Harvey Pensack Revocable Living Trust		
	Joan Pensack		
Carl Landers	141 S. Union Street	7,122,500	5.54
Director	Madisonville, KY 42431 Individually Owned		
Robert McCann	160 Yacht Club Way	6,618,334	5.17%
	Hypoluxo, FL 33462		

The following table sets forth beneficial ownership of the Company's common stock as of December 31, 2008 for each of the named executive officers and directors individually and as a group. The percentage ownership is based on 127,859,869 shares of common stock outstanding as of December 31, 2008.

Name and Position	Business Address	Total	Percent of Class
Harvey Pensack (1)	7309 Barclay Court		
Director	University Park, FL 34201	12,845,546	9.79%
	Individually Owned		
	Harvey Pensack Revocable Living Trust		
	Joan Pensack		
Carl Landers (2)	141 S. Union Street		
Director	Madisonville, KY 42431	7,122,500	5.54%
01/01 -07/28/08			
W. Marvin Watson (3)	Individually Owned		
Chairman of the Board	11 Steepbank Drive		
Chief Executive Officer	The Woodlands, TX 77381	5,566,549	4.33%
01/01 -07/28/08			
	Individually Owned		
Dr. John P. Ritota, Jr.(4)	Individually Owned		
01/01 -07/28/08	919 Seagate Drive	4,141,667	3.18%
	Delray Beach, FL 33483		
Robert Sepos	Individually Owned		
Vice President &	87 Robindale Circle		
Chief Operating Officer	The Woodlands, TX 77382	2,213,135	1.73%
01/01 - 01/25/08			
Dominick F. Maggio	110 Bethany Bend Circle		
Vice President	The Woodlands, TX 77382		
Chief Information Officer	Individually Controlled &		
and Corporate Secretary	Owned by AMDG Incorporated	1,390,922	1.09%
John J. Dorgan (5)	555 Byron Street		
Director	Palo Alto, CA 94301	1,965,675	1.52%
01/01 -07/28/08	Individually Owned		
Robert D. Johnson (6)	13606 Bermuda Dunes Court		
CEO	Houston, TX 77069		

	Individually Owned	3,722,468	2.85%
Steve Warner (7)	400 N Flagler Drive, #1601		
Director	West Palm Beach, FL 33401		
	Individually Owned	1,025,000	0.80%
Glenn Biggs (8)	1208 South Main Street		
Director	Boerne, TX 78006		
01/01 - 01/25/08	Individually Owned	550,397	0.43
Arturo F. Henriquez			
	2 Wenoah Place		
CFO	The Woodlands, TX 77389		
	Individually Owned	502,347	0.39%
Robert C. Johnson (9)			
Director	7085 W. Belmont		
	Littleton, CO 80123		
	Individually Owned	200,000	0.16%
All current directors and executive officers as a group (12) persons		41,246,206	29.58%

(1) Includes (i) 1,216,250 shares issuable pursuant to outstanding warrants, (ii) 450,000 shares issuable pursuant to options exercisable within 60 days of May 31, 2008, and (iii) 1,818,182 shares of voting preferred stock. Also includes 3,983,779 shares held by the Harvey Pensack Revocable Living Trust of which Mr. Pensack is a trustee, and 2,228,042 shares held by Joan Pensack, Mr. Pensack's wife.

(2) Includes 600,000 shares issuable pursuant to options exercisable within 60 days of May 31, 2008.

(3) Includes (i) 2,500 shares issuable upon exercise of warrants, and (ii) 600,000 shares issuable pursuant to options exercisable within 60 days of May 31, 2008.

(4) Includes (i) 1,650,000 shares issuable upon exercise of outstanding warrants, and (ii) 600,000 shares issuable pursuant to options exercisable within 60 days of May 31, 2008.

(5) (i) 600,000 shares issuable pursuant to options exercisable within 60 days of May 31, 2008.

(6) Includes 547,456 shares issuable pursuant to options exercisable within 60 days of May 31, 2008.

(7) Includes 300,000 shares issuable pursuant to options exercisable within 60 days of May 31, 2008.

(8) Includes 300,000 shares issuable pursuant to options exercisable within 60 days of May 31, 2008.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Related Party Transactions

In October 2007, the Company and the holders of the wellbore interests in the South Belridge Field (the “Holders”), entered into an agreement pursuant to which the Holders assigned their ownership interest in the wellbores back to the Company in consideration for promissory notes in the aggregate principal amount of $3,000,000 and an aggregate of 373,333 shares of the Company’s common stock. The notes bear interest at 9% per annum and mature in October 2009. In addition, the Company issued the Holders five year warrants exercisable for up to 1,000,000 shares of the Company’s common stock at a per share exercise price of $0.75. One of the Company’s directors, Mr. Pensack, and members of his immediate family participated in this transaction. Subsequent to this, during the second and third quarters of 2008, the Company issued 5,454,545 shares of series A Preferred Stock in exchange for the $3,000,000 of corporate notes payable and accrued interest. The terms of the transaction were on terms that would have been made between unaffiliated third parties.

During 2008, the Company entered into notes payable totaling $75,000 with one officer. These notes bear interest at a fixed rate of 9% and are unsecured. Upon maturity and in lieu of receipt of payment of all or a portion of the outstanding principal and interest, the note holder may convert their note, in whole or in part, into shares of the Company’s common stock determined by dividing the principal amount of the note and interest by $0.75 per share. The terms of the transaction were on terms that would have been made between unaffiliated third parties.

During 2008, the Company entered into notes payable totaling $100,000 with one Director. These notes bear interest at a fixed rate of 15% and are unsecured. Upon maturity and in lieu of receipt of payment of all or a portion of the outstanding principal and interest, the note holder may convert their note, in whole or in part, into shares of the Company’s common stock determined by dividing the principal amount of the note and interest by $0.75 per share. The terms of the transaction were on terms that would have been made between unaffiliated third parties.

During 2008, a Director was paid a $15,000 commission for raising funds and received 100,000 warrants to purchase the Company’s common stock with an exercise price of $0.75 per share in connection with the sale of the Company’s common stock whose value as assessed using the Black-Scholes model was $41,972.

In 2008, the Company granted 900,000 stock options to members of its board of directors whose value, as assessed using the Black-Scholes model, was $393,448, for their service as directors. The terms of the transaction were on terms that would have been made between unaffiliated third parties.

Director Independence

We anticipate being listed for trading on the OTC Bulletin Board. While the OTC Bulletin Board does not maintain director independence standards, the Company is taking the necessary steps to qualify as having independent directors under the guidelines of the AMEX.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

As disclosed earlier, the board of directors approved the engagement of M&K CPAS, PLLC of Houston, Texas (“M&A”) for all audit and permissible non-audit services, and dismissed Pannell Kerr Forster of Texas, P.C. (“PKF”), the Company's prior certifying accountant, in each case effective as of December 31, 2008.

The table below sets forth the aggregate fees billed for the years ended December 31, 2008 and December 31, 2007 for professional services rendered by our principal accounting firms for audit services and audit related services (as indicated) for our financial statements; and the other fees billed for the years ended December 31, 2008 and December 31, 2007 for professional services rendered by such firms related to the performance of audit services; and aggregate fees billed for such year for all other services billed by such firms.

After careful consideration, the Audit Committee of the Board of Directors has determined that payment of the audit fees is in conformance with the independent status of the Company's principal independent accountants.	M&K		PKF Texas		Total	
	2008	2007	2008	2007	2008	2007
Current Year Audit fees - audit of annual financial statements and review of financial statements included in our 10-QSB, services normally provided by the accountant in connection with statutory and regulatory filings.	$58,000	$-	$274,633	$66,783	$332,633	$66,783
Audit-related fees - related to the performance of audit or review of financial statements not reported under "audit fees" above	$-	$-	$-	$260,337	$-	$260,337
Audit Related fees related to the Form 10 Registration Statement	$-	$-	$-	$-	$-	$-
Tax fees - tax compliance, tax advice and tax planning	$-	$2,850	$-	$47,763	$-	$50,613
All other fees - services provided by our principal accountants other than those identified above	$-	$-	$143,959	$112,696	$143,959	$112,696
Less Discounts	$-	$-	$(50,650)	$(25,286)	$(50,650)	$(25,286)
Total fees paid or accrued to our principal accountants	$58,000	$2,850	$367,943	$462,293	$425,943	$465,143

The PKF bills are still in dispute nonetheless they are reflected in full in our accounts payable.

ITEM 15. EXHIBITS

Certification of CEO Pursuant to Section 302
Certification of CFO Pursuant to Section 302
Certification of CEO Pursuant to Section 906
Certification of CFO Pursuant to Section 906

Indemnification of Directors and Officers

Our Articles of Incorporation provide that we shall indemnify, to the fullest extent permitted by Texas law, any of our directors, officers, employees or agents who are made, or threatened to be made, a party to a proceeding by reason of the former or present official position of the person, which indemnity extends to any judgments, penalties, fines, settlements and reasonable expenses incurred by the person in connection with the proceeding if certain standards are met. At present, there is no pending litigation or proceeding involving any of our directors, officers, employees or agents where indemnification will be required or permitted. Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to our directors, officers and controlling persons pursuant to the foregoing provisions, or otherwise, we have been advised that, in the opinion of the Securities and Exchange Commission (the SEC or Commission), such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable.

Our Articles of Incorporation limit the liability of our directors to the fullest extent permitted by the Texas Business Corporation Act. Specifically, our directors will not be personally liable for monetary damages for breach of fiduciary duty as directors, except for (i) any breach of the duty of loyalty to us or our stockholders, (ii) acts or omissions not in good faith or that involved intentional misconduct or a knowing violation of law, (iii) dividends or other distributions of corporate assets that are in contravention of certain statutory or contractual restrictions, (iv) violations of certain laws, or (v) any transaction from which the director derives an improper personal benefit. The Articles do not limit liability under federal securities law.

Safe Harbor - Forward Looking Statements

When used in this Annual Report on Form 10-K, in documents incorporated herein and elsewhere by us from time to time, the words "believes," "anticipates," "expects" and similar expressions are intended to identify forward-looking statements concerning our business operations, economic performance and financial condition, including in particular, our business strategy and means to implement the strategy, our objectives, the amount of future capital expenditures required, the likelihood of our success in developing and introducing new products and expanding the business, and the timing of the introduction of new and modified products or services. These forward looking statements are based on a number of assumptions and estimates which are inherently subject to significant risks and uncertainties, many of which are beyond our control and reflect future business decisions which are subject to change.

A variety of factors could cause actual results to differ materially from those expected in our forward-looking statements, including those set forth from time to time in our press releases and reports and other filings made with the Securities and Exchange Commission. We caution that such factors are not exclusive. Consequently, all of the forward-looking statements made in this document are qualified by these cautionary statements and readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this Annual Report on Form 10-K. We undertake no obligation to publicly release the results of any revisions of such forward-looking statements that may be made to reflect events or circumstances after the date hereof, or thereof, as the case may be, or to reflect the occurrence of unanticipated events.

SIGNATURES

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant has duly caused this Annual Report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: November 16, 2009	CONQUEST PETROLEUM INCORPORATED	
	By:	/s/ Robert D. Johnson

Robert D. Johnson
Chief Executive Officer